IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "**Document**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Document. In accessing the Document, you agree to be bound by the following terms and conditions, including any modifications to them at any time you receive any information from us as a result of such access.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW, AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, IN WHOLE OR IN PART. THIS DOCUMENT MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES OR WITHIN THE UNITED STATES TO PERSONS REASONABLY BELIEVED TO BE QIBs AND QPs (EACH AS DEFINED BELOW). FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE US SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A OF THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") AND A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (A "**QP**"), OR (2) TO NON-US PERSONS IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this Document or make an investment decision with respect to the securities, you must be (1) a non-US person that is outside the United States or (2) a QIB that is also a QP that is acquiring the securities for its own account or for the account of another QIB that is also a QP. By accepting the e-mail and accessing this Document, you shall be deemed to have represented to us that you are a non-US person outside the United States or that you are such a QIB that is also a QP and that you consent to delivery of this Document by electronic transmission. You are reminded that this Document has been delivered to you on the basis that you are a person into whose possession this Document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Document to any other person. The materials relating to the Offering (as defined and described in this Document) do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and any of the managers named in "*Plan of Distribution*" (collectively, the "**Managers**") or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the Managers or such affiliate on behalf of Joint Stock Company Acron in such jurisdiction. Under no circumstances shall this Document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Document.

This Document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, nor any person who controls an underwriter nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Company.

(a joint stock company incorporated in the Russian Federation)

Offering of 30,000 shares in the form of shares and Global Depositary Receipts
Offer Price: US$9 per Global Depositary Receipt and US$90.00 per Share

This Prospectus relates to an offering by JSC Dorogobuzh ("**Dorogobuzh**") of 30,000 ordinary shares of JSC Acron ("**Acron**" or the "**Company**") (the "**Shares**"), each with a nominal value of RUR 5 per share, in the form of Shares and Global Depositary Receipts ("**GDRs**"), and together with the Shares, the "**Securities**"), ten GDRs representing an interest in one Share (the "**Offering**"). The GDRs will be offered to certain persons who are both (i) qualified institutional buyers ("**QIBs**") (as defined in and in reliance on the exemption from the registration requirements of the United States Securities Act of 1933, as amended (the "**Securities Act**"), provided by Rule 144A under the Securities Act ("**Rule 144A**")) and (ii) qualified purchasers ("**QPs**") within the meaning of Section 2(a)(51) of the US Investment Company Act of 1940, as amended (the "**Investment Company Act**") in the United States (the "**Rule 144A GDRs**") and to certain persons (other than to, or for the account or benefit of, US persons, as defined in Regulation S of the Securities Act ("**Regulation S**") ("**non-US persons**")) outside the United States and Russia in offshore transactions in reliance on Regulation S (the "**Regulation S GDRs**") and the Shares will be offered to certain non-US persons outside the United States in offshore transactions in reliance on Regulation S.

The Company's shares are listed and admitted to trading on the Moscow Interbank Currency Exchange ("**MICEX**") under the symbol "**AKRN**" and on the Russian Trading System ("**RTS**") under the symbols "**AKRN**" and "**AKRNG**". Prior to the Offering, there has been only a limited public market for the Shares and no market for the GDRs. The trading price of the Company's shares on MICEX and RTS will not necessarily relate to the Offer Price or subsequent trading price of the Shares and the GDRs.

Applications have been made (i) to the UK Listing Authority ("**UKLA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**FSMA**") for a block listing of up to 137,755,800 GDRs, consisting of up to 200,000 GDRs to be issued on or about 11 August 2008 (the "**Closing Date**") and up to 137,555,800 additional GDRs to be issued from time to time against the deposit of shares of the Company with Deutsche Bank Trust Company Americas, as depositary (the "**Depositary**"), to be admitted to the official list of the UKLA (the "**Official List**") and (ii) to the London Stock Exchange plc (the "**LSE**") for the GDRs to be admitted to trading on the LSE's Regulated Market (which is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC) (the "**Regulated Market**"). It is expected that conditional trading in the GDRs will commence on a "when-and-if-issued" basis on or about 6 August 2008 and that unconditional trading in the GDRs on the LSE will commence on or about 11 August 2008 (the "**GDR Closing Date**"). **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission to the Official List or to trading on the LSE does not take place and will be at the sole risk of the parties concerned.**

Risk Factors

Investment in the Securities involves a high degree of risk. For a discussion of certain risk factors that should be considered in connection with an investment in the Securities, see *"Risk Factors"* beginning on page 7. The Securities are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The Securities offered hereby have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Company has not registered and will not register under the Investment Company Act, in reliance on the exemption provided by Section 3(c)(7) thereof. Accordingly, the GDRs are being sold in the United States only to certain persons who are both QIBS and QPs and outside of the United States and the Russian Federation to certain non-US persons in offshore transactions in reliance on Regulation S and the Shares will be offered to certain non-US persons outside the United States in offshore transactions in reliance on Regulation S. No transfer of the Securities that would have the effect of requiring the Company to register as an "investment company" under the Investment Company Act will be permitted. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on an exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the Securities, including restrictions related to the US Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), see *"Description of the Global Depositary Receipts,"* "*Certain ERISA Considerations*," "*Transfer Restrictions*," "*Settlement and Delivery*," "*Plan of Distribution*" and the "*Appendix*."

Delivery and Settlement

The Securities are offered by the managers named herein (the "Managers") when, as and if delivered to and accepted by the Managers and subject to their right to reject orders in whole or in part. The GDRs will be issued in global form and will be evidenced by a Master Rule 144A Global Depositary Receipt (the "**Master Rule 144A GDR**") and a Global Regulation S Global Depositary Receipt (the "**Master Regulation S GDR**") (together with the Master Rule 144A Global Depositary Receipt, the "**Master GDRs**"), each registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. It is expected that delivery of the GDRs will be made against payment therefore in US dollars in same day funds through Euroclear or Clearstream, Luxembourg, as the case may be, on or about 11 August 2008 (the **GDR Closing Date**). Payment for, and delivery of, the shares is expected to commence on or about the GDR Closing Date.

Joint Global Coordinators and Joint Bookrunners

UniCredit CAIB UK Ltd **Morgan Stanley**

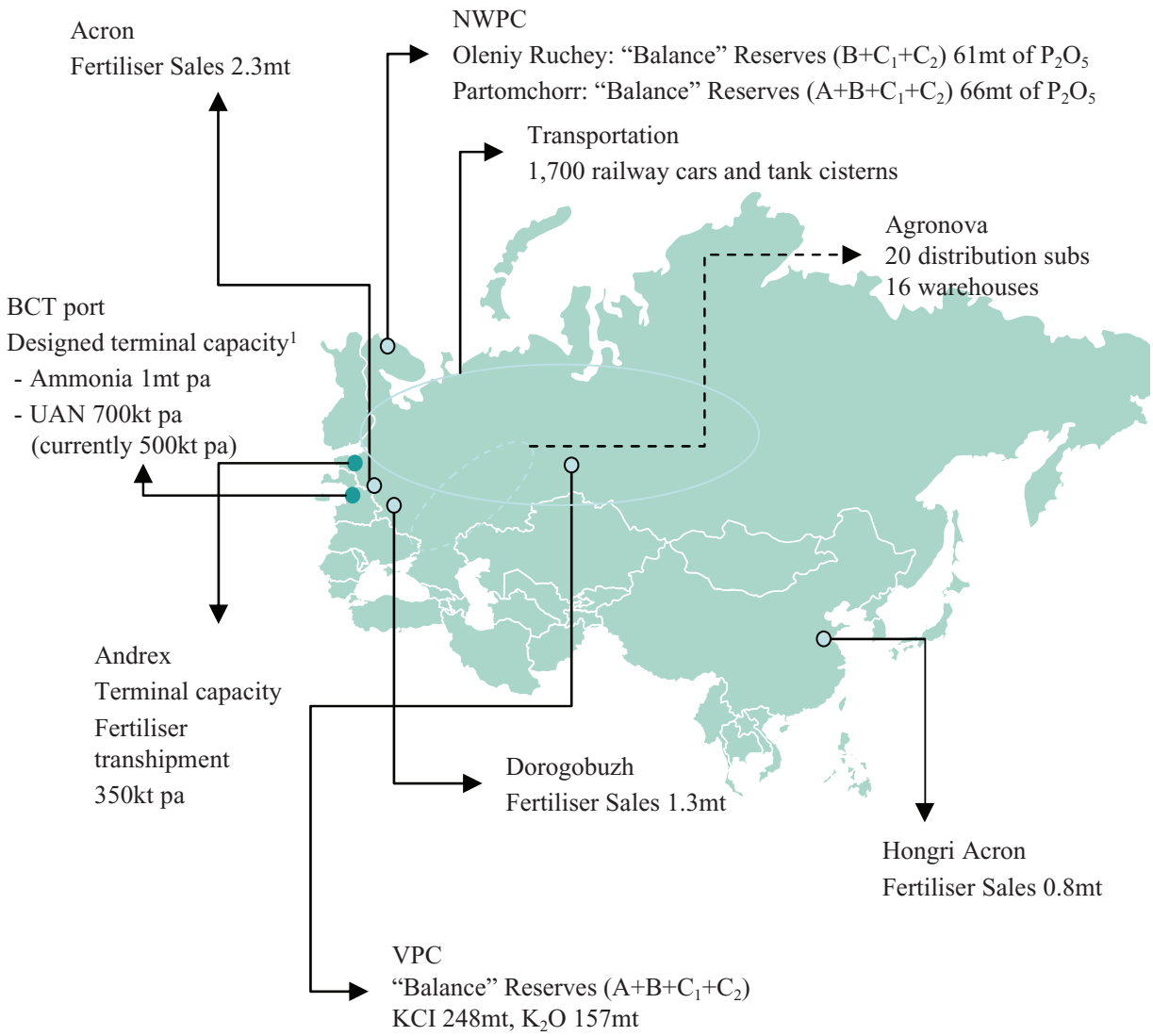
Co-Lead Manager

Alfa Capital Markets

The date of this Prospectus is 6 August 2008

This document constitutes a Prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**").

Key operations



1 Full design capacity is expected to be reached in 2013.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus, when approved, will be issued in compliance with the listing rules (the "**Listing Rules**") and the Prospectus Rules of the UKLA (the "**Prospectus Rules**") for the purpose of giving information with respect to the Company and its consolidated subsidiaries (the "**Group**") and the GDRs for the purposes of the listing on the LSE. The Company accepts responsibility for the information provided in this Prospectus. Having taken all reasonable care to ensure that such is the case, the Company declares, to the best of its knowledge, that the information in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

No prospective investor should consider any information in this Prospectus to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountant and other advisers for such advice. Neither the Company, the Selling Shareholder, Morgan Stanley & Co. International plc or UniCredit CAIB UK Ltd. (together the "Joint Global Coordinators"), any of the other Managers, nor the Depositary makes any representation to any offeree or purchaser of the Securities regarding the legality of an investment in the Securities by such offeree or purchaser. Each of the Managers is acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protection afforded to their clients or for providing advice in relation to the Offering.

The Company has included its own estimates, assessments, adjustments and judgments in preparing some market information, which have not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed exclusively to a third-party source, to a certain degree subjective. Information sourced from third-party sources, including data set forth in a report by FERTECON Limited ("**FERTECON**"), a provider of market information and analysis on fertilisers and fertiliser raw materials, which was commissioned by the Company, has been accurately reproduced and as far as the Company is aware and is able to ascertain from information published by the relevant third-party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. While the Company believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by the Company appropriately reflects the Russian and Chinese mineral fertiliser industry and the markets in which it operates, there is no assurance that the Company's own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of the websites of the Group do not form any part of this Prospectus.

No person is authorised to give any information or to make any representation in connection with the Offering or sale of the Securities other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Depositary or any of the Managers, unless given or made by such person directly. This Prospectus is being furnished by the Company and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the Securities. No representation or warranty, express or implied, is made by any Manager or any of its affiliates or advisers as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any Manager as to the past or the future. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents, except to the extent that such contents are otherwise publicly available, and any use of any information herein for any purpose other than considering an investment in the Securities in this Offering, is prohibited. Neither the delivery of this Prospectus nor any sale made hereunder, including the Offering, shall, under any circumstances, create any implication that there has been no change in the Group's affairs since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

This Prospectus does not constitute an offer to sell, or a solicitation by or on behalf of the Company, the Selling Shareholder, the Depositary or any Manager to any person to purchase or procure purchasers for any of the Securities in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Securities in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe such restrictions. No action has been taken by the Company, the Selling Shareholder or the Managers that would permit, otherwise than under the Offering, an offer of the Securities, or possession or distribution of this Prospectus or any other offering material or application form relating to the Securities in any jurisdiction where action for that purpose is required. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction

or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Securities is set forth below and under "*Plan of Distribution—Selling Restrictions*" and "*Transfer Restrictions*."

In making an investment decision, prospective investors must rely on their own examination of the Group and the terms of the Offering, as set out in this Prospectus, including the risks involved.

NOTICE TO EEA INVESTORS

This Prospectus has been prepared on the basis that all offers of Securities, other than the offers of Securities contemplated in this Prospectus in the United Kingdom once the Prospectus has been approved by the FSA and published in accordance with Directive 2003/71/EC (the "**Prospectus Directive**") as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the Member States of the European Economic Area (the "**EEA**"), from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of the Securities should only do so in circumstances under which no obligation arises for Acron or any of the Managers to produce a prospectus for such offer. Neither Acron nor the Managers have authorised, or will authorise, the making of any offer of the Securities through any financial intermediary, other than offers made by the Managers which constitute the final placement of the Securities contemplated in this Prospectus.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (a "**Relevant Member State**"), other than, in the case of (a) below, persons receiving offers contemplated in this Prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any Securities under, the Offering contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Manager and Acron that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:

  (i) the Securities acquired by it in this Offering have not been acquired on behalf of, or with a view to the offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or

  (ii) where the Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Securities is not treated under the Prospectus Directive as having been made to such persons. For the purposes of this provision, the expression an "offer to the public" in relation to the Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Securities so as to enable an investor to decide to purchase the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the Prospectus Directive includes any relevant implementing measure in each Relevant Member State.

NOTICE TO UNITED STATES INVESTORS

This document is not, save in certain limited circumstances pursuant to applicable private placement exemptions, for distribution in or into the United States. The Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and the GDRs may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The GDRs are being offered and sold outside the United States and the Russian Federation to non-US persons in reliance on Regulation S and to persons within the United States reasonably believed to be QIBs under Rule 144A of the Securities Act that are also QPs as defined in Section 2(A)(51) of the Investment Company Act pursuant to the exemption from registration provided by Rule 144A. The Shares are being offered to certain non-US persons outside the United States in reliance on Regulation S.

The Rule 144A GDRs may not be purchased by or transferred to any "**Regulated Plan**" (which term includes (i) any employee benefit plan subject to the provisions of Title I of ERISA, (ii) any plan, account or

other arrangement that is subject to Section 4975 of the US Internal Revenue Code of 1986, as amended (the "**Code**"), (iii) any plan, account or other arrangement that is subject to provisions under applicable federal, state, local or non-US laws or regulations that are substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code and which contain rules pursuant to which the underlying assets of an entity could be deemed to include "plan assets" by reason of investment in the entity by any such plan, account or arrangement ("**Similar Law**") and (iv) any entity the underlying assets of which are considered to include "plan assets" of any such plan, account or other arrangement for purposes of Title I of ERISA, Section 4975 of the Code or Similar Law) or to any person that is purchasing the GDR's on behalf of, or with "plan assets" of, any Regulated Plan. Any investor purchasing Rule 144A GDRs that is located within the United States or that is a US person will be required to represent that it is not a Regulated Plan and is not purchasing the Securities on behalf of, or with "plan assets" of, any Regulated Plan. See "*Certain ERISA Considerations*".

The GDRs have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other regulatory authority in the United States, nor have any of the foregoing authorities passed on or endorsed the merits of the Offering or the accuracy or adequacy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

When purchasing GDRs, a purchaser that is a US person will be required to make the acknowledgements, representations, warranties and agreements set out in the Appendix. The GDRs are subject to restrictions on transferability and resale and may not be transferred or resold in the United States except as set forth in "*Transfer Restrictions*". Hedging transactions in the United States involving the GDRs may not be conducted unless in compliance with the Securities Act. Prospective investors should understand that they may be required to bear the financial risks of their investment for an indefinite period of time.

For certain restrictions on sales and transfers of the Securities, see *"Description of the Global Depositary Receipts", "Plan of Distribution"* and *"Transfer Restrictions"*.

NOTICE TO RUSSIAN INVESTORS

Neither the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered under the Russian Federal Law on the Securities Market No. 39-FZ, 22 April 1996, as amended. The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in Russia or to any Russian resident except as may be permitted by Russian law.

NOTICE IN RESPECT OF CERTAIN UNITED STATES TAX MATTERS

The United States federal tax advice contained herein is written in connection with the promotion or marketing of the Shares and GDRs, and is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding US tax penalties. Prospective investors should consult their own tax advisors with respect to their particular circumstances concerning the US federal, state, local and non-US tax consequences of owning the Shares or GDRs.

AVAILABLE INFORMATION

The Company has agreed that, if at any time while the Rule 144A GDRs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company is neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934 as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company will furnish to owners, beneficial owners and prospective purchasers of GDRs designated by such owners or beneficial holders, upon the request of such owners and beneficial holders, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A in connection with resales of GDRs.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE

THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Presentation of Financial Information

The Group's audited consolidated financial statements as of and for the years ended 31 December 2007, 2006 and 2005 (the "**Audited Consolidated Financial Statements**") included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The Group's unaudited consolidated condensed interim financial information as of and for the three-month period ended 31 March 2008 (the "**Interim Financial Information**") included in this Prospectus has been prepared in accordance with IAS 34 "Interim Financial Reporting". This Interim Financial Information also contains comparative financial information for the three-month period ended 31 March 2007. The Interim Financial Information together with the Audited Consolidated Financial Statements set forth in this Prospectus, beginning on page F-1 is referred to in this Prospectus as the "**Financial Statements**".

With respect to the Interim Financial Information included in this Prospectus, ZAO PricewaterhouseCoopers Audit reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 30 June 2008 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The Audited Consolidated Financial Statements and the Interim Financial Information differ from financial information previously published by the Company. The Company's previously published audited consolidated IFRS financial statements for the year ended 31 December 2007 (the "**2007 Financial Statements**") and consolidated condensed interim IFRS financial information for the three months ended 31 March 2008 (the "**2008 Interim Financial Information**") were re-issued on 16 July 2008. The Company's audited consolidated IFRS financial statements for the years ended 31 December 2005 and 2006 have not been reissued. The re-issued 2007 Financial Statements and 2008 Interim Financial Information reflect a change in the valuation of available-for-sale investments attributable to minority interest. In the 2007 Financial Statements and the 2008 Interim Financial Information, as originally issued, certain available-for-sale investments were shown net of minority interest attributable to these investments. Management has concluded that IFRS require a disclosure of the available-for-sale investments at gross value with related minority interest to be shown in equity. The Audited Consolidated Financial Statements and the Interim Financial Information contained in this Prospectus reflect this change in the valuation of available-for-sale investments attributable to minority interest. These changes did not affect either the statement of income or statement of cash flows for the periods presented in this Prospectus as compared to the financial statements issued originally.

The Group's IFRS consolidated financial statements for the years ended 31 December 2005 and 2006 were previously audited in accordance with International Standards on Auditing by ZAO PricewaterhouseCoopers Audit. The audit opinion on each of those financial statements was qualified. The text of the qualifications is as follows:

From the auditor's report for the year ended 31 December 2005:

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

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

From the independent auditor's report for the year ended 31 December 2006:

"Basis for Qualified Opinion

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

Qualified Opinion

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

In each case the qualification was made because the relevant financial statements omitted the specific disclosures identified in the text of the qualifications, which would have been required for those financial statements to comply with IFRS. Those disclosures have been included in the Audited Consolidated Financial Statements prepared in accordance with IFRS as of and for the years ended 31 December 2007, 2006 and 2005 and included elsewhere in this Prospectus, and consequently the audit opinion thereon is not qualified.

Non-IFRS measures

This Prospectus contains certain non-IFRS measures including EBITDA and EBITDA margin. In this Prospectus, "**EBITDA**" represents net profit for the period of the Group before income tax, share of results of associates, finance income net of finance costs, interest expense and depreciation and amortisation. Depreciation and amortisation are components of both cost of sales and selling, general and administrative expenses under IFRS. EBITDA is not a measure of financial performance that is required by, or presented in accordance with, IFRS. Accordingly, it should not be considered as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The Group's calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. The Group believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of the Group's ongoing business operations and an indicator of the Group's ability to fund discretionary spending such as capital expenditures, acquisitions and other investments and the Group's ability to incur and service debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. EBITDA has limitations as an analytical tool, and it should not be considered in isolation, or as a substitute for analysis of the Group's operating results as reported under IFRS. "**EBITDA margin**" represents EBITDA for the period divided by revenue for the same period. See "*Selected Consolidated Historical Financial Data"* for a reconciliation of EBITDA to net profit for the period.

This Prospectus contains translations of certain amounts into US dollars at specified rates solely for the purpose of presentation. These translations should not be construed as representations that the amounts actually represent such equivalent US dollar amounts or could be, or could have been, converted into US dollars at the rate indicated as of the dates mentioned herein or at all. See *"Certain References—Currencies and Exchange Rates"*.

Rounding

Certain amounts that appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be the precise arithmetic sum of the figures that precede them.

CERTAIN REFERENCES

References to the Group and its Members

In this Prospectus, the term "**Group**" refers to the Company and its consolidated subsidiaries. Control by the Company is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

In this Prospectus, all references to:

- "**Acron**" or the "**Company**" are to JSC Acron, an open joint stock company registered and existing under the laws of Russia, with registered number 1025300786610, whose registered office address and principal place of business are at Veliky Novgorod, 173012, Russia (telephone number +7 8162 99 61 09, fax number + 7 8162 99 66 63);
- "**Dorogobuzh**" are to JSC Dorogobuzh, an open joint stock company registered and existing under the laws of Russia, with registered number 1026700535773, whose registered office address and principal place of business are at Verkhnedneprovsky Settlement, Dorogobuzh District, Smolensk Region, 215753, Russia;
- "**Hongri Acron**" are to Shandong Hongri Acron Chemical Joint Stock Company, Ltd., a Sino-Foreign joint stock company registered and existing under the laws of the People's Republic of China, whose registered office address and principal place of business are at Luozhuang District, Linyi City, Shandong Province, 276021, People's Republic of China;
- "**Andrex**" are to LLC Andrex, a limited liability company registered and existing under the laws of Russia, with registered number 3908015744, whose registered office address and principal place of business are at 1, 5th Prichalnaya, Kaliningrad, 236035, Russia;
- "**BCT**" are to AS BCT, registered and existing under the laws of Estonia, whose registered office address is at Ahtri 12-509 Tallinn 10151, Estonia and principal place of business is at Sillamäe sea port in Estonia;
- "**Acron-Trans**" are to ZAO "Acron-Trans", a closed joint stock company registered and existing under the laws of Russia, with registered number 1035300301850 whose registered office address and principal place of business is at Acron premises, Veliky Novgorod, 173012, Russia;
- "**Agronova**" are to CJSC Agronova (formerly CJSC Deloyt), a closed joint stock company registered and existing under the laws of Russia, with registered number 1027700427369, whose registered office address and principal place of business are at 20, Zapovednaya, Moscow, 129642, Russia;
- "**NWPC**" are to CJSC North-West Phosphorous Company, a closed joint stock company registered and existing under the laws of Russia, with registered number 1057747798778, whose registered office address is at 37(2), Prechistenka St., Moscow, 119034, Russia and principal place of business are at Khibiny mountains in Kola Peninsula, Murmansk region of Russia; and
- "**VPC**" are to OOO "Verkhnekamskaya Kaliynaya Kompaniya", a limited liability company registered and existing under the laws of Russia, with registered number 5067746034571, whose registered office address and principal place of business are at 37(2) Prechistenka St., Moscow, 119034, Russia.

References to Countries and Regions

In this Prospectus, all references to "**Russia**" are to the Russian Federation, all references to "**US**" are to the United States of America, all references to "**UK**" are to the United Kingdom, all references to the "**EU**" are to the European Union and its member states as at the date of this Prospectus and all references to "**PRC**" and "**China**" are to the People's Republic of China, excluding Hong Kong, Taiwan and Macau. All references to "**CIS**" are to the countries that formerly comprised the Union of Soviet Socialist Republics and are members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. All references to countries of the "**former USSR**" or "**FSU**" are to the CIS plus Estonia, Latvia and Lithuania.

References to Units of Measure

In this Prospectus, all references to "**tonnes**" are to metric tonnes, and one metric tonne is equal to 1,000 kilograms.

Third-Party Information

Throughout this Prospectus, the Group has reproduced industry and market data, such as statistics in respect of sales volumes and market share, extracted from official and industry sources and other third party sources the Group believes to be reliable. Such information, data and statistics may be approximations or estimates or use rounded numbers. Throughout this Prospectus, the Group has also set forth certain statistics, including statistics in respect of market share, from industry sources and other sources that the Group believes to be reliable. These sources include data set forth in a report by FERTECON.

The Group confirms that all third-party information has been accurately reproduced and that, as far as the Group is aware and it is able to ascertain from information published by the relevant third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Nevertheless, prospective investors are advised to consider third-party information with caution. Third-party information included in this Prospectus has not been independently verified nor has there been any investigation of the validity of the methodology of, or the basis used by the third parties in producing such data or making estimates and forecasts. In particular, market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. See *"Forward-Looking Statements."* Accordingly, there can be no assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

The Group has included its own estimates, assessments, adjustments and judgements in preparing some market information, which has not been verified by an independent third party.

In addition, some of the information contained in this Prospectus, including without limitation certain information sourced to third parties in *"Overview of the Fertiliser Industry"* and elsewhere in this Prospectus, has been derived from the official data of Russian government agencies, such as the Central Bank of the Russian Federation (the "**CBR**") and the Federal State Statistics Service of the Russian Federation ("**Rosstat**"), and government agencies of China and other countries referred to in this Prospectus. The official data published by Russian federal, regional and local government agencies and Chinese central and local government, and the governments of such other countries, are substantially less complete than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. As a result, any discussion of matters relating to Russia or such other countries in this Prospectus is subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, to the extent that information obtained from private third-party sources, including without limitation certain information sourced to third parties in *"Overview of the Fertiliser Industry"* and elsewhere in this Prospectus, is based on official data released by Russian federal, regional and local government agencies, or Chinese central and local government agencies or government agencies of such other countries, it will also be subject to the same uncertainty.

Currencies and Exchange Rates

In this Prospectus, all references to "**Rouble,**" "**Russian Rouble**" or "**RUR**" are to the lawful currency of the Russian Federation, all references to "**dollars**," "**US dollars**" or "**US$**" are to the lawful currency of the United States of America, all references to "**£**" are to the lawful currency of the United Kingdom, all references to "**Renminbi**" or "**RMB**" are to the lawful currency of the People's Republic of China and all references to "**Euro**" or "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty Establishing the European Community, as amended.

The following table shows, for the periods indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by the CBR. These rates may differ from the actual rates used in the preparation of the Group's financial statements and other financial information appearing in this Prospectus.

	Roubles per US dollar			
	High	Low	Average[1]	Period End
Years ended 31 December				
2003	31.8846	29.2450	30.6719	29.4545
2004	29.4545	27.7487	28.8080	27.3736
2005	28.9978	27.4611	28.3136	28.7825
2006	28.4834	26.1840	27.1355	26.3311
2007	26.5770	24.2649	25.5516	24.5516
2008				
January 2008	24.8917	24.2858	24.5001	24.4764
February 2008	24.7813	24.1159	24.5273	24.1159
March 2008	24.0480	23.5126	23.7604	23.5156
April 2008	23.6706	23.3448	23.5129	23.6471
May 2008	23.8833	23.5483	23.7196	23.7384
June 2008	23.8116	23.4573	23.6432	23.4573
July 2008	23.5589	23.1255	23.3479	23.4456
August 2008 (through August 5)	23.4697	23.4039	23.4307	23.4039

(1) The average for the relevant period is based on the average of the exchange rates on each day for which the CBR quotes the Rouble to US dollar exchange rate.

Source: CBR

This Prospectus contains translations of certain amounts into US dollars solely for the purpose of presentation. Translations of amounts from Roubles to dollars are solely for the convenience of the reader and unless otherwise indicated, certain US dollar amounts set forth in the Prospectus have been converted from Roubles at the rate of RUR 23.5156 = US$1.00, which was the rate quoted by the CBR on 31 March 2008. On 5 August 2008 the rate of exchange was RUR 23.4039 = US$1.00.

No representation is made that the Rouble, Renminbi or US dollar amounts in this Prospectus could have been converted into Renminbi, US dollars or Roubles, as the case may be, at any particular rate or at all. A market exists within Russia for the conversion of Roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the Rouble.

Russian Reserves Classification System

The mineral reserve data presented herein was prepared in accordance with the Former Soviet Union classification and estimation methods ("**FSU Classification**"). FSU Classification differs materially from, and is not comparable to, the Australasian Code for Reporting Mineral Resources and Ore Reserves published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "**JORC Code**"), the SAMREC Code (South Africa), the Reporting Code (UK / Ireland / Western Europe), the CIM Definition Standards and Guidelines (Canada), the SME Guide (USA) or the Certification Code (Chile), among others. FSU Classification is based on geological attributes, placing emphasis on the actual physical presence of minerals in geological formations. In contrast, internationally-used standards such as the JORC Code take into account not only the probability that minerals are physically present in a given geological formation, but also the commercial and economic viability of their recovery.

FSU Classification has the following categories:

Category A denotes reserves that, in the course of their commercial development, have been analysed in sufficient detail to define comprehensively the type of the deposit, its boundaries and the level and characteristics of minerals that are present. There has also been sufficient analysis to identify the major features of the deposit.

Category B denotes reserves, the type and boundaries of the deposit and the mineral content of which has been determined on the basis of commercial development of the deposit and its reasonable geological appraisal.

Category C1 denotes reserves, the mineral content type and boundaries of which, and the characteristics of the minerals that are present, have been proven by trial development. The reserves have been preliminarily determined on the basis of results of geological and geophysical exploration. There has been sufficient analysis in order to draw up a project development plan for the exploration and development of the reserves.

Category C2 denotes reserves that are preliminary estimated reserves calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. This type of reserve is used to determine the development potential of a field and to plan geological, exploration and production activities.

LIMITATION ON SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company and the Selling Shareholder are incorporated under the laws of Russia. See *"Principal and Selling Shareholder."* All of the Company's directors and senior management are residents of Russia, and certain entities referred to herein are incorporated under the laws of Russia. The majority of the Group's assets, and all or a substantial portion of the assets of such persons and entities, and the Selling Shareholder are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process upon such persons in the United States or in the United Kingdom or to enforce against them, or the Group, judgements obtained in United States or the United Kingdom courts predicated upon the civil liability provisions of these jurisdictions' respective securities laws. Investors may have limited recourse against the Selling Shareholder, the Group's or the Company's directors and senior management because they generally conduct their operations outside the United States and the United Kingdom and most of their current directors and senior management reside outside the United States and the United Kingdom.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements appear in various locations in this Prospectus, including, without limitation, under the headings *"Summary*", *"Risk Factors*," *"Operating and Financial Review"*, *"Overview of the Fertiliser Industry"* and *"Description of Business."* The Group may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to forecasted production, reserves, financial position and future operations and development, business strategy and the trends the Group anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believe," "anticipate," "estimate," "target," "potential," "expect," "intend," "predict," "project," "could," "should," "may," "will," "plan," "aim," "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under *"Risk Factors",* as well as those included elsewhere in this Prospectus. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates (including production targets) and intentions expressed in such forward-looking statements.

These factors include:

- the Group's position as a price taker in the commodity markets for its principal products, and its exposure to fluctuations in prices for these products resulting from the cyclical nature of the fertiliser industry and the relative balance of supply and demand for nitrogen fertilisers;
- general global macroeconomic conditions and within Russia and China;
- the effects of competition;
- the availability and cost of natural gas;
- the intergovernmental relationship between Russia and China and other international political events;
- reliance on key pipelines, railways and shipping routes, the disruption of which may result in a temporary interruption of business and/or increased transportation costs;
- the possibility of equipment failures or production curtailments due to equipment breakdowns, severe weather and other operational risks;
- the effect of evolving environmental legislation as well as government regulation and agricultural policy;
- the availability of financing sources to fund the Group's capital expenditures related to its development programme and its seasonal working capital needs; and
- the limited market for hedging commodity and currency exchange rate risks.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Group does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise other than as required by applicable laws or the Listing Rules or Prospectus Rules. The Group does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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SUMMARY

This summary should be read as an introduction to the Prospectus. Before making an investment decision regarding the Securities, investors should read the whole of this Prospectus and not rely only upon key or summarised information, including this summary. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor may, under the national legislation of the EEA States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who are responsible for the summary, including any translations of the summary, but only if such summary is misleading, inaccurate or inconsistent when read together with other parts of the relevant Prospectus.

Overview

The Group is a leading Russian and global mineral fertiliser producer with a diversified product portfolio consisting of multi-nutrient fertilisers such as NPK and bulk blends, as well as straight nitrogen-based products such as urea, ammonium nitrate and UAN. The Group also produces organic synthesis products, including methanol, formaldehyde and UFR, and inorganic synthesis products, such as low-density ammonium nitrate, carbon dioxide and calcium carbonate.

NPK, a mix of three primary nutrients, nitrogen, phosphorus and potassium, accounted for approximately half of the Group's 4.4 million tonne of fertiliser sales by volume in 2007, making it the most important contributor to the Group's sales. According to FERTECON, based on 2007 production output, the Group ranked first in Russia and second worldwide in the production of NPK fertilisers and accounted for approximately six per cent of the total NPK production output in China. Based on 2007 revenue, according to FERTECON, the Group was the third-largest nitrogen-focused fertiliser producer in Russia and the fourth-largest in Europe. In addition, FERTECON estimates that the Group produced approximately one per cent of the total production output of nitrogen and phosphate fertilisers globally and approximately 13% of such output in Russia in 2007.

In 2007, the Group sold a substantial proportion of its total fertiliser sales volume of 4.4 million tonnes in fast-growing, developing markets such as Russia (23%) and China (18%), as well as countries in Latin America, Asia, and countries of the former USSR. The Group also sold 1.3 million tonnes of organic and inorganic synthesis products in 2007.

The Group has fertiliser production facilities in three locations: Acron, located in the Novgorod region in the northwest of Russia; Dorogobuzh, located in the Smolensk region in the central-western part of Russia; and Hongri Acron, located in the Shandong province of China. The Group has distribution networks in Russia and China. Approximately half of the Group's sales volume in the Russian market is handled by its own distribution network. The Group sells substantially all of its sales volume designated for the Chinese market through a network of independent wholesale distributors, who on-sell to local retailers.

The Group also has significant logistics and transportation capabilities. These capabilities include approximately 1,700 railway units (which cover approximately half of the Group's rail transport needs in Russia) and two sea port trans-shipment facilities on the Baltic Sea, through which the Group ships a substantial proportion of its exports.

In addition, with a view to securing supplies of phosphate and potash, the Group has acquired licences for the development of two apatite-nepheline ore deposits in the Murmansk region of Russia, and a potassium-magnesium salt deposit in the Perm region of Russia. Subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the licenses, the Group is to commence industrial mining and processing at these sites in 2013 and 2015, respectively.

The Group had total revenues of RUR 22,748.3 million (US$ 967.4 million), RUR 23,624.5 million (US$ 1,004.6 million) and RUR 31,105.2 million (US$ 1,322.7 million) for the years ended 31 December 2005, 2006, and 2007, respectively, and total revenues of RUR 7,705.9 million (US$ 327.7 million) and RUR 11,661.1 million (US$ 495.9 million) for the three months ended 31 March 2007 and 2008, respectively. The Group had net profit of RUR 3,383.5 million (US$ 143.9 million), RUR 2,463.6 million (US$ 104.8 million) and RUR 5,668.3 million (US$ 241.0 million) for the years ended 31 December 2005, 2006 and 2007, respectively, and net profit of RUR 1,299.9 million (US$ 55.3 million) and RUR 3,963.0 million (US$ 168.5 million) for the three months ended 31 March 2007 and 2008, respectively. The Group had EBITDA of RUR 5,854.5 million (US$ 249.0 million), RUR 4,645.6 million (US$ 197.6 million) and RUR 8,658.6 million (US$ 368.2 million) for the years

ended 31 December 2005, 2006, and 2007, respectively, and EBITDA of RUR 2,143.4 million (US$ 91.1 million) and RUR 5,477.5 million (US$ 232.9 million) for the three months ended 31 March 2007 and 2008, respectively. See "*Selected Consolidated Historical Financial Data*" for a reconciliation of EBITDA to net profit.

Competitive Strengths

The Group believes that it has the following significant strengths, providing it with a competitive advantage in the domestic and international fertiliser markets:

- a diversified portfolio and a focus on value-added products;
- a strong platform to capture demand from high growth countries;
- a competitive cost position;
- its status as a downstream vertically integrated producer with developing upstream capabilities; and
- an experienced management team.

Strategy

The Group's strategic objective is to become one of the five leading mineral fertiliser producers in the world in terms of production, sales and profitability. To achieve this objective, the Group intends to implement a strategy that includes the following key elements:

- continue to increase the level of vertical integration;
- expand sales in high growth markets;
- maintain its low cost base; and
- grow its share of value-added products.

Risk Factors

Prior to investing in the Securities, prospective investors should consider, together with the other information contained in this Prospectus, the information set out in *"Forward-Looking Statements"* and *"Risk Factors."*

The Group's business, financial condition or results of operations could be adversely affected by, among other risks:

Risks relating to the Group's Business

- Intense competition and fluctuating prices for fertiliser products.
- Demand for fertiliser being affected by factors including agricultural product prices.
- Favourable prices of key raw materials may not continue; increased production costs may not be capable of being passed on.
- Dependence on a limited number of suppliers for certain raw materials.
- The Group's need for substantial capital expenditure.
- Indebtedness requiring a significant amount of cash to service; the Group's ability to generate cash or obtain financing depends on many factors beyond its control.
- Increase in interest rate of the Group's borrowings.
- Material weaknesses in accounting, reporting and financial systems and internal controls.
- An insufficient number of accounting and financial personnel experienced in IFRS.
- Management information and internal controls systems may be inadequate to support future growth.
- Control of the Group by the Principal Shareholder (as defined below), whose interests may conflict with those of other holders and beneficial owners.

- Minority investments held in several major Russian companies.
- Disruption to, or increased cost of, railway transportation, electricity and shipping transportation.
- Not all potential losses and liabilities are insured.
- Currency risk, including fluctuations between the Rouble or Renminbi and the US dollar.
- Protective trade restrictions.
- PRC price controls.
- Adverse changes in Hongri Acron's distribution network.
- Non-compliance with applicable legal requirements could result in invalidation of transactions or the imposition of liabilities.
- Environmental and health and safety laws and regulations and potential environmental liabilities.
- Accidents involving Group products could cause damage or injury to property, the environment and human health.
- Equipment failures resulting in production curtailments or shutdowns.
- A failure to protect adequately intellectual property rights or a claim of infringement by a third party.
- The Group may fail to fulfil the terms of, or renew, its licences and other authorisations.
- Transactions with related parties and affiliates may present conflicts of interest.
- Mining and refining mineral properties involves significant uncertainties, hazards and risks.
- The volume and grade of ore recovered may not conform to current expectations.
- Mining projects may be subject to delays, problems with equipment supplies and cost overruns.

Risks relating to the Jurisdictions in which the Group operates

- Political and governmental instability, and adverse changes in economic, political or social conditions.
- The risk of arbitrary government action.
- If the privatisation of any Group company is successfully challenged, the Group may lose its ownership interest.
- The Russian and Chinese economies are less stable than those of many Western countries.
- Physical infrastructure in Russia and China is, in some places, inadequate or in a poor condition.
- Weaknesses and uncertainties in the Russian and Chinese legal systems.
- Investors may have limited recourse against the Group and directors and executive officers of Acron.
- Possible contradictions, weaknesses and/or lack of development in respect of Russia's property law, corporate and securities laws and regulations; Russia's disclosure and reporting requirements and the concept of fiduciary duties; the Russian tax system; and Russian transfer pricing rules and lack of reliable pricing information.

Risks relating to the Securities and the Trading Market

- The Offering may not result in an active or liquid market for the GDRs or Shares, and their price may be volatile.
- The GDR programme is limited, and Russian regulatory policy may change with respect to the placement and circulation of the Shares outside Russia in the form of GDRs.
- The Depositary may be considered the beneficial holder of the Shares underlying the GDRs.
- Voting rights with respect to the Shares represented by the GDRs are limited.
- Holders of the Shares or GDRs may be unable to repatriate distributions.

Dividend Policy

The Company's current dividend policy is designed to balance the interests of the Company's shareholders, whilst ensuring that any requirements for the further development of the Group can be financed from operating profits and borrowings. The policy provides that the total amount of the Company's unconsolidated net profit which can be allocated for payment of dividends must not be less than 30% of the Company's computed net profit determined as the total net profit for the relevant accounting period determined on the basis of RAS, which is materially different from IFRS, less the sum of profits derived from increases in the valuation of financial investments and with the addition of the sum of losses from decreases in the value of financial investments.

The Offering

Dorogobuzh is offering up to 30,000 Shares in the form of shares and GDRs, with ten GDRs representing an interest in one Share. The GDRs will be offered in the United States to certain persons who are both QIBs and QPs in reliance on Rule 144A and to certain non-US persons outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S. The Shares will be offered to certain non-US persons outside the United States in offshore transactions in reliance on Regulation S. No transfer of the Securities that would have the effect of requiring the Company to register as an investment company under the Investment Company Act will be permitted.

Following the Offering, the Principal Shareholder (as defined below) will beneficially own 79.9% of the Company's outstanding shares.

Use of Proceeds

The Company will receive the proceeds from the sale of the Securities offered by the Selling Shareholder indirectly through its interest in Dorogobuzh. Dorogobuzh intends to use its proceeds from the Offering, which are expected to be approximately US$2.6 million after deduction of fees payable to the managers, not including other expenses related to the Offering, and excluding all applicable taxes, including corporate profit taxes, for the ongoing expansion of its business and general corporate purposes. See "*Use of Proceeds*".

Documents on display

Copies of the charter of Acron (the "**Charter**") and other documents required by applicable law and regulation to be put on display may be inspected at the offices of Norton Rose LLP, 3 More London Riverside, London SE1 2AQ, United Kingdom, during usual business hours for 30 days from the date of this Prospectus.

Lock-up Arrangements

None of the Company, Dorogobuzh, or any of the Company's other shareholders, including those controlled by the Principal Shareholder, or the Company's directors or senior management, are entering into lock-up arrangements.

Current Trading and Prospects

The Group believes that its financial and trading prospects in the period since 31 March 2008 remain favourable based on the continued improvement of its sales and marketing of existing products. The Group expects some decrease in its production and sales volumes in the second and third quarters of the year as a result of the planned maintenance works at its production facilities, which is a regular event, in line with its experience from previous years. The Group did not increase its fertiliser prices in the Russian market generally for the period beginning in February to the end of May 2008 and it has continued to see decreased sales volumes in the Chinese market.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The table below shows summary historical consolidated financial information of the Group as at and for the years ended 31 December 2005, 2006 and 2007 and as at 31 March 2008, and for the three month periods ended 31 March 2007 and 2008, which has been derived from the Financial Statements included elsewhere in this Prospectus. The summary financial information should be read in conjunction with the *"Operating and Financial Review"* and the Financial Statements, including the notes to the Financial Statements, included elsewhere in this Prospectus.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RUR millions, except percentages)			(unaudited)	(unaudited)
Consolidated income statement data:					
Revenue	22,748.3	23,624.5	31,105.2	7,705.9	11,661.1
Cost of sales	(13,952.9)	(15,653.7)	(18,943.5)	(4,776.7)	(5,089.6)
Gross profit	**8,795.4**	**7,970.8**	**12,161.7**	**2,929.2**	**6,571.5**
Transportation services	(1,477.2)	(1,462.2)	(1,725.4)	(387.9)	(660.7)
Selling, general and administrative expenses	(2,265.7)	(2,556.1)	(2,595.1)	(593.2)	(678.1)
Gain (loss) on disposal of property, plant and equipment, net	0.8	63.9	(12.1)	(18.2)	(4.3)
Other operating expenses	(71.7)	(295.1)	(180.0)	(43.6)	(26.5)
Operating profit	**4,981.7**	**3,721.2**	**7,649.0**	**1,886.3**	**5,202.0**
Finance income, net	39.2	243.4	466.4	42.7	130.9
Interest expense	(369.2)	(492.0)	(509.6)	(152.3)	(136.4)
Share of result of associates	—	—	(59.7)	(11.3)	71.6
Profit before taxation	**4,651.6**	**3,472.6**	**7,546.2**	**1,765.3**	**5,268.0**
Income tax expense	(1,268.1)	(1,009.0)	(1,877.9)	(465.4)	(1,305.0)
Net profit for the year	**3,383.5**	**2,463.6**	**5,668.3**	**1,299.9**	**3,963.0**
Net profit is attributable to:					
Equity holders of the Company	3,031.1	2,253.3	5,063.9	1,208.0	3,652.1
Minority interest	352.4	210.3	604.5	92.0	310.8
Net profit for the year	**3,383.5**	**2,463.6**	**5,668.3**	**1,299.9**	**3,963.0**
Consolidated cash flow data:					
Net cash generated from operating activities	1,965.0	2,024.7	5,584.2	1,049.5	3,864.3
Net cash used in investing activities	(1,214.3)	(4,334.5)	(2,427.4)	(387.8)	(706.0)
Net cash provided from (used in) financing activities	(532.7)	2,292.6	(3,027.6)	(427.5)	750.6
Net increase (decrease) in cash and cash equivalents	246.7	(99.5)	96.0	220.3	3,904.5
Other financial data:					
EBITDA[1]	5,854.5	4,645.6	8,658.6	2,143.4	5,477.5
EBITDA margin[2] (%)	25.7%	19.7%	27.8%	27.8%	47.0%

(1) See "*Selected Consolidated Financial Information*" for a reconciliation of EBITDA to net profit.
(2) EBITDA margin is calculated as EBITDA divided by revenue for the period.

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	(RUR millions)			(unaudited)
Consolidated balance sheet data:				
Assets:				
Non-current assets				
Property, plant and equipment	10,827.3	12,233.6	13,726.1	14,184.0
Available-for-sale investments	3,833.7	5,318.1	17,306.6	25,768.8
Total non-current assets	**15,523.7**	**19,828.5**	**33,312.2**	**42,340.3**
Current assets				
Inventories	3,220.4	3,240.8	3,883.8	4,040.6
Accounts receivable	2,393.1	3,722.3	4,036.6	4,473.9
Cash and cash equivalents	1,338.8	1,239.3	1,335.3	5,239.8
Total current assets	**7,492.4**	**8,837.2**	**10,043.8**	**14,494.9**
Total assets	**23,016.0**	**28,665.7**	**43,356.0**	**56,835.2**
Equity:				
Share capital	3,125.0	3,125.0	3,125.0	3,125.0
Retained earnings	6,546.9	7,840.6	11,247.1	14,899.2
Revaluation reserve	1,927.4	3,180.5	11,207.4	15,630.0
Total equity	**13,555.5**	**15,369.0**	**28,296.7**	**38,693.3**
Liabilities:				
Non-current liabilities				
Long-term borrowings	2,217.3	5,278.1	3,081.0	2,616.8
Total non-current liabilities	**4,353.7**	**7,595.0**	**8,165.0**	**9,690.1**
Current liabilities				
Accounts payable	1,470.1	2,165.1	2,428.9	1,346.2
Short-term borrowings	1,937.0	1,764.1	2,418.1	4,083.5
Advances received	1,007.9	1,235.3	1,153.9	1,215.9
Total current liabilities	**5,106.8**	**5,701.7**	**6,894.3**	**8,451.8**
Total liabilities	**9,460.6**	**13,296.7**	**15,059.3**	**18,141.9**
Total liabilities and equity	**23,016.0**	**28,665.7**	**43,356.0**	**56,835.2**

An investment in the Securities involves a high degree of risk. Prospective investors should carefully consider the following information about these risks, together with the information contained elsewhere in this Prospectus, before purchasing any Securities. An investment in the Securities is subject to risks relating to the Group's business and industry, economic, political, social and legal risks associated with Russia and China, as well as risks arising from the nature of the Securities and the markets upon which they are expected to be traded, including the risks noted below. If any of the following risks actually occur, the Group's business, financial condition or results of operations could be materially adversely affected. In that case, the value of the Securities could decline and investors could lose all or part of their investment.

The Company has described the risks and uncertainties that its management believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties, including those the Company currently is not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Securities.

RISKS RELATING TO THE GROUP'S BUSINESS

The Group faces intense competition in the markets in which it operates and prices for fertiliser products have historically fluctuated.

The international markets for fertilisers are highly competitive and prices for fertiliser products have historically fluctuated. Fertilisers are global commodities and prices are affected by global supply and demand. Customers, including end-users, dealers and other crop nutrient product distributors, base their purchasing decisions principally on the price on delivery and availability of the product. The Group competes primarily on the basis of price, quality, and the ability to meet customers' product needs and delivery schedules.

The Group believes its key competitors are, in Russia: EuroChem Mineral and Chemical Company ("**Eurochem**"), Open Joint Stock Company PhosAgro ("**PhosAgro**"), Minudobreniya (Rossosh) and United Chemical Company Uralchem ("**Uralchem**"); in China: SACF Company Ltd., Sinochem Shandong Fertiliser Co., Ltd, Hubei Yangfeng Stock Holding Company Ltd, Shandong Luxi Chemical Group, Shandong Stanley Fertiliser Co., Ltd, Shandong Shikefeng Chemical Co., Ltd, Shandong Kingenta Ecological Engineering Co., Ltd, Hubei Xiangyun Group, Hanfeng Evergreen Inc., and Yara International ASA ("**Yara**"); and, internationally: Yara, Fertiva GmbH, Eurochem and PhosAgro. Some of these or other competitors may be state-owned or government-subsidised entities or, in comparison to the Group, may have greater financial or technological resources, greater name recognition, access to cheaper supplies of raw materials, or be located in closer proximity to key transportation routes and end-user markets; they may also generate significant working capital from products other than fertiliser. Moreover, the Group believes that consolidation among fertiliser producers may occur, which could increase the resources of competitors and provide them with greater economies of scale.

According to FERTECON, fertiliser producers outside Russia, in particular in Asia and the Middle East, are expected to commission a substantial amount of new ammonia and urea production capacity (and potentially also other nitrogen fertiliser production capacity) in the next few years. The resulting increases in global fertiliser production capacity could adversely affect the balance between global supply and demand, causing intensified competition among fertiliser producers. This may result in downward pressure on global fertiliser prices and ultimately lower profit margins for the Group, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Demand for fertiliser is affected by agricultural product prices and other factors that influence the agricultural market generally.

The majority of fertiliser products are ultimately sold to growers, and therefore the Group's results of operations are significantly affected by trends and other factors that influence the agricultural market generally. The following factors have in the past adversely affected, and may in the future adversely affect, the agricultural market and, consequently the Group's business, financial condition or results of operations:

- *Lower agricultural product prices*: Lower grain prices may result in reduced grain production, which could decrease demand for fertiliser and result in downward pressure on fertiliser prices. Movements in commodity crop prices affect the Group's results, and this can result not only in reduced sales but also in competitive price pressure in certain markets when commodity crop prices are depressed. Although commodity crop prices have been relatively high recently, prices may fall in the future and such fluctuations may adversely affect sales of the Group's products.

- *Adverse weather conditions*: The agricultural industry is heavily influenced by local weather conditions. Significant deviations from typical weather patterns of a given region, variations in local climates or major weather-related disasters may reduce demand for the Group's fertiliser products if agricultural products or the land on which they grow are damaged or if such deviations, variations or disasters reduce the incomes of growers and thus their ability to purchase the Group's products.
- *Adverse government agricultural policies*: Any changes in subsidies to growers or in other state support programmes may inhibit the growth of, or cause a decline in, demand for fertiliser products. International treaties and agreements, including those made by the World Trade Organisation may also result in reductions in subsidies for agricultural products or in other adverse changes to state support programmes. Additionally, governmental policies may regulate the amount of land that can be planted, the mix of crops planted or crop prices, any of which could adversely impact demand for the Group's products.

The Group benefits from favourable prices of key raw materials and increases in the Group's production costs could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group's primary production costs are natural gas, phosphates, potash, electricity and labour. The Group currently benefits from more favourable pricing of key raw materials and other production costs than competitors in Western Europe and North America. No assurance can be given that the Group will continue to benefit from favourable prices of key raw materials in the future.

The supply of natural gas, phosphates, potash and electricity to the Group's Russian production facilities is made by monopolies or entities that have a dominant market position. Prices of natural gas and electricity are subject to government regulations on pricing and reforms or changes in governmental policies may lead to price increases. Changes in global commodity prices, as well as general price inflation, may also lead to increases in production costs either directly through the local markets for the Group's raw materials and labour or as a result of regulated pricing being on a cost plus basis that is tied to changes in global commodity prices.

- *Natural gas*: The Group uses natural gas as the primary raw material for ammonia production in its Russian production facilities. Russian natural gas prices are regulated by the Russian government and approximately 60% of the natural gas input used by the Group's Russian production facilities is supplied by subsidiaries of JSC Gazprom, a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia, at government regulated prices. These gas prices are substantially lower than those in Western Europe and North America. The Group's remaining natural gas demand is supplied by Gazprom's subsidiaries at commercial domestic prices which, as at the date of this Prospectus, are approximately 30-40% higher than regulated prices but lower than international natural gas prices. Commercial domestic gas prices apply to approximately 40% of the natural gas input used by the Group's Russian production facilities. However, the Russian government has been steadily increasing domestic gas prices, and has stated its aim of deriving the same margins from the sale of gas, both domestically and internationally, by 1 January 2011. Under this gas price liberalisation policy approved by the Russian government, wholesale regulated prices are expected to increase in line with forecasts for social-economic development in Russia, which according to a report by the Russian Ministry of Economic Development and Trade will result in the rise of regulated wholesale gas prices by a maximum of 25% in 2008, 20% in 2009, 28% in 2010 and 40% in 2011. Commercial domestic gas prices are expected to rise by a maximum of 50% in 2008, 40% from 1 January 2009, 30% from 1 July 2009, 20% from 1 January 2010 and 10% from 1 July 2010. See "*Operating and Financial Review—Significant factors affecting the Group's results of operations—Cost of Raw Materials—Natural gas*" and "*Description of Business—Raw materials—Natural gas*".
- *Phosphates:* The Group uses apatite concentrate as the phosphate raw material input at its Russian production facilities. The Group's entire apatite concentrate input is currently supplied by JSC Apatite ("**Apatite**"), the dominant supplier of apatite concentrate (either directly or through trading companies that the Group believes are owned by or affiliated with Apatite). As at the date of this Prospectus, Acron purchases its entire apatite concentrate requirements directly from Apatite at court regulated prices and volumes on the basis of a five-year contract which expires in December 2011, while Dorogobuzh purchases most of its apatite concentrate supplies at unregulated prices set by trading companies that the Group believes are owned by or affiliated with Apatite. Although the prices at which Apatite, as the dominant supplier, is able to supply apatite concentrate to the Group are in some circumstances regulated, there can be no assurance that the Group will continue to benefit from favourable price terms for its Acron production facility following expiry of the five-year contract in December 2011 or that Apatite will not try to use its dominant position to achieve significant price increases in apatite

concentrate supplies to the Group through such trading companies. See "*Operating and Financial Review— Significant factors affecting the Group's results of operations—Cost of raw materials—Apatite and potash*", "*Description of Business—Raw materials—Phosphates*" and "*Description of Business—Litigation—Disputes with Apatite*".

- *Potash*: The Group's entire potash input in Russia is currently supplied pursuant to two 30-month framework agreements by an entity that the Group believes is affiliated with JSC Silvinit ("**Silvinit**"), an entity with a dominant market position. These framework agreements expire in June 2009. There can be no assurance that Silvinit will not try to use its dominant position to achieve significant price increases in potash supplies to the Group. See "*Operating and Financial Review— Significant factors affecting the Group's results of operations—Cost of raw materials—Apatite and potash*" and "*Description of Business—Raw materials—Potash*".
- *Electricity*: The Group uses a significant amount of electricity during the production process. Electricity prices in Russia are substantially lower than those in Western Europe and North America. Electricity is supplied to the Group's facilities in Russia by former affiliates of Russian Joint Stock Company of Unified Energy Systems (or RAO UES) ("**UES**"), which was the government-controlled national holding company for the Russian power sector. Electricity tariffs in Russia are generally set on a cost plus basis and are tied to oil, gas and coal prices, as well as to inflation. Hongri Acron has its own steam electricity generator facility, although this facility does not satisfy its entire electricity demand. Hongri Acron is dependant on supply (including electricity from its generator facility) being routed through the Chinese national electricity grid. Electricity prices in Russia and access and pricing through the electricity grid in China are regulated. The Russian government is implementing a restructuring plan for the electricity sector that may result in price increases as the industry restructures and moves from regulated pricing to a market-based system, with the expectation that regulated contracts will be replaced by unregulated pricing by 2011. There can be no assurance that the Russian or Chinese governments will not introduce new legislation or take unforeseen steps that lead to higher electricity prices. See "*Operating and Financial Review— Significant factors affecting the Group's results of operations—Cost of Raw Materials—Electricity*", "*Description of Business—raw materials—Electricity*" and "*Certain Regulatory Matters—Russia—Electricity*".
- *Labour*: Labour costs are an important part of the Group's production costs. Labour costs in Russia and China have historically been significantly lower than those in the more developed market economies of North America and Western Europe for similarly skilled employees. However, the average wage in Russia and China has been rising in recent years. Moreover, staff costs in Russia and China are indexed to and adjusted at the beginning of each year for inflation.

Any inability by the Group to pass on any such increases in its raw materials or other production costs through higher fertiliser prices may have a material adverse effect on the Group's business, financial condition or results of operations.

The Group depends on a limited number of suppliers for, and limited supplies of, certain of the raw materials used in the production of its products.

The Group purchases certain key raw materials used in its fertiliser production from a limited number of suppliers. Any interruption in the operations of the Group's suppliers or any failure of such suppliers to maintain production volumes could result in material production delays, increased production costs, reductions in shipment volumes or delays in shipments of the Group's products, any of which could damage customer relationships or could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group's Russian operations require significant amounts of natural gas. The Group's gas supplier is Gazprom. Supplies of natural gas to the Group's Russian production facilities are delivered through a pipeline network that is controlled by Gazprom, and accordingly, the Group's ability to source supplies from independent sources is limited. The Group's phosphate raw material input at its Russian production facilities is apatite concentrate from the Russian Kola peninsula, and at its Chinese production facilities is phosphorous rocks primarily from Hubei and Guizhou provinces. The Russian production facilities' entire phosphate input is currently supplied by Apatite (either directly or through trading companies that the Group believes are owned by or are affiliated with Apatite). Apatite is currently the only supplier of apatite concentrate from the Russian Kola peninsula. Due to the composition of Kola peninsula phosphate ore and the technical specifications of the Russian production facilities, the Russian production facilities are unable to process non-Kola peninsula phosphate ore without significant capital expenditure.

Acron and Dorogobuzh are currently engaged in disputes with Apatite regarding the pricing and volume of supply of apatite concentrate. Acron has prevailed in a number of proceedings and in 2006 Apatite was ordered to enter into a supply contract with Acron on the price and volume of supply terms sought by Acron. Subsequent appeals by Apatite and its shareholders against this decision have so far been unsuccessful. Dorogobuzh, having been granted its claim in part, was unsuccessful on appeal regarding the remainder of its claim. In the course of these price disputes with Apatite there have been some short cessations in Apatite's supplies to Dorogobuzh, as well as a cessation in supply to Acron in August of 2007, which lasted for approximately one month. See *"Description of Business—Litigation—Disputes with Apatite"*. There can be no assurance that either or both Acron and Dorogobuzh will ultimately prevail in their attempts to obtain the pricing and supply volume terms they seek for the supply of apatite concentrate from Apatite, or that further cessations in supplies will not occur in connection with the Group's pricing disputes. If either Acron or Dorogobuzh are unsuccessful in respect of these disputes, or there are further cessations in supply, there may be a material adverse effect on the Group's business, financial condition or results of operations. See also "*—The Group benefits from favourable prices of key raw materials and increases in the Group's production costs could have a material adverse effect on the Group's business, financial condition or results of operations*."

The Group's business requires substantial capital expenditure.

Fertiliser and other chemical production and mining-related activities are capital-intensive businesses. The Group is in the process of developing a number of new projects (including bringing the Oleniy Ruchey, Partomchorr and Talitsky mines into operation and the construction of related processing plants under the terms of the respective subsoil licences), as well as plans for existing operations, that involve significant capital expenditure (see *"Description of Business—Investment Programme and Capital Expenditure"*). Between 2007 and 2011, the Group plans to invest over US$700 million in its existing core businesses of fertiliser production, logistics and distribution infrastructure and the first stage of an open-pit mining project at the Oleniy Ruchey phosphate deposit. Between 2007 and 2018 the Group's capital expenditures on new mining developments are currently estimated to require investment in excess of US$2.5 billion. These, or other of the Group's projects, may require greater investment than currently planned. There is no assurance that the Group will be able to generate sufficient cash flows or that it will have access to sufficient debt or equity financing to implement its investment programme as currently planned. Any deferral or interruption in the development programme could have a material adverse effect on the Group's business, results of operations or financial condition.

Servicing and refinancing of the Group's indebtedness will require a significant amount of cash and the Group's ability to generate cash or obtain financing depends on many factors beyond its control.

The Group has a substantial amount of outstanding indebtedness, primarily consisting of bank loans. As of 31 March 2008, the Group's consolidated short- and long-term borrowings were RUR 6,700.3 million and its borrowings have increased significantly since that date. The Group's ability to service, repay and refinance the indebtedness and to fund planned capital expenditures and future investments will depend on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Group's control. If the Group is unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, it may default under the terms of its indebtedness, and the holders of its indebtedness would be able to accelerate the maturity of such indebtedness, which could cause defaults under, and potential acceleration of, other indebtedness. The Group may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable it to service or repay its indebtedness or to fund its other liquidity needs. The Group may be required to refinance a portion of its indebtedness on or before maturity, sell certain assets, reduce or delay capital expenditures or seek additional capital. The Group cannot assure prospective investors that any refinancing or additional financing would be available on commercially reasonable terms or at all, or whether the Group's assets could be sold, or if sold, whether the proceeds therefrom would be sufficient to meet its debt service obligations. The Group's inability to generate sufficient cash flow to satisfy its debt service obligations, or to refinance debt on commercially reasonable terms, could materially adversely affect its business, financial condition and results of operations. See *"Operating and Financial Review—Liquidity and Capital Resources—Loan agreements and credit facilities."*

Additionally, under the provisional regulations issued by the Chinese State Administration of Industry and Commerce relating to foreign-invested entities in China, the long-term indebtedness of a foreign-invested entity, such as Hongri Acron, is limited by a mandatory ratio that is calculated with reference to its registered capital. The ratio varies according to the total amount of invested and registered capital. Hongri Acron has entered into a

number of loan agreements. If all of its current indebtedness is considered long-term debt, Hongri Acron would not be in compliance with the required ratio. Certain of the loans, which are for short-term operational purposes, arguably would not be included in the calculation of the ratio; however, if Chinese authorities determine that the total amount of Hongri Acron's indebtedness does exceed the permitted ratio, Hongri Acron may be required to immediately repay some of the loans, which could reduce or delay capital expenditures or otherwise disrupt the Group's overall financing plans, or require Hongri Acron to seek additional capital or sell assets.

The interest rate of certain of the Group's borrowings could rise significantly.

Certain of the Group's borrowings bear interest at variable interest rates, and the Group could therefore be adversely affected by increases in interest rates. Additionally, all of the Group's credit facilities with Sberbank provide that Sberbank may unilaterally amend the annual interest rate in the event of increases in refinancing rates of the CBR. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the Group's control. The Group does not currently engage in hedging activities with respect to interest rates. The interest rates on the Group's borrowings could rise significantly in the future, increasing the Group's interest expense associated with these obligations and thus its overall debt, reducing cash flow available for capital expenditures and hindering the Company's ability to pay dividends. See *"Operating and Financial Review—Indebtedness—Borrowings" and "Operating and Financial Review—Quantitative and qualitative disclosure about market risk—Interest rate risk*".

The Group has material weaknesses in its accounting and reporting systems and the internal controls relating to the preparation of IFRS financial statements, and may not be able to remedy these weaknesses or prevent future weaknesses.

The Group's accounting and reporting systems are not as sophisticated or robust as those of companies with a longer history of reporting under IFRS. The lack of established accounting and reporting systems that have been in operation for an extended period of time, and the lack of experience in preparing regular management accounts on a basis consistent with IFRS, may delay the production of IFRS financial statements and could negatively impact the quality of decision-making by the Group's management.

The Group has material weaknesses in its internal controls. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Group has insufficient resources in its accounting and reporting function which may lead to errors and inconsistencies. Specifically, the number and relevant experience of persons in the Group's financial reporting group is not sufficient to service existing reporting requirements given existing and expected demand for timely and accurate financial reporting, both internal and external. Each of the Group's Russian subsidiaries prepares financial statements under Russian accounting standards, and Hongri Acron prepares financial statements under Chinese GAAP. The Group relies on manually administered spreadsheets, and does not have computerised accounting or reporting systems designed for the preparation of IFRS financial statements. The preparation of consolidated IFRS financial statements for the Group involves, first, the transformation of the statutory financial statements of each member of the Group into IFRS financial statements through accounting adjustments and, second, the consolidation of all such financial statements. This process is complicated and time-intensive, and requires significant attention from the Group's senior accounting personnel. In light of the Group's past and planned growth, the preparation of annual or interim IFRS financial statements may require more time than it does for other companies and such financial statements may be subject to a greater possibility of errors or misstatements. Additionally, the Group's ability to generate accurate financial information in a timely manner and to produce the consolidated financial statements is currently overly dependent on a small group of accounting professionals. Moreover, in some cases the Group may lack formal procedures for monitoring transactions and collecting financial and related information required for the preparation of IFRS accounts, or such procedures may be underdeveloped.

The Group has not commissioned an external audit of the Group's internal controls, and the operating effectiveness of the Group's internal controls has not been evaluated or tested. Accordingly, the Group can provide no assurance either that all material weaknesses have been identified, or that all other areas of the Group's internal control systems are operating effectively.

While the Group is taking steps to address the material weaknesses, such as initiating training programmes and hiring additional personnel with experience in preparing IFRS financial statements and reporting and

management information systems, it may not be successful in remedying them in a timely fashion to prevent future deficiencies in its internal controls. Any inability by the Group to remedy or prevent such weaknesses could result in a failure to prevent or detect a material misstatement in its annual or interim consolidated financial statements. Any such misstatement or other defect in the Group's financial statements, or the perceived weaknesses in its accounting personnel, management information or financial reporting systems may have a material adverse effect on, among other things, the Group's ability to pursue its strategies, maintain its competitive strengths or raise debt or equity financing in the future, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects or the trading price of its GDRs.

Notwithstanding the above, the Group believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity and the Group's management believes that, in particular, despite the difficulties described above, the Group will be able to prepare and produce accurate financial information in a timely manner.

The Group currently has an insufficient number of accounting and financial personnel experienced in IFRS and it may be unable to hire adequate accounting personnel to effectively service its accounting department, which could affect its ability to ensure timely and reliable financial statements and to provide effective monitoring of the financial matters affecting the Group.

The Group currently has an insufficient number of accounting and financial personnel experienced in IFRS in place to support the size and complexity of its operations and to effectively monitor and report on financial developments. This may result in errors and inconsistencies, problems with timeliness, accuracy, and quality of information, and insufficient documentation, accountability and internal review, among other things. If the Group is unable to provide its financial department with sufficient resources and personnel, in particular personnel who are also knowledgeable in IFRS, the Group may not be able to ensure that accounting policies are correctly applied in the future or that its financial reporting systems are otherwise effectively implemented. The shortage of finance personnel also means that where control weaknesses have been identified and corrective action agreed, such action may not be implemented in a timely fashion or at all. The Group is planning to hire additional qualified personnel with IFRS accounting expertise, but the number of qualified managerial and technical personnel in Russia knowledgeable in IFRS is limited as a result of intense competition for the services of such persons. If the Group is unable to contract with or hire and retain in a timely manner such additional accounting personnel, its ability to record, process, summarise and report financial information in a timely and reliable manner could be adversely affected.

Notwithstanding the above, the Group believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity and the Group's management believes that, in particular, despite the difficulties described above, the Group will be able to prepare and produce accurate financial information in a timely manner.

The Group management information system, as well as its system of internal controls, may be inadequate to support the Group's future growth.

The Group's management information system, financial reporting function and system of internal controls may be less developed in certain respects than those of mineral fertiliser producers in more developed markets and may not provide the Group's management with as detailed or as accurate information as those in more developed markets. In particular, the Group does not have a fully integrated management information system that includes Hongri Acron. The Group's inability to maintain an adequate management information system, financial reporting function or system of internal controls may have a material adverse effect on the Group's business, results of operations or financial condition.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Group is controlled by the Principal Shareholder, whose interests may conflict with those of other holders and beneficial owners of the Securities.

Following the Offering, the Principal Shareholder will control 79.9% of the Company's outstanding shares. Following the Offering, the Principal Shareholder will continue to have a majority voting interest in the Company, including the power to replace the majority of the existing directors and elect new directors and to

control the outcome of substantially all matters to be decided by a vote of shareholders of the Company. For example, the Principal Shareholder has, and after the Offering will continue to have, the ability to exercise control over the Company's and the Group's pursuit of acquisitions, divestitures, financings or other transactions that could enhance the value of the Principal Shareholder's equity investment without necessarily benefiting the interests of minority shareholders. If circumstances were to arise where the Principal Shareholder's interests conflicted with the interests of minority shareholders, the Principal Shareholder could take actions materially adverse to those of the minority shareholders' interests. Whilst the Company is in the process of bringing its corporate governance structure into compliance with the appropriate Russian corporate governance standards, no specific measures have been implemented, nor under such corporate governance standards would any measures be required to be implemented, to prevent any abuse by the Principal Shareholder of his position. For a description of the ownership structure of the Group, see "*Description of Business*" and "*Principal and Selling Shareholder.*"

The Group holds minority investments in several major Russian companies.

The Group maintains portfolio investments in several major Russian companies, including Silvinit, Apatite and JSC Sibneftegaz ("**Sibneftegaz**"). As the Group holds only minority stakes in those companies, it has little if any influence on the strategy and management of such companies. Moreover, Russian law provides more limited protection for minority shareholders as compared to the laws of Western jurisdictions. As a result, the Group may be squeezed out by majority shareholders on unfavourable terms and this risk may also influence the valuation of the Group's portfolio investments. Any reduction in the valuation of these portfolio investments could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group holds its shares in Apatite through CJSC Nordic RusHolding ("**Nordic RusHolding**"), a Russian company established in 1997 by Acron and a wholly-owned subsidiary of Norsk Hydro ASA ("**Norsk Hydro**"), from which in 2004 Yara was de-merged. Acron and Norsk Hydro (through its subsidiary) contributed approximately 2% and 6% of the total issued shares in Apatite, respectively, into the share capital of Nordic RusHolding. In December 2006, Yara (claiming to be a successor to Norsk Hydro) commenced international arbitration proceedings against Acron seeking an arbitral award compelling the winding up of Nordic RusHolding and ordering the transfer to it of the shares in Apatite that Norsk Hydro had contributed to Nordic RusHolding. See "*Description of Business—Litigation—Dispute with Yara International ASA*". If Yara's claim is successful, the Group's interest in Apatite may be substantially reduced, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Disruption to, or increased cost of, railway transportation of raw materials and fertiliser products could adversely affect the Group's business.

Railway transportation is the Group's principal means of transporting raw materials to its production facilities and finished products to domestic customers, certain export markets and ports for onward transport by sea. Such customers and primary raw material suppliers are generally located at considerable distances from the Group's production facilities. The Group's operations depend on the Russian and Chinese railway systems for transportation of products and raw materials. The Russian railway system is owned by JSC Russian Railways ("**Russian Railways**"), an open joint-stock company wholly owned by the Russian government. Russian Railways is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation. These rail freight prices are subject to annual adjustment based on, among other factors, inflation and the funding requirements of Russian Railways' capital investment program, which is in turn affected by the acute need to upgrade Russian Railways' rolling stock, track infrastructure and passenger- and cargo-handling facilities. Changes to Russian legislation regulating the rail transportation sector could result in further increases in the Group's freight shipment costs.

A sinkhole near a rail track used by Silvinit, the Group's Russian potash supplier, to transport potash is expanding and expected to cause the rail line to close in the near future. An alternative rail link is being considered by the authorities. Engineers associated with the rail line have stated that they expect rail disruptions for at least two to three weeks, although construction of an alternative line is expected to take at least three months and there can be no assurance that disruptions will not last longer. Significant disruptions in the Group's supply of potash could have a material adverse effect in the Group's business, financial conditions or results of operations.

Generally speaking, the Chinese rail system is also a state-owned monopoly and Chinese state authorities set rail tariffs. The Chinese Ministry of Railway ("**MOR**") is the primary regulator regarding rail tariffs. MOR has the powers to regulate most state railways' tariffs, subject to the final approval of the Chinese State Council. Provincial authorities (the local governmental agencies authorised by MOR and price authorities) regulate

railway tariffs for local railways. Tariffs are not set for a pre-determined period of time and may be raised by the relevant authority as they deem necessary, and recently the Chinese government has raised railway tariffs. The new rail tariffs became effective 1 July 2008. The rail infrastructure in China has in some cases also suffered from a lack of funding and maintenance. If rail tariffs or freight prices increase, or if there is a disruption in transportation of the Group's materials and products due to a shortage of available working rolling stock, it could adversely affect the Group's business, financial condition, or results of operations.

Disruptions to shipping transportation could adversely affect the Group's business.

A significant portion of the Group's export products are shipped through ports on the Baltic Sea and certain of Hongi Acron's raw materials are shipped to inbound sea ports in China. Were these ports to experience a sustained disruption due, for example, to political factors, strikes or inclement weather, the Group could face difficulties transporting export products or accessing raw materials or doing so at a reasonable cost. For example, shipping through the Sillamäe sea port in Estonia was in the recent past constrained for a short period as a result of political tensions between the Russian and Estonian governments, which had resulted in difficulties with cross-border trade and operations for Russian companies (including the state-owned Russian railways through which the Group's products are transported to the Sillamäe port). The Group's transport routes to its Kaliningrad sea port passes through Belarus and Lithuania. If similar political tensions were to occur in future between Russia and any of the countries of Belarus, Estonia or Lithuania it could disrupt the ability of the Group to satisfy its delivery obligations to its export customers. Replacement shipment routes through alternative sea ports may not be readily available in the event of any such disruptions and they may therefore have a material adverse effect on the Group's business, financial condition or results of operations.

In addition, if the Group is unable to transport its products for export or Hongri Acron is unable to obtain raw materials as a result of third party suppliers experiencing operational difficulties, or there are material increases in the cost of such services, the Group may not be able to arrange efficient or timely alternative means of transporting its products or receiving raw materials, which could also result in a material adverse effect on its business, financial condition or results of operations.

Interruptions in the supply of electricity could have a material adverse effect on the Group.

The Group's ability to produce its products and its profitability depend on its continued access to electricity. Electricity is currently supplied to the Group's Russian production facilities by local suppliers that are former subsidiaries of UES, which was the government-controlled national holding company for the Russian power sector. Hongri Acron has its own coal-powered steam electricity generator facility, although this facility does not satisfy its entire electricity demand. Hongri Acron must route electricity produced by this generator (as well as obtain additional electricity to meet its needs) through the Chinese national grid.

Cities and regions in both Russia and China have experienced electricity blackouts and shortages in the recent past, and in China many businesses have experienced rotating electricity shutdowns. While the Group has not yet suffered from a shortage of electricity, future interruptions in the supply of electricity or access to the Chinese electricity grid could result in, among other matters, shutdowns of the Group's production facilities (which could be followed by delays in restarting the production process) and reduced production volumes. The ongoing restructuring of the Russian electricity sector, which includes the de-merger of the Group's suppliers, could result in disruptions in the sector, including interruptions in service from the local suppliers of electricity to the Group. Any such interruptions could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group is not insured against all potential losses and liabilities and could be seriously harmed by the occurrence of any events for which it does not have adequate insurance.

The Group does not carry insurance policies to a similar extent as may be common in more developed market economies of Western Europe and North America. The insurance industry is not yet well developed in Russia and China and many forms of insurance protection common in more economically developed countries are not yet available in Russia and China at all or on comparable terms, including coverage for business interruption. Generally, the Group only maintains limited insurance coverage for its key facilities to the extent required by law.

The Group may be subject to losses that are not covered, or not sufficiently covered, by insurance, including loss of or damage to its plant and equipment, losses arising from interruption of business or third-party liability in respect of accidents occurring on its premises or as a result of its operations, including environmental damage. In

the event of severe damage to the Group's facilities, the Group could experience significant disruptions in its production capacity, for which it would not be compensated. Depending on the severity of any such property damage, the Group may not be able to rebuild damaged property in a timely manner or at all. Any such loss or third-party claim for damages may have a material adverse effect on the Group's business, results of operations or financial condition.

The Group is exposed to currency risk, including fluctuations between the Rouble or Renminbi and the US dollar and the risk of restrictive currency regulations and changes in foreign exchange regulations.

The Group's production facilities are located in Russia and China and a significant proportion of its products are sold in Russia, China and Europe. The Group's fertiliser products and some of Hongri Acron's raw materials are priced in, or in relation to, US dollars. The Group's Russian companies are required to settle transactions in Russia (including, among other things, purchases of energy, natural gas and raw materials) in Roubles, and most of the Group's general expenses and trade payables in Russia are denominated in Roubles. Most of the Group's trade receivables are in US dollars. In addition, while the functional currency of the Group and its Russian operations is the Rouble, the functional currency of Hongri Acron is the RMB. Accordingly, exchange rate movements between the US dollar and the Rouble, RMB or the Euro can significantly affect the Group's revenues, costs and profitability.

The Group does not currently hedge against currency fluctuations. Accordingly, appreciation of the Rouble, Euro or Renminbi against the US dollar, as has been the case in recent years, could have a material adverse effect on the Group's business, financial condition or results of operations. In addition, because of the limited development of the foreign currency market in Russia, the Group may experience difficulty converting Roubles into other currencies. Furthermore, there are only a limited number of reliable Rouble-denominated instruments in which the Group may invest its excess cash. Any balances maintained in Roubles will give rise to losses if the Rouble devalues against major foreign currencies.

Furthermore, the CBR and the Russian government may impose requirements governing currency operations. Russian law has, from time to time, imposed various currency control restrictions in attempt to support the Rouble, such as prohibition of foreign-currency operations between Russian companies and the requirement for the repatriation of export-related earnings, and the imposition of further restrictions may not be excluded. Conversion of Renminbi is under government regulation in the PRC. Currently, Renminbi in current account transactions (which includes dividend distributions and interest payments) is freely convertable, but controlled in capital accounts. Moreover, as a foreign-invested enterprise, Hongri Acron may only buy, sell and remit foreign currency at banks authorised to conduct foreign exchange business and may, in certain circumstances, be required to obtain government approvals. Currency controls could cause a delay or other difficulty in converting Roubles or RMB into a foreign currency to make a payment or interfere with the mechanics for the unimpeded transfer of foreign currency, which could limit the Group's ability to meet payment and debt obligations or deploy capital as needed.

The Group faces protective trade restrictions in countries in which it operates and sells its products.

For the year ended 31 December 2007 and the three months ended 31 March 2008, the Group derived 52.1% and 51.9%, respectively, of its total revenues from export sales.

International sales are subject to numerous trade restrictions on imports, including protective tariffs, duties, quotas, exchange controls and other restrictions, depending on the country of export. See "*Certain Regulatory Matters—Trade Barriers*". For example, in September 2002, the Chinese State Council introduced a new rule on explosives, which effectively banned imports of ammonium nitrate into the country. Brazil and the Philippines followed in 2003. This led to a sharp decrease in deliveries of the Group's products into those countries at that time. In addition, the United States and the European Union have brought anti-dumping proceedings against Russian fertiliser producers, including Acron and Dorogobuzh. Although the European Union has, with effect from July 2008, lifted anti-dumping duties with respect to ammonium nitrate affecting Acron and Dorogobuzh in exchange for respecting a price floor, there can be no assurance that other current anti-dumping proceedings will be lifted or that new anti-dumping proceedings will not be initiated in the future. In addition, many countries require governmental approval for (or registration of) a fertiliser product before it can be sold in that country. The Group may face new or more stringent export barriers or trade restrictions in export markets in the future.

In addition, both the Russian and the Chinese governments have sought to limit the export of fertilisers, as a means of increasing domestic supplies and reducing prices, by introducing or increasing export duties on

fertilisers. See "*Certain Regulatory Matters—Trade Barriers*". In March 2008 the Russian government introduced export duties on nitrogen and complex fertilisers of 8.5%, which are effective until 30 April 2009. The PRC government also recently announced a revised export tariff policy that will impose a special tariff of 100% on fertiliser exports based on the existing tariffs in the period from 20 April 2008 to 30 September 2008.

The introduction of Russian, and increases in Chinese, export duties, as well as import barriers and trade restrictions in other countries in which the Group sells its products, may have a material adverse effect on the Group's business, operating results or financial condition.

The prices of fertiliser products in the PRC are frequently subject to price controls.

In China, the prices of fertiliser products are generally subject to controls imposed by relevant central and local price administration authorities, either in the form of fixed prices, price ranges or price ceilings. From time to time, the Chinese central government publishes a central price catalogue and authorised local governments also publish their own local price catalogues. The Chinese central government directly regulates prices of fertiliser products in the central price catalogue and authorised local governments regulate prices of fertiliser products in the local price catalogues. Fertiliser products that are not in the central or local price catalogues are subject to a ceiling price. Currently, fertiliser products of Hongri Acron are not listed in either the central price catalogue or local price catalogues. Therefore, Hongri Acron can only adjust the price of its fertiliser products based on market demand and supply under the ceiling price set by government authorities. In the event that the ceiling price to which Hongri Acron's fertiliser products are subject is adjusted downward, or Hongri Acron is unable to raise its selling prices due to price controls set by Chinese authorities or competitive forces driving prices down, the profitability of the Group may be adversely affected.

The Group currently uses an unaffiliated third party to distribute its Russian fertiliser products exported to China, and there are no formal arrangements to govern this relationship.

The Group exports certain fertiliser products from its Russian production facilities to China. The Group has recently been working with a Chinese partner, Beijing Yongshengfeng Agricultural Means of Production, Co. Ltd. ("**Yongshengfeng**"), to manage the distribution and administration of such sales. The Group, through its recently-established international trading company, has entered into share purchase agreements to purchase Yongshengfeng. The acquisition is currently under review by the relevant Chinese authorities. The Group does not have any formal arrangements in place governing it relationship with Yongshengfeng, and no assurance can be given that the acquisition will be approved by the relevant Chinese authorities. If the acquisition is not approved by the relevant authorities, the Group will not have legal control over the distribution arrangements made by Yongshengfeng for the distribution of its products exported to China. Any disruption of the Group's relationship with Yongshengfeng, including the failure to maintain a distribution relationship with Yongshengfeng, may adversely affect the Group's export sales to China, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Adverse changes in Hongri Acron's distribution network in China could have a material adverse effect on the Group's domestic Chinese sales.

Hongri Acron operates its distribution network in China through over 1,200 independent wholesale distributors in China. Hongri Acron typically enters into written contracts with these distributors; however, distributors do not act exclusively for Hongri Acron and Hongri Acron must compete for desired distributors with other fertiliser producers. Consequently, maintaining relationships with Hongri Acron's existing distributors may be difficult. Any disruption to Hongri Acron's distribution network, including any failure to maintain good relations with its desired distributors, could negatively affect Hongri Acron's ability to effectively sell its products, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Additionally, Hongri Acron does not give its distributors any exclusive right to sell its fertiliser products in any designated geographic area. As a result, Hongri Acron's distributors can potentially compete with one another. In addition, Hongri Acron does not generally have direct contractual relationships with retailers to whom its distributors may sell its products, nor can Hongri Acron control the sales activities of these retailers. Hongri Acron must rely on its wholesale distributors to market its products to retailers. Any disruption of the relationship between Hongri Acron's distributors and the retailers to whom its distributors on-sell could also negatively affect Hongri Acron's ability to effectively sell its products, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The inability to attract and retain key personnel could adversely affect the Group's business.

The Group's success depends, in part, on its ability to continue to retain, motivate and attract qualified and experienced production, technical and management personnel, as well as its senior management team. In particular, the Group's ability to remain competitive and to effectively implement its business strategy and investment plans depends to a large degree on the services of its senior management team and other key personnel, and the loss or diminution in the services of such persons could have a material adverse effect on the Group's business, financial condition or results of operations. The Group does not carry key personnel insurance.

In addition, as the Group's business continues to grow, it expects to have to recruit additional and increasingly skilled personnel. There is a shortage of experienced and qualified personnel and the Group must compete with other Russian and Chinese fertiliser and chemical producers for suitably qualified personnel. A failure by the Group to attract new qualified personnel could have a material adverse effect on its business, financial condition or results of operations.

Shareholder rights provisions under Russian law may impose additional costs on the Group, which could materially adversely affect its financial condition and results of operations.

Russian law provides that shareholders that vote against or do not take part in the voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include

- decisions with respect to a reorganization of a company;
- the approval by shareholders of a "major transaction" involving property worth 50% or more of the gross book value of the company's assets calculated according to RAS, regardless of whether the transaction is actually consummated; and
- the amendment of a company's charter in a manner that limits shareholder rights.

The obligation of the Company (or, as the case may be, a Russian subsidiary of the Company) to purchase shares in these circumstances, which is limited to 10% of the net assets of the relevant entity calculated in accordance with RAS at the time the matter is voted upon, could have a material adverse effect on the Group's results of operations and financial condition.

Transactions by the Company and other members of the Group could be challenged on the basis of non-compliance with applicable legal requirements and the remedies in the event of any successful challenge could include the invalidation of such transactions and/or the imposition of liability on the Company and its subsidiaries.

Approximately 20% of the outstanding shares in the Company have been, and will until the date of the Offering be, held by minority shareholders. 22% of the outstanding shares of Dorogobuzh are held by minority shareholders. Russian law requires a company that enters into a "major transaction" or an "interested party transaction" to obtain approval by its directors (disinterested directors or disinterested independent directors, as the case may be) or shareholders (disinterested shareholders, as the case may be), depending on the value of the proposed transaction or, as the case may be, on whether a "major transaction" is at the same time an "interested party transaction"; see "*Description of Share Capital and Certain Requirements of Russian Legislation—Certain Requirements of Russian Legislation—Interested Party Transactions*" and "*Description of Share Capital and Certain Requirements of Russian Legislation—Certain Requirements of Russian Legislation—Major Transactions*". Members of the Group, or their predecessors-in-interest at different times, have taken and may take in the future a variety of actions involving share issuances, disposals and acquisitions of assets, which could have represented or may represent "major transactions" and "interested party transactions" requiring approval by a majority vote of the directors (disinterested directors or disinterested independent directors, as the case may be) or of the shareholders (disinterested shareholders, as the case may be) in advance of a particular transaction. In addition, the Company owns less than 100% of the equity in some of its subsidiaries, with the remaining equity balance held by minority shareholders. Due to the way in which Russian law on "interested party transactions" is drafted, the special approval procedures that apply to "interested party transactions" also apply to transactions between entities within a consolidated group.

The provisions of Russian law defining which transactions must be approved as "interested party" transactions or "major transactions" are subject to different interpretations, and it is sometimes uncertain when and under what circumstances approval as "major transaction" and/or "interested party transaction" may be

required. This uncertainty may result in challenges to transactions on the basis that they have not been approved in accordance with applicable requirements of Russian law. The Group has not always sought approval for certain transactions involving members of the Group, its affiliates and related parties as "interested party transactions" or "major transactions" in accordance with the procedures set forth in Russian law. In other instances, including in connection with the Offering, corporate approvals may have been issued by improper governing bodies and members of the Group may not have observed all of the requisite procedures. Accordingly, transactions entered into by the Company and other members of the Group, including in respect of the Offering, may be challenged on the grounds that they lacked the requisite corporate approvals or that not all requisite procedures were complied with, and in respect of the Offering, such challenges may result in the cancellation and delisting of the GDRs. Successful challenges to existing or future "interested party transactions" or "major transactions", or actions by shareholders that limit the ability of the Company or other members of the Group to enter and perform such transactions could have a material adverse effect on the Group's business, financial condition or results of operations.

In addition, certain transactions of members of the Group, which may be material to the Group, may have been entered into by persons lacking the requisite authority to do so. Under Russian law a transaction entered into on behalf of a company by an unauthorised person or a person acting outside its competence can be challenged by an interested party. Some of the Group's transactions that may be deemed material were entered into in the past by representatives who were not duly authorised.

There have also been attempts to challenge transactions of a parent company that were approved at a shareholders' meeting, where shares held by a subsidiary of such parent company participated in voting. It has been argued (unsuccessfully so far) that shares held by a subsidiary in its parent company should be viewed as "treasury shares" and, as such, cannot vote. Prior to the Offering Dorogobuzh held 8.54% of the Company's outstanding shares and following the Offering it will hold 8.48% of the Company's outstanding shares. The successful challenge of transactions of the Company that were approved with Dorogobuzh's participation in the voting could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group is subject to numerous environmental and health and safety laws and regulations, as well as potential environmental liabilities, which may require it to make substantial expenditures or engage in clean-up and other activities.

The Group's operations and properties are subject to numerous environmental and health and safety laws and regulations, including those relating to land reclamation; the generation, treatment, storage, disposal and handling of hazardous substances (including waste materials); and the clean-up of hazardous substance releases. See "*Certain Regulatory Matters—Russia—Environmental*" and "*Certain Regulatory Matters—People's Republic of China—Environmental Regulations*". The Group has not always been and may not always be in compliance with all environmental and health and safety laws and regulations. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed, and no such independent environmental audits have been performed. Moreover, environmental laws in Russia and China are continuing to evolve and are becoming more stringent. In light of the uncertainty in this area, and increasing cost of compliance, the Group is unable to estimate its total environmental exposure over the longer term, but these expenditures may be material.

The following actions, events or circumstances, among others, could result in actual costs and liabilities being greater than provided or planned for, or could otherwise have a material adverse effect on the Group's business, financial condition or results of operations.

- violations of environmental and health and safety laws by the Group resulting in court orders or orders by the regulatory authorities requiring the Group to reduce, suspend or stop production at a facility that has violated environmental standards or regulations, or to upgrade or install equipment, or imposing other civil or criminal sanctions, and permit revocations;
- stricter enforcement of the Group's production, sales, storage, transportation and usage of hazardous substances by environmental protection agencies in Russia and China requiring the Group to increase expenditure on environmental protection measures;
- changes in the current regulatory environment, such as the Group's waste being reclassified as more hazardous than currently or changes in the Russian "pay-to-pollute" regime lowering the statutory limits for pollution or increasing the fees payable for pollution. See "*Certain Regulatory Matters—Russia—Environmental—Pay-to-pollute*";
- accidental spills, discharges or other releases of hazardous substances into the environment by the Group or by persons who have disposed of or released hazardous substances into the environment and

with whom the Group may be responsible, resulting in the Group having to reduce, suspend or halt operations, pay substantial civil penalties, and undertake expensive restoration and clean-up activities;

- implementation of new or additional rules or more stringent environmental standards as a result of Russia's ratification of the Kyoto Protocol to the United Nations Framework Convention on Climate Change or the Chinese government's implementation of the National Climate Change Programme. The impact on the Group will depend on, among other factors, the base level against which permissible levels of emissions are to be measured and the allocation of quotas for such emissions, which is currently uncertain; and
- third-party claims for damages, including personal injury and property damage, resulting from the disposal or release of hazardous substances into the environment.

Accidents involving the Group's products could cause severe damage or injury to property, the environment and human health, which could adversely affect the Group's business.

The Group manufactures, stores and transports ammonia, ammonia nitrate and other chemicals and chemical products that are volatile or explosive. Accidents involving these substances could result in fires, explosions, accidents, severe pollution or other catastrophic circumstances, which could cause severe damage or injury to persons, property or the environment, as well as disruptions to the Group's business. In addition, the Group's plants and ancillary facilities may be targets of terrorist attacks. Such events could result in equipment failures or shutdowns, civil lawsuits, criminal investigations and regulatory enforcement proceedings, all of which could lead to significant liabilities. Any damage to persons, equipment or property or other disruption to the Group's ability to produce or distribute its products could result in a significant decrease in Group revenues and profits and significant additional cost to replace or repair its assets, and depending on the nature of the incident the Group may not be fully insured, or insured at all, all of which could result in a material adverse affect on the Group's business, financial condition or results of operations.

Equipment failures resulting in production curtailments or shutdowns could adversely affect the Group's business.

The Group is exposed to the risk of equipment breakdown or failure. The Group's manufacturing processes depend on critical pieces of equipment, which may be out of service as a result of unanticipated breakdowns or failures, causing interruptions in production or a process shutdown while repairs are carried out. Interruptions in production or process shutdowns (which could be followed by delays in restarting the production process) could reduce production volumes and could have a material adverse affect on the Group's business, financial condition or results of operations.

The Group may be at risk of administrative sanctions, be required to divest certain assets or be subject to limitations on its operating flexibility as a result of failing to comply with the Natural Monopoly Law or if the Russian Federal Anti-Monopoly Service ("FAS") determines that the Group should be added to the list of entities with a dominant market position.

The Company and Dorogobuzh are considered "natural monopolies" by the Federal Tariff Service of the Russian Federation ("**FTS**") under the Russian Federal Law on Natural Monopolies No. 147-FZ dated 24 June 1999 (the "**Natural Monopoly Law**") in connection with their activities for transmission of electric and heat energy; as a result, both the Company and Dorogobuzh are subject to the regime established by the Natural Monopoly Law. The key elements of such regime include increased FAS approval and reporting requirements in respect of certain types of transactions (including investments and financing transactions) involving the Company and Dorogobuzh or their shares and regulation of tariffs by FTS with respect to regulated services, among others. Members of the Group have not been in the past, and may not be in the future, in compliance with the Natural Monopoly Law, and such non-compliance could result in fines and challenges to transactions concluded by the Company or Dorogobuzh in breach of those requirements. In addition, the Natural Monopoly Law regime may limit the Group's operational flexibility and could have a material adverse effect on its business, financial condition or results of operations.

In addition, the Russian Federal Law on the Protection of Competition No. 135-FZ dated 26 July 2006, as amended, (the "**Competition Law**"), which came into force in October 2006 grants expanded powers to the FAS and its agencies, as well as new grounds for the FAS to impose its control over corporate entities, including in respect of determining whether an entity (or group of entities) enjoys a dominant position in a given market. FERTECON estimates that the Group produces approximately 13% of the total output of nitrogen and phosphate fertiliser production in Russia and management believes the Group has an approximately 30% share in the

market for NPK fertiliser in Russia. In the future, the FAS could determine that the Group holds a dominant position in a nitrogen fertiliser market generally or in the market of a particular product and be obliged to comply with certain requirements that may limit the Group's operating flexibility, such as limitations on further acquisitions or specific pricing requirements, or its ability to adjust its production and pricing to respond to changed market conditions, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Moreover, Russian legislation and regulations of such matters are vague and uncertain and subject to varying interpretations. There can be no assurance that the FAS will not conclude that actions taken by the Group were carried out in contravention of applicable legislation and that competition has been reduced as a result. Any such finding could result in the imposition of administrative sanctions or require the divestiture of any newly acquired assets, and therefore could have a material adverse effect on the Group's business, financial condition or results of operations.

New legislation on ownership restrictions imposed on foreigners could adversely affect the Group's business.

Adopted on 29 April 2008, a new federal law "On the Procedure for Foreign Investments in Legal Entities of Strategic Importance for State Defense and National Security" No. 57-FZ (the "**Foreign Investments Restrictions Law**") and related amendments to other laws limit access of foreign investors to certain industries in the Russian Federation by way of introducing restrictions on foreign ownership of and control over Russian companies that are deemed to be of strategic importance for the facilitation of the defence and security of the Russian State by virtue of exercising certain activities listed in the Foreign Investments Restrictions Law (the "strategic industry activities").

As of the day of this Prospectus, management believes that none of the companies within the Group is involved in any strategic industry activities nor subject to the Foreign Investments Restrictions Law. However, the Foreign Investments Restrictions Law (including the list of strategic industry activities) is drafted in a vague and uncertain manner and may, therefore, be open to different interpretations. Moreover, there is, as yet, no practice of its application. No assurance can be given that the Foreign Investments Restrictions Law will not be interpreted as being applicable to the Group. Also, no assurance can be given that the Foreign Investments Restrictions Law will not become applicable to the Group as a result of certain future events, such as the classification of the Russian mineral deposits of the Group as deposits of strategic (federal) importance. See "*Certain Regulatory Matters—Russia—Foreign Investments Restrictions*".

If any of the Russian companies within the Group is deemed to be subject to the Foreign Investments Restrictions Law, this may have a material adverse effect on the Group's business, financial condition or results of operations and may result in the need for potential investors to obtain prior consent from the competent Russian authorities for the acquisition of Securities and other foreign ownership and control restrictions. See also "*Certain Regulatory Matters—Russia—Foreign Investments Restrictions*".

If the Group fails to protect adequately its intellectual property rights or faces a claim of intellectual property infringement by a third party, it could lose its property rights or be liable for significant damages, which could adversely affect the Group's business.

Russia and China generally offer less intellectual property protection than some more developed market economies such as the European Union or the United States. The Group believes it has a well-recognised brand, particularly in Russia and China, and the Group continuously takes measures to protect its brand. See "*Description of Business—Intellectual Property—Branding, logo and trademarks*". The Group relies primarily on a combination of registered trademarks, patents, licensing agreements and restrictions on disclosure to protect the Group's intellectual property. However, Hongri Acron has not yet secured the trademark for "yanyangtian" in Chinese pinyin, one of the key trademarks Hongri Acron uses. The application for the trademark "yanyangtian" in Chinese pinyin is in process but there can be no assurance Hongri Acron will receive it. If Hongri Acron fails to secure this trademark, its brand could suffer. Despite the precautions the Group takes, the Group has in the past experienced brand name infringement in China. Such infringement, or any inability by the Group to protect its proprietary rights against infringement or misappropriation, may adversely affect the Group's ability to develop its business. In addition, the Group may need to engage in litigation in order to enforce the Group's intellectual property rights in the future or to determine the validity and scope of the rights of others. Any litigation could result in substantial costs and diversion of management and other resources, either of which could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group may fail to fulfil the terms of its licences, permits, certificates and other authorisations, or fail to renew them on expiry.

The Group's business depends on the continuing validity of its licences, permits, certificates and other relevant authorisations (together, the "**Licences**"), the issuance to it of new Licences, the renewal of its existing Licences and its compliance with the terms of the Licences, including subsoil licences for the Group's proposed mining operations at Oleniy Ruchey, Partomchorr and Talitsky (see "*Description of Business—Mining companies and reserves*"). The Group's Licences together with applicable legislation, particularly Russian and Chinese legislation, contain various requirements with which the Group must comply in order to maintain such Licences.

Regulatory authorities exercise considerable discretion in monitoring the Group's compliance with Licence terms, in common with that of other licences, and in the timing of Licence issuance and renewal. Licences may not be issued or renewed in a timely fashion and Licences that the Group requires may not be issued or renewed at all. Requirements imposed by regulatory authorities may be costly and time-intensive, may involve conditions that restrict the Group's ability to conduct its operations or to do so profitably and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and the procedures by which Licences are issued are often arguably inconsistent with legislation.

These and other factors may affect the Group's ability to obtain, maintain or renew necessary Licences. If the Group fails to comply with the requirements of applicable law, or governmental approvals, or fails to meet the terms of its Licences, or is unable to obtain, maintain or renew necessary Licences or other governmental approvals or is only able to obtain or renew them with newly introduced material restrictions, it may have to cease conducting its business as it does now or otherwise alter its operations, which may have a material adverse effect on the Group's business, financial condition or results of operations.

The Company has engaged and continues to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than could be obtained in arm's-length transactions.

In the ordinary course of its business, the Company has engaged, and continues to engage, in transactions with related parties and affiliate companies. The Company has engaged in transactions with parties that are under common control with the Principal Shareholder, or are affiliated with, or that are otherwise related parties to the Company including parties that are members of the Company's board of directors (the "**Board of Directors**") or the management board (the "**Management Board**") (see "*Related Party Transactions"*, below).

Conflicts of interest may arise between the Group's related parties and the Group, potentially resulting in the conclusion of transactions on terms not determined by market forces and less favourable than those obtained in arm's-length transactions, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Mining and refining mineral properties involves significant uncertainties and the Group's mining operations and exploration activities will be subject to all of the hazards and risks normally encountered in such activities.

The Group has recently obtained subsoil licences in respect of apatite-nepheline ore deposits at the Oleniy Ruchey and Partomchorr fields in Russia, a subsoil licence to develop a potash deposit at the Talitsky field in Russia and exploration licences in respect of potash salt deposits held by a new Canadian subsidiary in the Canadian province of Saskatchewan. See "*Description of Business—Mining Companies and Reserves*". The Group has no prior experience in mining, exploring for, and developing mineral resources and it could encounter unexpected difficulties in its efforts to enter this new line of business. The business of exploration for, mining and refining mineral properties involves a number of risks and hazards, including the failure to find and prove mineral resources, unusual or unexpected geological conditions, mine collapses, difficulties in sourcing necessary equipment and transporting it to the location where it is to be used, equipment failure, mine or plant shutdowns, changes in the regulatory environment, environmental hazards, industrial accidents and weather and other natural phenomena such as floods and earthquakes. No assurance can be given that the Group's exploration activities in Canada will find or prove viable commercial potash salt deposits. In addition, as the Group develops its apatite-nepheline ore and potassium-magnesium salt deposits it also faces risks relating to the location of the economically viable ore bodies, the development of appropriate extraction processes, the receipt of necessary

governmental permits and the construction of mining and processing facilities. No assurance can be given that the Group's planned mining projects *(see "Description of Business—Investment Programme and Capital Expenditure")* will result in viable commercial mining and processing operations either at all or in the time frame envisaged by the Group. Moreover, such risks and hazards could result in material damage to, or the destruction of, mineral properties or production facilities, human exposure to pollution, personal injury or death, environmental and natural resource damage, delays in mining taking place and possible legal liability, any of which could have a material adverse impact on the Group's business, financial condition or results of operations.

The volume and grade of the ore the Group recovers may not conform to current expectations.

The resource and reserve estimates contained in this Prospectus for the Oleniy Ruchey, Partomchorr and Talisky deposits are estimates of the reserves in the ground on the Group's existing licenced territories based on FSU Classification undertaken in the 1980s. The FSU Classification system differs materially from, and is not comparable to, the JORC Code or other internationally-used standards. No assurance can be given that the expected level of recovery will be realised, that expected grades and tonnages will be achieved or that mineral reserves can be mined or processed cost-effectively. Actual reserves may not conform to geological, mineral or other expectations, and the volume and grade of ore recovered may be below estimated levels or may be unsuitable for the current technology and equipment used in the Group's production facilities. In addition, there can be no assurance that mineral recoveries in small-scale tests will be duplicated in larger-scale tests under on-site conditions or during production.

Increased production costs, reduced recovery rates, lower market prices and other factors render resources and reserves containing lower grades and/or mineralisation uneconomic to recover. Any failure of the reserves and resources to meet the Group's recovery expectations may have a materially adverse effect on the Group's business, financial condition or results of operations.

The Group's mining projects may be subject to delays, problems with equipment supplies and cost overruns.

The Group's mining projects are subject to the completion of planned development goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. There is a risk that the mining equipment required for the planned development goals may not be available in a timely manner, for reasons of high demand or insufficient supply. There may also be a shortage of suitably qualified personnel for the development of the Group's mining operations. Any such failure may result in delays in the achievement of development targets with a consequent material adverse impact on the Group's business, financial condition or results of operations.

The location of the Group's deposits means that climatic conditions may have an impact on the development of the mines and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel or the operation of the Group's mining equipment. It is therefore possible that operational activity levels might fluctuate as a result of meteorological factors.

Unscheduled interruptions in the development of the Group's mining projects due to mechanical or other failures or industrial relations-related issues or issues with the supply of goods or services could have a serious impact on the development of the mining projects whether as a result of operational delay or cost overrun with a consequent material adverse impact on the Group's business, financial condition or results of operations.

The Group may pursue opportunities to grow its operations through acquisitions, but there can be no assurance that it will be able to identify suitable acquisition targets or successfully integrate such acquired companies.

The Group intends to consider future acquisitions of assets or companies that may enable the Group to fulfil its strategy of becoming a vertically-integrated mineral fertiliser producer. The Group may not be able to identify suitable acquisition targets, and future acquisitions may not be available to the Group on terms as favourable as in the past, or at all. In addition, the Group may have relatively limited experience in the type of acquisitions that it may choose to undertake. Any such acquisition involves a number of risks, including the failure to successfully integrate the acquired assets or companies into the Group's corporate structure and operations, loss of significant customers or key personnel, conflicts with minority shareholders in acquired companies and their material subsidiaries, diversion of management's attention and possible disruption of the Group's own business, and risks associated with unanticipated events or liabilities.

The continued growth of the Group's business may strain its managerial, financial and operational control systems and the Group may find it difficult to obtain personnel and other resources to adequately develop these systems further.

The continued growth of the Group's business, including the development of the Oleniy Ruchey, Partomchorr and Talitsky subsoil rights, the completion of the construction works in the Sillamäe port and the expansion of its Chinese distribution network, may raise unanticipated operational or control risks. The execution of these and future projects will require, among other things:

- continued development of financial and management controls and information technology systems and their implementation in newly established or acquired assets;
- continued development of best practices and policies;
- continued development of logistical operations and supply chain management; and
- identifying, hiring and training new qualified personnel.

The operating complexity of the Group's business and the responsibilities of its management are expected to increase as a result of this growth, placing significant strain on its managerial, financial and operational control systems. In view of this, the Group will need to continue to improve its operational and financial systems and managerial controls and procedures to keep pace with its growth. The Group will also have to maintain close co-ordination among its various members and the personnel within its divisions. Should the Group be unable to successfully manage the impact of its growth on its managerial, financial and operational resources and control systems, there could be a material adverse effect on its business, financial condition or results of operations.

The Company's ability to pay dividends depends, in part, upon the ability of its subsidiaries to pay dividends and to advance funds.

Because the Company conducts business through Dorogobuzh and Hongri Acron, in addition to its own operations, its ability to pay dividends to shareholders depends on the earnings and cash flow of its subsidiaries and such subsidiaries' ability to pay the Company dividends and to advance funds to it. As a foreign invested entity, Hongri Acron may only pay dividends out of its accumulated profits, if any, as determined by Chinese accounting standards, and is also required to set aside certain amount each year for reserve funds. Moreover, Hongri Acron's ability to pay dividends is restricted by a resolution adopted by its board of directors in connection with the entering into of a loan from China Construction Bank. Until such loan (which has a final maturity date of 21 December 2009) is fully repaid, the board of directors has resolved that it will not request a shareholders meeting to adopt a resolution to distribute dividends to shareholders. In addition, as the Company holds (directly and indirectly) only 78% of the shares of Dorogobuzh, it receives only its proportionate share of dividends paid by Dorogobuzh. Other contractual and legal restrictions applicable to the Company's subsidiaries and the Group's structure could also limit the Company's ability to obtain cash from them. The Company's right to participate in any distribution of its subsidiaries' assets upon their liquidation, reorganisation or insolvency would generally be subject to prior claims of the subsidiaries' creditors, including any trade creditors or preferred shareholders.

The Group's existing arrangements with trade unions may not be renewable on terms favourable to the Group, and the Group's operations could be adversely affected by strikes and lockouts.

As at 31 December 2007, approximately 89% of Acron's and Dorogobuzh's employees belonged to trade unions. Although the Group has not experienced any business interruption as a result of labour disputes and it believes that it generally has good relations with its employees and the trade unions, large union representation subjects the business to the threat of interruptions through strikes, lockouts or delays in renegotiations of labour contracts. Acron, Dorogobuzh and Hongri Acron have collective bargaining agreements with their respective trade unions which expire in 2011, 2009 and 2010, respectively. There is a risk that the Company may not be able to renegotiate the agreements on terms that are as favourable as at present and in this event, there may be a material adverse effect on its business, financial condition or results of operations.

RISKS RELATING TO THE JURISDICTIONS IN WHICH THE GROUP OPERATES

Political and social risks

Political and governmental instability in the jurisdictions in which the Group operates, and any adverse changes in economic, political or social conditions in those jurisdictions, could materially adversely affect the Group's business, revenues and results of operations and the value of the Securities.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market-oriented economy. Similarly, over the past two decades, the Chinese economy has been transforming from a controlled economy to a more market-oriented economy and during this time, the PRC government has implemented economic reform measures emphasising the utilisation of market forces in the development of the Chinese economy.

As a result of the sweeping nature of these reforms, and the consequences of some of them, the Russian and Chinese political systems remain vulnerable to popular dissatisfaction. Shifts in governmental policy and regulation in Russia and China may be less predictable than in many Western democracies.

Following the election of Dmitry Medvedev, changes in the government, major policy shifts or lack of consensus between the President of Russia, the government, Russia's parliament and powerful economic groups, could lead to political instability that could have a material adverse effect on the value of investments relating to Russia.

Russia is a federation of 85 different sub-federal political units. The delineation of authority and jurisdiction among the members of Russia and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws, and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders the Group's long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent the Group from effectively and efficiently carrying out its business strategy.

While the Chinese economy has been transforming over the past two decades, a substantial proportion of the productive assets in China are still owned by the Chinese government or state-owned entities. Moreover, the Chinese economy differs from the economies of most developed countries in many respects, including its structure, the level of government involvement, the level of development, growth rate, the measure and level of control of foreign exchange and allocation of resources, the evolving laws and regulatory system and lack of transparency in the regulatory process. The Group cannot predict whether changes in China's political, economic and social conditions, laws, regulations and policies will have a material adverse effect on its business, results of operations or financial condition.

In addition, the political relationship between Russia and China has historically been subject to sudden fluctuation and periodic tension. Changes in political conditions in China and changes in the state of foreign relations are difficult to predict, and could adversely affect the Group's business.

The business and regulatory climate in Russia is reported to be affected by crime and corruption.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and alleged corruption of officials in Russia and other countries of the former USSR. Some commentators have also described instances in which state officials have engaged in selective investigations and prosecutions to further the commercial interests of select parties. Additionally, some commentators allege that the publication of biased reports in the Russian media in return for payments is widespread. Crime and corruption could disrupt the Group's ability to conduct business and could adversely affect its business, results of operations or financial condition.

Arbitrary government action, particularly by tax authorities, could have an adverse effect on the Group's business and reduce the value of the Securities.

Recent high-profile cases against prominent businessmen and major companies have caused some concern in relation to the investment climate in Russia, and no assurances can be given that these cases will not affect the public perception of investment into Russia. Since 2003, the Ministry for Taxes and Levies (now succeeded by the

Federal Tax Service) has challenged certain Russian companies' use of tax optimisation schemes, and press reports have speculated that these enforcement actions have been selective. The press has reported from time to time significant claims for back taxes and related penalties against certain companies. Although the Group believes that it is currently in material compliance with its tax obligations with respect to its operations in Russia, there can be no assurance that the Federal Tax Service will not become more aggressive in respect of future tax audits, which could have a material adverse effect on the Group's business, results of operations or financial condition.

Government authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or may be influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances to interfere with the performance of, nullify or terminate contracts and effectively expropriate or nationalise private enterprises. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other measures to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. Any deterioration of relationships with the federal or local authorities, unlawful, selective or arbitrary government action, if directed at the Group's operations in Russia, could lead to the loss of key licences, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings or imprisonment of key personnel, any of which could have a material adverse effect on the Group's business, results of operations or financial condition.

In the event that the privatisation of any Group company is successfully challenged, the Group may lose its ownership interest in such company or its assets.

The Group's Russian production companies and Hongri Acron were privatised in the 1990s and 2002, respectively. Privatisation legislation in Russia and China is generally considered to be vague, internally inconsistent and in conflict with other elements of Russian and Chinese legislation. As a result, many privatisations in Russia and China are arguably deficient and may be subject to challenge, at least on technical grounds, including through selective action by governmental authorities motivated by political or other extra-legal considerations. In July 2005, the statute of limitations for challenging transactions entered into in the course of a privatisation in Russia was reduced from ten years to three years, and the statute of limitations has technically passed with respect to the privatisations of the Group's Russian production companies. Some uncertainties exist in respect of strict compliance with applicable laws during the privatisation of the Company, Dorogobuzh and Hongri Acron. If any privatisations were challenged as having been improperly conducted, and the Group were unable successfully to defend the legitimacy of such privatisations, any such challenge may jeopardise the title to the Shares and the Group may lose its ownership interest in such company or assets, in whole or in part, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Claims from the Company's former shareholders in connection with the consolidation of shares may jeopardise title to the Shares.

In 1996 the Company commenced consolidation of its shares. Such share consolidation involved conversion of the Company's shares into shares with a greater nominal value and mandatory buy-out of the resulting fractional shares from a significant number of minority shareholders. The Company may face claims from its former minority shareholders, aimed at the restoration of their title to the Company's shares or generally challenging the share consolidation. As at the date of this Prospectus, the Company remains under an obligation to pay for the fractional shares in the amount of approximately RUR 220,000 and the Company may face claims from its former minority shareholders for the discharge by the Company to them of its obligation to pay for the fractional shares. Any such claims, if successful, may jeopardise the title to the Shares and have a material adverse effect on the Group's business and financial condition.

Legislation to protect against nationalisation and expropriation may not be enforced.

Although the Russian government has enacted legislation to protect property against expropriation and nationalisation and to provide for fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments, and the risk of corruption among Russian state officials.

The concept of property rights is not well developed in Russia and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the

Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Russian government nationalises or expropriates some or all of the Group's assets. While management considers that the Group's assets are not vulnerable to being nationalised or expropriated, any expropriation or nationalisation of any of the Group's assets without fair compensation would have a material adverse effect on the Group's business, results of operations or financial condition.

Adverse changes in Russia's relationships with foreign governments and institutions could adversely affect the ability of the Group's access world markets.

As Acron and Dorogobuzh export a substantial proportion of their products, any adverse changes in Russia's relations with foreign governments and institutions, in particular any such changes adversely affecting the ability of Russian manufacturers to access world export markets, may have negative effects on the Russian economy and consequently on the Group's business, results of operations or financial condition.

Occurrence of a widespread public health problem could adversely affect the Group's business and results of operations.

In the past, the countries in which the Group operates have been affected by significant public health problems such as an outbreak of a new and highly contagious form of atypical pneumonia known as SARS which was experienced in China and certain other countries in 2002 and 2003 and pandemic avian influenza in China and neighbouring countries in 2004 and 2005. A renewed outbreak of SARS, avian influenza or another widespread public health problem in a country in which the Group operates could result in quarantines or closures of some of the Group's offices and manufacturing facilities, travel restrictions, the sickness or death of certain of its key officers and employees, import, export and product distribution restrictions or a general slowdown in the economy of the relevant country affecting fertiliser demand, any of which could have a material adverse effect on the Group's business, results of operations, or financial condition.

Economic Risks

The Russian and Chinese economies are less stable than those of many Western countries and fluctuations in the global, Russian or Chinese economies, together with the effects of certain aspects of the jurisdictions in which the Group operates, may have an adverse effect on the Group's ability to attract future capital as well as on its business and financial condition.

The economies of Russia and China each have been undergoing a rapid transformation from a centrally-planned economy to a more market-oriented economy. These transformations have been marked by periods of significant instability, and each of these economies at various times has experienced:

- declines in gross domestic product; an unstable currency; high levels of state debt relative to gross domestic product; a weak banking system providing limited liquidity to Russian and Chinese enterprises; high levels of loss-making enterprises that have continued to operate due to the lack of effective bankruptcy proceedings; widespread tax evasion; growth of black and grey market economies; pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy; and
- significant increases in unemployment and under-employment.

The Russian and Chinese economies could be adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside Russia or China or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia or China and adversely affect the Russian and Chinese economies. Additionally, because Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market, and a decline in the price of oil and gas could have a significant negative impact on the Russian economy. Such developments could severely limit the Group's access to capital and could adversely affect the Group's business, results of operations or financial condition.

Although economic conditions in Russia and China have improved in the last few years, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that Russia and China will remain receptive to foreign investment, or that the Russian and Chinese economies will continue to improve. Any failure or reversal of the current policies of economic reform and stabilisation could have a material adverse effect on the Group's business, results of operations or financial condition.

In addition, recent terrorist activity inside and outside Russia and China and the recent armed conflicts in the Middle East have had a significant effect on international and domestic finance and commodity markets. Any future acts of terrorism or armed conflicts in Russia, China or internationally could have an adverse effect on the financial and commodities markets and the global economy. As Russia produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions of Russian oil and gas exports could negatively affect the Russian economy and, thus, adversely affect the Group's business, results of operations or financial condition.

Physical infrastructure in Russia and China is in some places inadequate or in a poor condition, which may lead to disruptions in the business of the Group or an increase in its costs.

The physical infrastructure in Russia and China, including rail and road networks, power generation and transmission, communications systems and building stock is sometimes inadequate or has not been adequately funded and maintained. Electricity shortages in some regions have seriously disrupted local economies. Road conditions throughout Russia and China are also poor, with many roads not meeting modern quality requirements. The poor condition or further deterioration of the physical infrastructure in Russia and China may harm their economies, disrupt access to communications, increase the cost of doing business in those countries or disrupt business operations, any or all of which could have a material adverse effect on the Group's business, financial condition or results of operations.

The official data upon which prospective investors may base their investment decision may not be as reliable as equivalent data from official sources in more developed economies.

The official data published by Russian federal, regional and local government agencies and Chinese central and local government agencies are substantially less complete or researched than that of some of the more economically developed countries of North America and Western Europe. Official statistics may also be produced on different bases than those used in such more economically developed countries. Consequently, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies and Chinese central and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Russia and China in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

RISKS RELATING TO THE LEGAL SYSTEMS AND LEGISLATION OF THE JURISDICTIONS IN WHICH THE GROUP OPERATES

Weaknesses and uncertainties in the legal systems and legislation effective in the jurisdictions in which the Group operates create an uncertain environment for investment and business activity which could affect the Group.

Both Russia and China are in a period of transition from a centrally planned economy, and each country is still developing the legal framework required to support a market economy.

For example, the Russian legal system suffers from inconsistencies in various sources of law and a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation. Judges and courts are relatively inexperienced in interpreting legislation in accordance with new principles established under reformed statutes, and substantial gaps exist in the legal framework due to the delay or absence of implementing regulations for certain legislation. The Russian judiciary may not be completely independent from political, social and commercial forces, and governmental authorities generally have a high degree of discretion, leaving significant opportunities for arbitrary and capricious government action.

In China, since 1979, the government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to a relatively short legislative history and the fact that Chinese governmental authorities are actively involved in amending existing regulations and bringing into force new regulations relating to various fields of the Chinese economy, interpretation of Chinese laws and regulations will involve a degree of uncertainty. Furthermore, the Chinese judiciary and administrative agencies are relatively inexperienced when compared with those in Western Europe or the US and therefore the outcome of any litigation or administrative proceeding may be uncertain and difficult to predict. The PRC currently does not have any centralised register or official sources where all legislation enacted by the central and local authorities is made available to the public. Accordingly, the Group or Hongri Acron may not be aware of the existence of certain new legislation or regulations.

These uncertainties in the Russian and Chinese legal systems may make it difficult for the Group to comply with applicable law and to enforce its legal rights, including rights under contracts, or to defend against claims by other parties.

Investors may have limited recourse against the Group and the directors and executive officers of Acron because the Group generally conducts its operations outside the United States and the United Kingdom and the majority of Acron's current directors and all of the members of Acron's Management Board reside outside the United States and the United Kingdom.

Russian courts will not recognise or enforce any judgment obtained in the courts of any other country unless such enforcement is envisaged by an international treaty to which Russia is a party, or by an *ad hoc* treaty in effect between such country and Russia providing for enforcement of such judgments on a reciprocal basis and only in accordance with the terms of such treaty. Russia is not a party to any such treaty with either the US or the United Kingdom. This may deprive investors of effective legal recourse for claims related to their investment in the Shares and GDRs.

The Group's presence outside the US and the UK may limit investors' legal recourse against it. Acron is incorporated under the laws of Russia. The majority of Acron's current directors and all of the members of its Management Board reside outside the US and the UK, principally in Russia. All or a substantial portion of the Group's assets and the assets of Acron's current directors and executive officers are located outside the US and the UK, principally in Russia. As a result, investors may not be able to effect service of process within the US or the UK upon Acron or its directors and executive officers or to enforce US or UK court judgments obtained against Acron or its directors and executive officers in jurisdictions outside the US and the UK, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the US and the UK, liabilities predicated upon US or UK securities laws. The possible need to re-litigate in Russia a judgment obtained in a foreign court on the merits may significantly delay the enforcement of such judgment.

Russia's property law is subject to uncertainty and contradiction.

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. These uncertainties may have a material adverse effect on the Group's business, results of operations or financial condition.

Moreover, in order to use and develop real property in Russia the approvals, consents and registrations of various federal, regional and local governmental authorities are required. Further, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice.

Pursuant to Russian law, all rights to real property (including land plots and buildings), and certain transactions therewith, are required to be registered in the Unified State Register of Rights to Immovable Property and Transactions Therewith. Rights to real property do not arise until the time of their state registration, and if a transaction involving real property that requires state registration is not so registered, the transaction is deemed null and void. The Russian Group companies have not always complied with the relevant registration requirements.

Failure to obtain or comply with the required approvals, consents, registrations or other regulations, or to otherwise comply with applicable laws, may lead to severe consequences for the landowners and other real estate owners and lessees, including with respect to any current construction activities. If the real property owned or leased by the Group is found not to be held in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the title to such real property, which could have a material adverse effect on the Group's business, results of operations or financial condition.

In addition, some land plots and real property assets of the Group have been acquired through privatisation and are, therefore, subject to the risks connected with privatisation. See *"—Risks relating to the Jurisdictions in which the Group operates—In the event that the privatisation of any Group company is successfully challenged, the Group may lose its ownership interest in such company or its assets."*

Lack of developed corporate and securities laws and regulations in Russia could limit the Group's ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in jurisdictions with major financial centres such as the US or the UK. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, and laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Federal Service for Financial Markets ("**FSFM**");
- the FAS;
- the CBR; and
- various professional self-regulatory organisations.

It is often unclear whether or how regulations, decisions and interpretations issued by various regulatory authorities apply to the Group. While some important areas are subject to virtually no oversight, regulatory requirements imposed on Russian issuers in other areas can obstruct or delay securities offerings and access to the capital markets. Moreover, Russian corporate and securities laws and regulations can change rapidly, and much of the new legislation remains untested and subject to varying interpretations. As a result of these factors, the Group may be subject to fines or other enforcement measures despite its best efforts at compliance, and its ability to conduct corporate finance operations in the capital markets may be adversely affected.

Any publicity or disclosure with respect to any perceived or actual violations by the Group of corporate governance, disclosure and reporting requirements or breaches of anti-fraud safeguards, insider-trading restrictions and fiduciary duties could have a material adverse effect on the value of an investment in the Securities.

Disclosure and reporting requirements, and the concept of fiduciary duties are relatively recent in Russia.

Disclosure and reporting requirements that apply to all joint stock companies, including Acron have only recently been enacted in Russia. Anti-fraud legislation has only recently been adapted to the requirements of the free market economy and remains largely untested. The concept of fiduciary duties of management or members of the board to their companies and shareholders is also relatively new and is not well developed. Russian courts to date do not have experience with lawsuits based on alleged violations of such laws and regulations, and Russian law does not contemplate class action litigation. Accordingly, an investor's ability to pursue legal redress against the Company for violations of its rights as a shareholder, violations of corporate governance, disclosure and reporting requirements or breaches of fiduciary duties by the Company or its directors or officers may be limited, and such violations could have a material adverse effect on the price of the Securities. Moreover, any violations of disclosure and reporting requirements or breaches of fiduciary duties by the Company's directors or to the Company's shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, which may result in a material adverse effect on the Group's business, results of operations or financial condition.

Uncertainty relating to the Russian tax system could have an adverse effect on an investment in the Securities.

The Russian Government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of this reform was a complete redrafting of the Russian Tax Code; this included a reduction of the corporate profits tax rate from 35 percent for most companies and 43 percent for financial institutions, insurance and intermediary companies to 24 percent for all companies from 1 January 2002 and also allowed for a broader range of deductible expenses. Payroll-related taxes have been reduced substantially and for individuals who are tax residents in Russia the current personal income tax rate is 13 percent. The general rate of VAT has been reduced to 18 percent, and certain minor taxes have been abolished—such as road users' tax (abolished from 1 January 2003) and sales tax (abolished from 1 January 2004).

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. For example, under certain circumstances the three-year statute of limitations for the assessment of taxes pursuant to a tax audit can be significantly extended. In accordance with the Constitution of the Russian Federation the laws which introduce new taxes or worsen a taxpayer's position can not be applied retroactively. However, there were several instances when such laws were introduced and applied retroactively.

Despite the Russian Government's taking steps to reduce the overall tax burden in recent years in line with its objectives, Russia's largely ineffective tax collection system and continuing budgetary funding requirements increase the likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Company's business, financial condition, results of operations or prospects. Additionally, tax has been utilised as a tool for significant state intervention in certain key industries.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. These uncertainties could possibly expose the Company to significant fines and penalties and to potentially severe enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden and could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the audit commences. This provision of the Tax Code relates to the fact that the tax authorities are prohibited from carrying out repeat on-site tax audits in respect of the same taxes for a tax period which has already been audited (exceptions include where such audit is carried out in connection with the restructuring/liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable, or by a higher-level tax authority for the purpose of checking the activities of lower-level tax authorities. This limitation of the tax audit period is related to the statute of limitations for the commission of a tax offence, which is also limited to three years from the date on which it was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the statute of limitations may be extended beyond the three years.

Tax audits may result in additional costs to the Company if the relevant tax authorities conclude that the Company did not satisfy its tax obligations in any given year. Such audits may also impose additional burdens on the Company by diverting the attention of management resources. The outcome of these audits could have a material adverse effect on the Company's business, financial condition, results of operations and prospects or the trading price of the Shares and GDRs.

In October 2006, the Plenum of the Higher Arbitrazh Court of the Russian Federation issued a ruling concerning judicial practice with respect to tax benefits accrued by taxpayers. In this context a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax. The ruling provides that where the true economic intent of operations is inconsistent with the manner in which they have been taken into account for tax purposes a tax benefit may be deemed to be unsubstantiated. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unsubstantiated. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance. There is no guidance as to the interpretation of this new concept by the tax authorities or courts, but the tax authorities are actively seeking to apply this new concept when challenging tax positions taken by taxpayers in court, and are anticipated to expand this trend in the future. Although the intention of this ruling was to combat tax law abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Higher Arbitrazh Court.

The foregoing conditions create tax risks in the Russian Federation that are more significant than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Company's operations, including management resources. Further, these risks and uncertainties complicate the Company's tax planning and related business decisions, potentially exposing the Company to significant fines, penalties and enforcement measures, and could materially adversely affect the Company's business, results of operations and financial condition.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Company's overall tax efficiency and may result in significant additional taxes becoming payable. The Company cannot offer prospective investors any assurance that additional tax exposures will not arise during the life of the Company. Additional tax exposures could have a material adverse effect on the Company's business, financial condition, results of operations and prospects or the trading price of the Shares and GDRs.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may subject the Group's transfer prices to challenge by Russian tax authorities.

Transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20 percent. Controlled transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20 percent within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court practice is available) as to how these rules will be applied.

Transaction prices for fertiliser products between different Group companies are established taking into consideration market prices and transportation costs. The Group seeks to ensure that its pricing complies with transfer pricing rules. Nevertheless, due to the uncertainties in the interpretation of transfer pricing legislation, and the difficulty of determining market prices for fertiliser products manufactured by the Group, the tax authorities may challenge the Group's transfer prices and propose adjustments. The Group has recently established an international distribution company. To the extent that this new entity receives or transfers fertiliser products from or to other Group companies, this could increase the risk that authorities challenge the Group's transfer prices. If such challenges and price adjustments are upheld by the Russian courts and implemented, it could have a material adverse effect on the Group's business, results of operations or financial condition.

Moreover, the Ministry of Finance of the Russian Federation is in the process of drafting proposed amendments to the transfer pricing legislation, which may come into force as early as 2009. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on the Company's business, financial condition, results of operations or prospects.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how these measures would operate, the introduction of such measures may affect the Company's overall tax efficiency and may result in significant additional taxes becoming payable. Although the Manager will continue to seek to mitigate such exposures with effective tax planning, the Company cannot offer any assurances that the tax burden will not increase during the life of the Company. Such additional tax burden could cause the Company's financial results to suffer.

The Russian banking system remains underdeveloped, and there are a limited number of creditworthy Russian banks.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretation and inconsistent application. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. Banking supervision is also often inadequate, and as a result many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks. The serious deficiencies in the Russian banking system, combined with the deterioration in the credit portfolios of Russian banks resulting from a robust domestic corporate debt market, may result in the Russian banking sector being more susceptible to market downturns or economic slowdowns, and in particular to the effects of the global liquidity crunch that has resulted from the US subprime loan crisis.

As of the date of this Prospectus, the Group holds funds in a number of Russian banks and the bankruptcy or insolvency of one or more of these banks could materially adversely affect the Group's business. Another financial crisis similar to the 1998 financial crisis, which resulted in the bankruptcy and liquidation of many Russian banks, or the bankruptcy or insolvency of any of the banks which holds the Group's funds, could result in the loss of the Group's assets or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, results of operations or financial condition.

Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.

Russian law provides for certain requirements that should be complied with in the course of establishing and reorganising a Russian company, or during its operation. Certain provisions of Russian law may allow a court to

order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during the formation of such entity or during its operation. For example, a company may not have as its sole equity holder an entity that has only one equity participant.

Although some of the Group's Russian companies might have failed from time to time to comply fully with all the applicable legal requirements (for example, untimely capital contributions or certain matters connected with the registration of share issues in the course of foundation or having insufficient net assets or having a sole equity holder that itself has one equity participant only), the Company believes that none of its subsidiaries should be subject to liquidation on such grounds because none of the possible violations was significant, caused any damage to any person, or has had any other negative consequences. In addition, the Group believes that its Russian companies' financial conditions have been satisfactory at all material times, and Acron and other Russian companies of the Group have been capable at all material times of meeting all of their respective tax and other third party obligations in a timely fashion. If any of the relevant Group companies is successfully forced into liquidation on this basis, this could have a material adverse effect on the Group's business, results of operations or financial condition.

The liability of Shareholders under Russian legislation could cause the Company to become liable for the obligations of its Russian subsidiaries.

Russian corporate law generally provides that shareholders in a Russian joint stock company or participants in a Russian limited liability company are not liable for the obligations of the respective company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent." The person whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Joint Stock Companies Law and LLC Law, an effective parent bears joint and several liability for transactions concluded by the effective subsidiary if:

- an effective parent, as a result of its ownership interest or subject to a contract between the effective parent and an effective subsidiary or otherwise, is able to determine the decisions made by such subsidiary; or
- an effective parent has the ability to issue mandatory instructions to an effective subsidiary and that ability is provided for by the charter of such subsidiary or in a binding contract; and
- an effective subsidiary concludes a transaction giving rise to obligations in accordance with the effective parent's mandatory instructions.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if that effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses.

Therefore, the Company may be liable in some cases for the debts of its subsidiaries. This liability for obligations of the subsidiaries could result in significant losses, and could have a material adverse effect on the Group's business, results of operations, financial condition or on the price of the Securities.

The lack of a properly regulated procedure for registration of title to participation shares in Russian limited liability companies may result in the loss of title to some of the Group's companies.

Ownership of participation shares in Russian limited liability companies is evidenced by extracts from the Unified State Register of Legal Entities of Russia and the relevant records in the constitutional documents of Russian limited liability companies. Title to participation shares in Russian limited liability companies passes to the transferee at the moment of notification of the limited liability company of the transfer of participation shares from the transferor to the transferee regardless of the amendments to the company's constitutional documents or their registration in the Unified State Register of Legal Entities of Russia being made. Currently, there is no central registration system in Russia, which would ensure proper registration of title to participation shares in limited liability companies. Due to the lack of a rigorously regulated participation share registration system in Russia, transactions in respect of the participation shares of some of the Group's companies could be improperly or inaccurately recorded, and participation share registration could be lost through fraud, negligence or mere oversight by parties to the transactions.

Russia has limited minority shareholder protection.

Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in some Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by the shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "*Description of Share Capital and Certain Requirements of Russian Legislation—Description of share capital*". Some companies have conducted shareholder meetings in an irregular manner, shareholder resolutions have not always been respected by management and shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors. Russian courts to date have had limited experience with respect to lawsuits brought by minority shareholders. Accordingly, the ability of the holders of Securities to pursue legal redress against the Company and the Selling Shareholder may be limited.

RISKS RELATING TO THE SECURITIES AND THE TRADING MARKET

The Offering may not result in an active or liquid market for the GDRs or Shares, and their price may be highly volatile.

Although the Shares have been listed and admitted to trading on the RTS and MICEX, trading volumes on that market have been relatively low and may remain low even after the Offering. In addition, prior to the Offering there has been no trading market for the GDRs. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Shares and GDRs does not develop, the price of the Securities may be more volatile and it may be more difficult to complete buy or sell orders. The Offer Price has been determined by negotiation between the Selling Shareholder and the Managers and may not be indicative of the price at which the Securities will trade following completion of the Offering. After the Offering, the Securities could be subject to significant price fluctuation and investors may not be able to resell the Securities at or above the Offer Price.

In the past, the RTS and the MICEX have experienced extreme price and volume fluctuations that have caused trading interruptions. The occurrence of such market fluctuations or trading interruptions in the future could have an adverse effect on the value of the Securities.

Additionally, there will be no active trading market for the Rule 144A GDRs in the United States as purchasers of Rule 144A GDRs will be required to make any resales in offshore transactions in compliance with Regulation S. See "*Transfer Restrictions*."

The lack of a properly regulated share registration system in Russia may harm share liquidity.

Ownership of shares in Russian joint stock companies is determined on the basis of entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. A company's share register is maintained by the company itself or, if a company has more than 50 shareholders or so elects, by a licensed registrar. An owner of shares may chose to transfer its shares to a licensed custodian, in which case the custodian is registered in the share register as nominee and title to shares is determined on the basis of entries in the books of the custodian.

The FSFM and its predecessor, the Federal Commission on the Securities Market, had issued regulations regarding the licensing conditions for the registrars and custodians and the procedures to be followed by them when performing their functions. In practice, however, these regulations are not always strictly enforced and registrars and custodians generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars and custodians are not necessarily subject to effective governmental supervision. Due to the lack of a rigorously regulated share registration system in Russia, transactions in respect of the Shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or mere oversight by registrars incapable of compensating shareholders for their misconduct. Further, the Depositary, under the terms of the Deposit Agreements, will not be liable for the unavailability of Shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the Shares. This creates a risk of loss not normally associated with investments in other securities markets. Consequently, any misconduct by Acron's registrar or a custodian through which Shares may be held as a result of such lack of regulation or otherwise may put the Company's shareholders at risk and Acron's registrar or a custodian through which Shares

may be held may not be able to compensate its shareholders for any wrongdoing. See *"Description of Share Capital and Certain Requirements of Russian Legislation—Registration and Transfer of Shares"* and *"Description of the Global Depositary Receipts"* for a further discussion of the share registration system and registrars and custodians in Russia.

The number of Shares that may be deposited into the GDR programme is limited, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Securities.

The Russian securities regulatory authorities impose certain restrictions on the placement and circulation of the securities of Russian companies outside Russia in the form of GDRs or otherwise. Currently, no more than 30%, and in certain instances, no more than 25% or 5%, of any given class of a Russian company's shares may be circulated abroad through depositary receipt programmes, whether sponsored or unsponsored, or otherwise. In addition, there are limitations on the number of shares that are offered for placement or circulation outside of Russia in a particular offering. Under Russian law no less than 100% of the offering must be offered to the Russian market and up to 70% of the offering can be placed in the form of depositary receipts. On 1 July 2008, Acron received a permit from the Russian securities regulatory authorities for up to 28.9% of its share capital to be circulated abroad, including in the form of GDRs. Upon completion of the Offering, Acron's GDR programme would have a remaining approved capacity of 28.82% of its outstanding Shares if all of the Shares offered in the Offering are ultimately held in the form of GDRs. There can be no assurance that Acron will be able to obtain approval for a deposit of a greater number of Shares in the GDR programme than it currently has approval for, and any remaining capacity may be used by Acron's other existing shareholders. Therefore, it may not be possible to deposit Shares into Acron's GDR programme in order to receive GDRs which may affect the liquidity and the value of GDRs.

Furthermore, if at any time the Depositary believes that the Shares deposited with it against issuance of GDRs, together with any other securities of the Company which shall have been deposited with the Depositary against issuance of GDRs, represent (or, upon accepting any additional Shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies or would upon accepting additional Shares for deposit satisfy any condition for making any filing, application, notification or registration or obtaining any approval, licence or permit under any applicable law, directive or regulation, or taking any other action required by applicable law, directive or regulation, it may, under certain circumstances: (i) close its books to deposits of additional Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied; or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying Shares from the depositary receipt programme to the extent necessary or desirable to so comply.

The aforementioned restrictions, thresholds and limits have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that the authorities will not reduce the permitted percentage of trading in GDRs or impose other restrictions. Such new or extended regulations could have a material adverse effect on the price of the GDRs.

The Depositary may be considered the beneficial owner of the Shares underlying the GDRs.

Russian law may not recognise GDR holders as beneficial owners of the underlying Shares, and therefore it is possible that investors could lose their rights to those shares if the Depositary's assets in Russia are seized or arrested. Russian courts may treat the Depositary as the beneficial owner of the Shares underlying the GDRs, which is different from the way other jurisdictions treat GDRs. For example in the United States, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDR holders are the "beneficial," or real owners. In US courts, an action against the Depositary, the legal owner of the shares, would not result in the beneficial owners losing their shares. Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognise the rights of the Depositary in whose name the shares are held, not the rights of GDR holders, to the underlying Shares. Thus, in proceedings brought against the Depositary, whether or not related to the Shares underlying the GDRs, Russian courts may treat those underlying Shares as the assets of the Depositary, open to seizure or arrest. In the event that this type of proceeding were to be successful in the future against the Depositary, and the Shares underlying the GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying Shares. In that case, holders of GDRs would lose all the money they invested.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements and relevant requirements of Russian law.

Holders of GDRs will have no direct voting rights with respect to the Shares represented by the GDRs. They will have a right to instruct the Depositary how to exercise those rights, subject to the provisions of the Deposit Agreements, but will not receive notices of meetings directly from the Company, but from the Depositary, which has undertaken to post to GDR holders notices of meetings, copies of voting materials and a statement as to the manner in which instructions may be given by holders. As a result, the process of exercising voting rights may take longer for holders of GDRs than for holders of shares. GDR holders may have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will: (i) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions; or (ii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "*Description of the Global Depositary Receipts*" for a description of the voting rights of holders of GDRs.

Holders of the Shares or GDRs may be unable to repatriate distributions.

The Company intends to pay dividends on shares in Roubles, and the Depositary will also receive dividends in Roubles in respect of the Shares underlying the GDRs. Russian legislation currently permits such Rouble funds to be converted into US dollars by the Depositary, subject to certain restrictions and compliance with certain procedures. The ability to convert Roubles into US dollars is subject to the availability of US dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of Roubles into US dollars, the further development of this market is uncertain. At present, there is a limited market for the conversion of Roubles into foreign currencies outside of Russia and the CIS and no viable market in which to hedge Roubles and Rouble-denominated investments.

Future sales of the Company's Shares or GDRs may affect the market price of the Securities.

Sales of a substantial number of Shares by the Company, Dorogobuzh or certain entities controlled by the Principal Shareholder following completion of the Offering, or the perception that such sales could occur, could adversely affect the market price of the Securities. The Group has no control over the Principal Shareholder and his controlled entities and thus cannot guarantee that entities controlled by the Principal Shareholder will not sell all or some of the approximately 79.9% of the Shares that they will own after the Offering is completed. None of the Company, Dorogobuzh or any of the Company's other shareholders, including those controlled by the Principal Shareholder, or the Company's directors or senior management will be subject to a lock-up agreement and are free to offer securities or sell all or part of their stake in the Company, as the case may be. Any such sales could have an adverse effect on the trading prices of the Securities or, in the case of any sales by shareholders, could materially adversely affect the Company's ability to obtain further capital through an offering of equity securities.

Moreover, the Company may issue additional shares and/or other securities convertible or exchangeable into shares and/or other classes of equity and any such issues could result in an effective dilution to investors purchasing Securities in the Offering or adversely affect the market price of the Securities.

US holders of GDRs may not be able to exercise their pre-emptive rights.

Generally, existing holders of shares of Russian companies are in certain circumstances entitled to pre-emptive rights pursuant to Russian law and Acron's Charter, as described in "*Description of Share Capital and Certain Requirements of Russian Legislation*". US holders of GDRs may not be able to exercise pre-emptive rights for shares represented by GDRs, unless a valid private placement exemption from the registration requirement of the Securities Act is available. No assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such US holders to exercise such pre-emptive rights and, if such exemption were available, Acron may not take the steps necessary to enable US holders of Securities to rely on it.

Holders of the Shares or GDRs may not be able to benefit from double tax treaties.

In general, payments of dividends by a Russian entity to non-resident legal persons and non-resident individuals are subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may generally be subject to reduction pursuant to the terms of an applicable double tax treaty between Russia and the country of tax residence of non-resident holders of the Shares and GDRs to the extent such non-resident holders are entitled to benefit from this double tax treaty and the corresponding tax treaty reliefs provided by such treaty. The Company believes that payments of dividends on the GDRs or the Shares made by the Company to non-resident

holders may be subject to withholding taxation at a reduced rate if such reduction is provided for by an applicable double tax treaty, provided the Russian tax documentation requirements (including annual advance confirmation of the holder's tax residency and, with respect to non-resident individual holders, a confirmation of the income received and the taxes paid in the country of tax residence of such non-resident individual holders as confirmed by the relevant tax authorities of such country) are satisfied.

However, Russian tax rules applicable to GDR holders are characterised by significant uncertainties and, until recently, an absence of interpretative guidance. The Ministry of Finance of the Russian Federation has expressed its opinion that holders of depositary receipts should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to Russian withholding taxation of dividend income from the underlying shares, provided that the tax residence of the holders of the depositary receipts is duly confirmed. However, the Russian tax authorities have not provided official guidance addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares. In the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat GDR holders in this regard. In such circumstances, there can be no assurance that a non-resident GDR holder will be in a position to benefit from a reduced Russian withholding tax rate on dividend income from the underlying shares provided by a respective applicable double tax treaty. Consequently, in the absence of any interpretative guidance on the beneficial ownership concept in Russia and due to the fact that the Depositary (and not the GDR holders) is the legal holder of the Shares under Russian law, the Company is likely to withhold tax at a rate of 15%, even in the case where such non-resident GDR holders entitled to such reduced tax rate under the respective double tax treaty between Russia and the country of the tax residence of such non-resident GDR holders and the relevant procedures for advance treaty clearance are completed by such non-resident GDR holders.

Moreover, procedures for advance treaty clearance are not provided for by current Russian legislation with respect to non-resident individual holders of the Shares or GDRs. Therefore, technically, for non-resident individual holders of the Shares or GDRs, a reduction of withholding income tax provided by a respective double tax treaty between Russia and the country of the tax residence of such non-resident individual holders could not be obtained. If non-resident individual holders do not obtain double tax treaty relief at the time the dividend income is paid to such non-resident individual holders and income tax is withheld by a Russian payer of the income, such non-resident individual holders may apply for a refund within one year from the end of the tax period in which the tax was withheld. However, there can be no assurance that such double tax treaty relief (or refund of any taxes withheld) will be available for such non-resident individual holder based on, inter alia, the above uncertainty as to the treatment of GDR holders as beneficial owners of dividend income from the underlying shares and as to the applicability of the respective double tax treaty benefits to GDR holders.

Payments of dividends by a Russian entity to Russian resident holders who is an individual or which is a legal entity resident in Russia for tax purposes (except legal entities or organisations not organised under Russian law that hold the Shares or GDRs through a permanent establishment in Russia) should generally be subject to Russian withholding income tax. Such tax should not exceed 9% of the gross dividend amount payable to each resident holder. However, if the Depositary is viewed as the beneficial owner of the dividends, the Company is likely to withhold income tax at a rate of 15% from dividend payments on shares of the Company represented by GDRs notwithstanding that such GDRs are owned by Russian resident GDR holders.

Payments of dividends by a Russian entity to a holder which is a legal entity or organisation not organised under Russian law that holds the Shares or GDRs through a permanent establishment in Russia should generally be subject to Russian withholding tax at a rate of 15%. A holder that is a legal entity or organisation not organised under Russian law that holds the Shares or GDRs through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e., without withholding of the tax by a Russian entity distributing the dividends to such holder) if such holder provides the Russian entity distributing the dividends with special documentary evidence confirming the fact that this dividend income is attributable to a permanent establishment of the holder in Russia. This evidence includes a notarised copy of the form confirming registration of the holder with the Russian tax authorities. Notification must also be issued by the local tax authorities at the holder's place of tax registration confirming the fact that this dividend income is attributable to the permanent establishment of the holder in Russia.

Alternatively, payments of dividends on the Shares or GDRs made by the Company to a holder which is a legal entity or organisation not organised under Russian law that holds the Shares or GDRs through a permanent establishment in Russia may be subject to taxation at a rate not exceeding 9%. This lower rate could apply to each such holder that holds the Shares or GDRs through a permanent establishment in Russia if the applicable

double tax treaty between Russia and the country of the tax residence of such holder provides for the non-discrimination of tax residents of such country as compared to Russian tax residents. In such case, a tax rate not exceeding 9%, (i.e., the rate applicable to Russian legal entities) should be applied with respect to the gross dividend amount payable to such holder to the extent such holder is entitled to benefit under such double tax treaty and provided further that such holder satisfies the Russian tax documentation requirements. To satisfy such requirements a holder must provide an annual advance tax residency confirmation). However, there can be no assurance that such double tax treaty relief will be available to a holder which is a legal entity or organisation in each case not organised under Russian law that holds the GDRs through a permanent establishment in Russia. In particular, under both alternatives above if the Depositary is viewed as the beneficial owner of the dividends, the Company is likely to withhold income tax at a rate of 15% from dividend payments on shares of the Company represented by GDRs. See "*Taxation—Russian Tax Considerations*".

Capital gains from the sale of Securities may be subject to Russian income tax.

If a non-resident holder who is a legal person or which is an organisation disposes of the Shares or GDRs (otherwise than through a permanent establishment in Russia) and the proceeds from such disposal are from a Russian source, the gain on such disposal may be subject to withholding tax in Russia at a rate of 20%. Alternatively, the capital gains from the sale may be subject to a 24% withholding tax. Capital gain is the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the Shares and GDRs.

Russian withholding tax would apply to the capital gains should more than 50% of the Company's assets consist of immovable property located in Russia. However, no withholding income tax shall apply to any Russian shares, regardless of the portion of total assets which is comprised of immovable property, where such shares or their derivatives are sold through a non-Russian recognized exchange.

Where the proceeds from a disposal of the Shares or GDRs are received from a source within the Russian Federation by a non-resident holder that is an individual, there is a risk that Russian withholding tax would be charged at a rate of 30% on the gross proceeds from such disposal less any available cost deduction. The imposition or risk of imposition of this withholding tax could adversely affect the value of the Shares or GDRs.

A resident holder which is a legal entity or organisation should generally be subject to Russian profits tax at a rate of 24% of the capital gain. Such gain is generally determined as the gross proceeds from the disposal of the Shares or GDRs less the cost of acquisition of such Shares or GDRs and less expenses incurred by such resident holder in relation to acquisition, holding and sale of the Shares or GDRs (provided that the cost of acquisition of the Shares or GDRs and the other expenses can be confirmed by appropriate documents). The imposition of this tax could adversely affect the value of the Shares or GDRs.

A resident holder who is an individual should generally be subject to income tax at a rate of 13% on the gross proceeds from a disposal of the Shares or GDRs less any available cost deduction (including, inter alia, the cost of acquisition of the Shares or the GDRs). In certain circumstances if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this income tax. Unless the tax is withheld by the payer, the resident individual would be liable to pay the tax to the Russian budget. The imposition of this tax could adversely affect the value of the Shares or the GDRs.

Resident holders of the GDRs may be subject to increased effective rates of tax on dividends due to the lack of clarity in the Russian tax law with respect to beneficial ownership.

Russian tax law is silent as to whether the Depositary or the GDR holders must be viewed by the payer of dividends as the beneficial owners of the underlying shares. Private clarifications of the Ministry of Finance suggest that the GDR holders are the beneficial owners; however, these clarifications are not a statement of law and there can be no assurance that this position will be maintained in the future. If the Depositary is viewed as the beneficial owner of the dividends, the Company may be obligated to withhold income tax at a rate of 15% from dividend payments on shares of the Company represented by GDRs. By virtue of receiving dividend payments from the Depositary rather than from the Company, resident GDR holders may be required to report these dividends in their tax returns as dividends from foreign sources, and pay additional tax on the declared amount at respective Russian domestic tax rates and would likely be unable to reclaim the tax initially withheld by the Company.

For further information about the tax environment in Russia, and the risks associated with it, see "*Taxation—Russian Tax Considerations*".

THE OFFERING

The Company	Joint Stock Company Acron.
Selling Shareholder	Joint Stock Company Dorogobuzh.
Depositary	Deutsche Bank Trust Company Americas.
The Offering	The Selling Shareholder is offering 30,000 Shares for sale in this Offering, including Shares in the form of GDRs, with ten GDRs representing an interest in one Share. The Offering consists of an international offering by the Selling Shareholder of 30,000 Shares of the Company, in the form of Shares and GDRs, with ten GDRs representing an interest in one Share. The GDRs will be offered in the United States to certain persons who are both QIBs and QPs in reliance on Rule 144A and to certain non-US persons outside the United States and Russia in offshore transactions in reliance on Regulation S.
Offer Price	US$90 per Share and US$9 per GDR.
GDR Closing Date	Expected to be on or about 11 August 2008.
Use of Proceeds	The Company will receive the proceeds from the sale of Securities offered by the Selling Shareholder indirectly through its interest in Dorogobuzh. Dorogobuzh intends to use its proceeds from the Offering, which are expected to be approximately US$2.6 million after deduction of fees payable to the managers but not any other expenses related to the Offering and excluding all applicable taxes, including corporate profit taxes, for the ongoing expansion of its business and general corporate purposes. See "*Use of Proceeds*".
Dividends	Holders of the GDRs will be entitled to receive amounts, if any, paid by Acron as dividends, subject to certain provisions. See *"Dividend Policy."*
Lock-up	None of the Company, Dorogobuzh, or any of the Company's other shareholders, including those controlled by the Principal Shareholder, or the Company's directors or senior management, are entering into lock-up arrangements.

The Shares . . . . . The Company's authorised, issued and fully paid share capital as at the date of this Prospectus is RUR 238,438,000, comprised of 47,687,600 ordinary registered shares in book-entry form with a nominal value of RUR 5 each. Following the Offering, Mr Vyacheslav Kantor (the "**Principal Shareholder**") will beneficially own 79.9% of the Company's outstanding shares. The Company's shares have the rights described under "*Description of Share Capital and Certain Requirements of Russian Legislation.*"

The GDRs . . . . . Ten GDRs will represent one Share on deposit with the Custodian (as defined below). Holders and beneficial owners of GDRs will have only such rights against the Company and the Depositary as are provided in the Deposit Agreements (as defined and described in "*Description of the Global Depositary Receipts*"). The Regulation S GDRs will be evidenced by a Global Regulation S GDR and the Rule 144A GDRs will be evidenced by a separate Global Rule 144A GDR. See "*Description of the Global Depositary Receipts"*. Pursuant to the Deposit Agreements, the shares represented by the GDRs will be registered in the name of Deutsche Bank Ltd (the "**Custodian**"), as nominee for the Depositary.

Transfer Restrictions . . . . . The GDRs will be subject to certain restrictions on transfer as described under "*Transfer Restrictions."*

Listing and Trading . . . . . Applications have been made (i) to the UKLA in its capacity as competent authority under the FSMA for a block listing of up to 137,755,800 GDRs, consisting of up to 200,000 GDRs to be issued on the Closing Date and up to 137,555,800 additional GDRs to be issued from time to time against the deposit of shares of the Company with the Depositary, to be admitted to the Official List and (ii) to the LSE for the GDRs to be admitted to trading on the Regulated Market. It is expected that conditional trading in the GDRs will commence on a when-and-if-issued basis on or about 6 August 2008 and that unconditional trading in the GDRs on the LSE will commence on or about the GDR Closing Date. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission to the Official List or to trading on the LSE does not take place and will be at the sole risk of the parties concerned.

The Shares are listed on the "B" list of the RTS and of the MICEX. Prior to the Offering there has been only a limited public market for the Shares and no market for the GDRs. See "*Market Information*."

Settlement Procedures . . . . . Payment for the GDRs is expected to be made in US dollars in same-day funds through Euroclear and Clearstream. Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR and the Master Rule 144A GDR registered in the name of BT Globenet Nominees Limited, as common depositary for Euroclear and Clearstream. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through Euroclear or Clearstream, as applicable.

Transfers within Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system.

Delivery of, and payment for, the Shares is expected to commence on or about the GDR Closing Date. See "*Settlement and Delivery*."

Voting . . . . . Voting at a General Shareholders' Meeting is generally based on the principle of one vote per Share, subject to certain excepts described in "*Description of Share Capital—Rights Attaching to Ordinary Shares and Applicable Russian Law*." Subject to any applicable provision of Russian law, the Charter and the Deposit Agreements, the Depositary will exercise, at any meeting of holders of shares of which the Depositary receives timely notice, the voting rights pertaining to the Shares as instructed by holders of the GDRs. See *"Description of the Global Depositary Receipts"* and *"Risk Factors—Risks Relating to the Securities and the Trading Market—Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements and relevant requirements of Russian law."*

General Information . . . . . The security numbers for the Shares and GDRs offered hereby are as follows:

Regulation S GDRs:	ISIN: US00501T2096 CUSIP Number: 00501T209
Rule 144A GDRs:	ISIN: US00501T1007 CUSIP Number: 00501T100
London Stock Exchange GDR trading symbol:	AKRN
ISIN for Shares:	RU0009028674
RTS trading symbols:	AKRN (US$) and AKRNG (RUR)
MICEX trading symbol:	AKRN

USE OF PROCEEDS

The Company will receive the proceeds from the sale of the Securities offered by the Selling Shareholder indirectly through its interest in Dorogobuzh. Dorogobuzh intends to use its proceeds from the Offering, which are expected to be approximately US$2.6 million after deduction of fees payable to the managers but not any other expenses related to the Offering and excluding all applicable taxes, including corporate profit taxes, for expansion of its production facilities and for general corporate purposes. See "*Plan of Distribution*". More specifically, Dorogobuzh intends to use its proceeds from the Offering to (i) expand capacity of its existing ammonia production line; and (ii) develop an electricity co-generation plant. See "*Description of Business—Investment Programme and Capital Expenditure—Production Facilities—Dorogobuzh*".

DIVIDEND POLICY

The Company's dividend policy and procedure for the payment dividends are set out in the Joint Stock Companies Law, the Charter and Regulations on Dividend Policy adopted by the Board of Directors on 24 December 2007. The Company's current dividend policy is effective for a term of five years, but may be changed unilaterally by the Company's Board of Directors without approval by the shareholders.

Under the Joint Stock Companies Law, dividends may be declared and paid on shares only out of net profits (profit after taxation) calculated under RAS, provided that:

- the Company's share capital has been paid up in full;
- the value of the Company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the Company's share capital, the Company's reserve fund and the difference between the liquidation value and the par value of the Company's issued and outstanding preference shares, if any;
- the Company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the Company is not, and will not become, insolvent as a result of the payment of the dividends; and
- other requirements of Russian legislation have been met, and Russian legislation imposes no further restrictions on the declaration and payment of dividends.

According to its Charter and the Regulations on Dividend Policy, the Company may distribute dividends based on its three-month, six-month, nine-month or annual results according to RAS.

According to the Regulations on Dividend Policy, the total amount of the Company's unconsolidated net profit which can be allocated for payment of dividends must not be less than 30% of the Company's computed net profit determined as the total net profit for the relevant accounting period determined on the basis of RAS, which is materially different from IFRS, less the sum of profits derived from increases in the valuation of financial investments and with the addition of the sum of losses from decreases in the value of financial investments.

The Board of Directors recommends dividends to the Company's general meeting of shareholders (the "**General Meeting of Shareholders**"), which then approves the dividends by majority vote. A decision on three-month, six-month and nine-month dividends must be taken within three months of the end of a given period; a decision on annual dividends must be approved at the annual General Meeting of Shareholders. The dividend approved at the General Meeting of Shareholders may not exceed the amount recommended by the Board of Directors. In determining the amount of any dividends to propose to shareholders of the Company, the Board of Directors of the Company should take into account the Company's business prospects, capital expenditure, cash requirements, financial requirements and other business and regulatory considerations.

Dividends are distributed to holders of the shares as of the record date for the General Meeting of Shareholders at which the dividends are approved. The shareholders' right to receive dividends, once declared, does not lapse. The Charter requires that dividends are paid within 180 days of their declaration. See *"Description of Share Capital and Certain Requirements of Russian Legislation—Dividends."*

To the extent that the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of the shares underlying the GDRs, subject to the terms of the Deposit Agreements. Holders of shares will also be entitled to receive dividends. Cash dividends may be paid to the Depositary in Roubles and, except as otherwise described under "*Description of the Global Depositary Receipts—Conversion of foreign currency*," are converted into US dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses and other charges set out in the Deposit Agreements. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Rouble and the US dollar and to the deduction of depositary fees and expenses in connection with conversion to US dollars.

For further information on dividends and certain general restrictions of Russian law with respect to the payment of dividends, see *"Description of Share Capital and Certain Requirements of Russian legislation—Description of share capital—Dividends."* The Group's holding company structure may also impact the

Company's ability to pay dividends, as its ability to pay dividends depends, in part, on the earnings and cash flows of its subsidiaries and such subsidiaries' ability to pay the Company dividends. Hongri Acron's ability to pay dividends is restricted by a resolution adopted by its board of directors in connection with the entering into of a loan. In addition, as the Company holds (directly and indirectly) only 78% of the shares of Dorogobuzh it receives only its proportionate share of dividends paid by Dorogobuzh. See *"Risk Factors—Risks Relating to the Group's Business—The Company's ability to pay dividends depends, in part, upon the ability of its subsidiaries to pay dividends and advance funds."*

Dividend Payment History

In accordance with the decisions of the General Meetings of Shareholders in 2005, 2006 and 2007, the Company declared aggregate dividends in the amounts of:

	For the year ended 31 December, in RUR		
	2005	**2006**	**2007**
Interim dividend per share	62,000 (11.70)/40,000 (6.90)[1]	11.00	13.00/12.00
Annual dividend per share	11.00	13.00	40.00
Total amount of declared dividends with respect to the year	1,363,207,600	1,114,501,800	3,099,694,000

(1) On 24 November 2005, the Company's shares were split into 47,687,600 shares with nominal value of RUR 5.00 per share. The numbers in brackets refer to the amount of dividend per share following the split.

On 29 May 2008, the Company's general meeting of shareholders announced dividends in respect of the year ended 31 December 2007 in the amount of RUR 65.00 per share, for a total amount of RUR 3,099,694,000. Given the interim dividends previously paid in 2007, the amount of annual dividend be paid to the Company's shareholders for the year ended 31 December 2007 is RUR 40 per share, for a total amount of RUR 1,908,246,555.

On 27 June 2008, the Company's general meeting of shareholders announced interim dividends in respect of the first quarter of 2008 in the amount of RUR 40 per share, for a total amount of RUR 1,907,504,000.

The Charter requires that the dividends be paid to holders of the shares as of the record date of the Company's general meeting of shareholders approving the dividend. Investors in the Offering will not, therefore, be entitled to these dividends.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's consolidated capitalisation and indebtedness as of 31 March 2008, (i) on a historical basis, and (ii) as adjusted to give effect to the selling of the Shares in the Offering by Dorogobuzh. The historical financial information as of 31 March 2008 has been extracted from the Interim Financial Information included in this Prospectus. This table should be read in conjunction with the *"Operating and Financial Review*" and the Interim Financial Information (including the notes thereto) included elsewhere in this Prospectus.

	As of 31 March 2008	
	(historical)	(as adjusted)
	(RUR millions)	
	(unaudited)	
Short-term borrowings (including current portion of long-term debt)	4,083.5	4,083.5
Long-term borrowings (excluding current portion)	2,616.8	2,616.8
Share capital	3,125.0	3,125.0
Treasury shares	(39.7)	(39.4)
Retained earnings	14,899.2	14,899.2
Revaluation reserve	15,630.0	15,630.0
Other reserves	—	63.0
Cumulative currency translation difference	(73.5)	(73.5)
Share capital and reserves attributable to the Company's equity holders	**33,541.0**	**33,604.3**
Total capitalisation[1]	**36,157.8**	**36,221.1**

(1) Consists of the total of long-term borrowings (excluding current portion) and share capital and reserves attributable to the Company's equity holders

Since 31 March 2008, there has been no material change in the Group's total capitalisation.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

The table below shows selected historical consolidated financial information of the Group as at and for the years ended 31 December 2005, 2006 and 2007 and as at 31 March 2008 and for the three month periods ended 31 March 2007 and 2008, which has been derived from the Group's Financial Statements included in this Prospectus. The selected financial information should be read in conjunction with the *"Operating and Financial Review"* and the Financial Statements, including the notes to the Financial Statements, included elsewhere in this Prospectus.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RUR millions, except percentages)			(unaudited)	(unaudited)
Consolidated income statement data:					
Revenue	22,748.3	23,624.5	31,105.2	7,705.9	11,661.1
Cost of sales	(13,952.9)	(15,653.7)	(18,943.5)	(4,776.7)	(5,089.6)
Gross profit	**8,795.4**	**7,970.8**	**12,161.7**	**2,929.2**	**6,571.5**
Transportation services	(1,477.2)	(1,462.2)	(1,725.4)	(387.9)	(660.7)
Selling, general and administrative expenses	(2,265.7)	(2,556.1)	(2,595.1)	(593.2)	(678.1)
Gain (loss) on disposal of property, plant and equipment, net	0.8	63.9	(12.1)	(18.2)	(4.3)
Other operating expenses	(71.7)	(295.1)	(180.0)	(43.6)	(26.5)
Operating profit	**4,981.7**	**3,721.2**	**7,649.0**	**1,886.3**	**5,202.0**
Finance income, net	39.2	243.4	466.4	42.7	130.9
Interest expense	(369.2)	(492.0)	(509.6)	(152.3)	(136.4)
Share of result of associates	—	—	(59.7)	(11.3)	71.6
Profit before taxation	**4,651.6**	**3,472.6**	**7,546.2**	**1,765.3**	**5,268.0**
Income tax expense	(1,268.1)	(1,009.0)	(1,877.9)	(465.4)	(1,305.0)
Net profit for the year	**3,383.5**	**2,463.6**	**5,668.3**	**1,299.9**	**3,963.0**
Net profit is attributable to:					
Equity holders of the Company	3,031.1	2,253.3	5,063.9	1,208.0	3,652.1
Minority interest	352.4	210.3	604.5	92.0	310.8
Net profit for the year	**3,383.5**	**2,463.6**	**5,668.3**	**1,299.9**	**3,963.0**
Consolidated cash flow data:					
Net cash generated from operating activities	1,965.0	2,024.7	5,584.2	1,049.5	3,864.3
Net cash used in investing activities	(1,214.3)	(4,334.5)	(2,427.4)	(387.8)	(706.0)
Net cash provided from (used in) financing activities	(532.7)	2,292.6	(3,027.6)	(427.5)	750.6
Net increase (decrease) in cash and cash equivalents	246.7	(99.5)	96.0	220.3	3,904.5
Other financial data:					
EBITDA	5,854.5	4,645.6	8,658.6	2,143.4	5,477.5
EBITDA margin[1] (%)	25.7%	19.7%	27.8%	27.8%	47.0%

(1) EBITDA margin is calculated as EBITDA divided by revenue for the period.

	As at 31 December			As at 31 March 2008
	2005	2006	2007	
	(RUR millions)			(unaudited)
Consolidated balance sheet data:				
Assets:				
Non-current assets				
Property, plant and equipment	10,827.3	12,233.6	13,726.1	14,184.0
Available-for-sale investments	3,833.7	5,318.1	17,306.6	25,768.8
Total non-current assets	**15,523.7**	**19,828.5**	**33,312.2**	**42,340.3**
Current assets				
Inventories	3,220.4	3,240.8	3,883.8	4,040.6
Accounts receivable	2,393.1	3,722.3	4,036.6	4,473.9
Cash and cash equivalents	1,338.8	1,239.3	1,335.3	5,239.8
Total current assets	**7,492.4**	**8,837.2**	**10,043.8**	**14,494.9**
Total assets	**23,016.0**	**28,665.7**	**43,356.0**	**56,835.2**
Equity:				
Share capital	3,125.0	3,125.0	3,125.0	3,125.0
Retained earnings	6,546.9	7,840.6	11,247.1	14,899.2
Revaluation reserve	1,927.4	3,180.5	11,207.4	15,630.0
Total equity	**13,555.5**	**15,369.0**	**28,296.7**	**38,693.3**
Liabilities:				
Non-current liabilities				
Long-term borrowings	2,217.3	5,278.1	3,081.0	2,616.8
Total non-current liabilities	**4,353.7**	**7,595.0**	**8,165.0**	**9,690.1**
Short-term liabilities				
Accounts payable	1,470.1	2,165.1	2,428.9	1,346.2
Short-term borrowings	1,937.0	1,764.1	2,418.1	4,083.5
Advances received	1,007.9	1,235.3	1,153.9	1,215.9
Total current liabilities	**5,106.8**	**5,701.7**	**6,894.3**	**8,451.8**
Total liabilities	**9,460.6**	**13,296.7**	**15,059.3**	**18,141.9**
Total liabilities and equity	**23,016.0**	**28,665.7**	**43,356.0**	**56,835.2**

EBITDA reconciliation

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RUR millions)				
Net profit for the period	**3,383.5**	**2,463.6**	**5,668.3**	**1,299.9**	**3,963.0**
Add back:					
Income tax expense	1,268.1	1,009.0	1,877.9	465.4	1,305.0
Profit before taxation	**4,651.6**	**3,472.6**	**7,546.2**	**1,765.3**	**5,268.0**
Add back:					
Share of results of associates	—	—	59.7	11.3	(71.6)
Interest expense	369.2	492.0	509.6	152.3	136.4
Finance income, net	(39.2)	(243.4)	(466.4)	(42.7)	(130.9)
Operating profit	**4,981.7**	**3,721.2**	**7,649.0**	**1,886.3**	**5,202.0**
Add:					
Depreciation and amortisation	872.9	924.3	1,009.6	257.1	275.5
EBITDA	**5,854.5**	**4,645.6**	**8,658.6**	**2,143.4**	**5,477.5**

In this Prospectus, "EBITDA" represents net profit for the period of the Group before income tax, share of results of associates, interest expense, finance income net of finance costs and depreciation and amortisation. Depreciation and amortisation are components of both cost of sales and selling, general and administrative expenses under IFRS. EBITDA is not a measure of financial performance that is required by, or presented in accordance with, IFRS. Accordingly, it should not be considered as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The Group's calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. The Group believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of the Group's ongoing business operations and an indicator of the Group's ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and

other investments and the Group's ability to incur and service debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA does not reflect the impact of income tax expenses on Group's operating performance;
- EBITDA does not reflect the impact of interest expenses, which are significant and could further increase if the Group incurs more borrowings, on the Group's operating performance;
- EBITDA does not reflect the impact of depreciation and amortisation on the Group's operating performance. The assets of the Group's business which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect the Group's future cash requirements for these replacements;
- Other companies in the Group's industry may calculate EBITDA differently or may use them for different purposes than the Group does, limiting their usefulness as a comparative measure.

The Group compensates for these limitations by relying primarily on its IFRS operating results and using EBITDA only supplementally. See the Financial Statements included elsewhere in this Prospectus.

The following discussion provides information that the Group's management believes to be relevant to understanding the Group's financial condition and results of operations as of and for the three months ended 31 March 2008 and for the three months ended 31 March 2007 and as of and for the years ended 31 December 2005, 2006 and 2007. Certain financial information presented in this section has been extracted or derived from the Financial Statements. The following discussion and analysis should be read in conjunction with the unaudited Interim Financial Information and the Audited Consolidated Financial Statements included elsewhere in this Prospectus.

The statements in this discussion and analysis regarding industry outlook, management's expectations regarding the future performance of the Group's businesses and the other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors". The Group's actual results may differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, including in "Risk Factors".

Overview of business

The Group is a leading Russian and global mineral fertiliser producer with a diversified product portfolio consisting of multi-nutrient fertilisers such as NPK and bulk blends, as well as straight nitrogen-based products such as urea, ammonium nitrate and UAN. The Group also produces organic synthesis products, including methanol, formaldehyde and UFR, and inorganic synthesis products, such as low-density ammonium nitrate, carbon dioxide and calcium carbonate.

NPK, a mix of three primary nutrients, nitrogen, phosphorus and potassium, accounted for approximately half of the Group's 4.4 million tonne of fertiliser sales by volume in 2007, making it the most important contributor to the Group's sales. According to FERTECON, based on 2007 production output, the Group ranked first in Russia and second worldwide in the production of NPK fertilisers and accounted for approximately six per cent of the total NPK production output in China. Based on 2007 revenue, according to FERTECON, the Group was the third-largest nitrogen-focused fertiliser producer in Russia and the fourth-largest in Europe. In addition, FERTECON estimates that the Group produced approximately one per cent of the total production output of nitrogen and phosphate fertilisers globally and approximately 13% of such output in Russia in 2007.

In 2007, the Group sold a substantial proportion of its total fertiliser sales volume of 4.4 million tonnes in fast-growing, developing markets such as Russia (23%) and China (18%), as well as countries in Latin America and Asia, and other countries of the former USSR. The Group also sold 1.3 million tonnes of organic and inorganic synthesis products in 2007.

The Group has fertiliser production facilities in three locations: Acron, located in the Novgorod region in the northwest of Russia; Dorogobuzh, located in the Smolensk region in the central-western part of Russia; and Hongri Acron, located in the Shandong province of China. The Group has distribution networks in Russia and China. Approximately half of the Group's sales volume in the Russian market is handled by its own distribution network. The Group sells substantially all of its sales volume designated for the Chinese market through a network of independent wholesale distributors, who on-sell to local retailers.

The Group also has significant logistics and transportation capabilities. These capabilities include approximately 1,700 railway units (which cover approximately half of the Group's rail transport needs in Russia) and two sea port trans-shipment facilities on the Baltic Sea, through which the Group ships a substantial proportion of its exports.

In addition, with a view to securing supplies of phosphate and potash, the Group has acquired licences for the development of two apatite-nepheline ore deposits in the Murmansk region of Russia, and a potassium-magnesium salt deposit in the Perm region of Russia. Subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the licenses, the Group is to commence industrial mining and processing at these sites in 2013 and 2015, respectively.

The Group had total revenues of RUR 22,748.3 million (US$967.4 million), RUR 23,624.5 million (US$1,004.6 million) and RUR 31,105.2 million (US$1,322.7 million) for the years ended 31 December 2005, 2006, and 2007, respectively, and total revenues of RUR 7,705.9 million (US$327.7 million) and RUR 11,661.1 million (US$495.9 million) for the three months ended 31 March 2007 and 2008, respectively. The Group had net

profit of RUR 3,383.5 million (US$143.9 million), RUR 2,463.6 million (US$104.8 million) and RUR 5,668.3 million (US$241.0 million) for the years ended 31 December 2005, 2006 and 2007, respectively, and net profit of RUR 1,299.9 million (US$55.3 million) and RUR 3,963.0 million (US$168.5 million) for the three months ended 31 March 2007 and 2008, respectively. The Group had EBITDA of RUR 5,854.5 million (US$249.0 million), RUR 4,645.6 million (US$197.6 million) and RUR 8,658.6 million (US$368.2 million) for the years ended 31 December 2005, 2006, and 2007, respectively, and EBITDA of RUR 2,143.4 million (US$91.1 million) and RUR 5,477.5 million (US$232.9 million) for the three months ended 31 March 2007 and 2008, respectively. See "*Selected Consolidated Historical Financial Data*" for a reconciliation of EBITDA to net profit.

Significant factors affecting the Group's results of operations

The Group's operations have historically been influenced by the following key factors, which the Group believes will continue to affect its results of operations in the future:

- macroeconomic and other economic trends, both globally and in the regional markets in which the Group sells its products;
- fertiliser prices, which are driven by, among other things, agricultural product prices and weather conditions, as well as the Group's regulatory environment;
- costs and expenses for key raw materials;
- changes in currency exchanges rates;
- seasonality; and
- product mix.

Macroeconomic and other economic trends

A number of macroeconomic factors drive demand for fertiliser products generally and can therefore affect demand for the Group's products and its results of operations. These factors include:

- rising world population and rising population in the key markets in which the Group's products are sold;
- a reduction in arable land per capita that makes higher crop yields vital;
- income growth (particularly in many developing countries such as China and India);
- changes in diet (such as increased consumption of meat, which results in increased demand for grain and other animal feed, or increased consumption of fruit and vegetables, which generally are higher-priced crops that require adequate fertilisation (such as NPK) to ensure not just yield but quality); and
- increasing demand for biofuel.

These factors can affect demand for all fertilisers produced by the Group, although FERTECON expects demand growth to be higher for phosphate- and potash-based fertilisers. For more information, please see "*Overview of the Fertiliser Industry—Fertiliser Fundamentals—Demand drivers*".

Fertiliser prices

The majority of the Group's fertiliser products are ultimately sold to growers, and prices for the Group's products and its sales are affected by changes in factors that affect the fertiliser industry generally, such as agricultural product prices and weather conditions, as well as the regulatory environment (particularly in Russia and China where the Group has its production facilities and sells a significant portion of its products).

Prices for fertiliser products are cyclical and are sensitive to changes in global supply and demand, as well as to general macroeconomic conditions, such as those noted above. The prices of fertiliser products are also influenced by many supply-related factors, most notably changes in worldwide capacity and increased availability of fertiliser product exports from major producing regions such as the former Soviet Union, the United States, the Middle East, Trinidad, India, China and Venezuela. According to FERTECON, fertiliser producers outside Russia, in particular in Asia and the Middle East, are expected to commission a substantial amount of new ammonia and urea production capacity (and potentially also other nitrogen fertiliser production capacity) in the next few years. The resulting increases in global fertiliser production capacity could adversely affect the balance between global supply and demand and cause intensified competition among fertiliser producers. This could result in downward pressure on global fertiliser prices and ultimately lower profit margins

for the Group. As illustrated in the table below, during the 2005 and 2007 periods, as well as the first quarter of 2008, fertiliser prices for several of the Group's products have increased significantly, which has had a positive impact on the Group's revenues, particularly in 2007 and the first quarter of 2008.

The following table sets forth the average historical market prices of the Group's four main fertiliser products (NPK, ammonia nitrate, urea and ammonia) for the three months ended 31 March 2007 and 2008 and for the years ended 31 December 2005, 2006 and 2007.

	Average market price				
	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
			(US $/t)		
NPK					
Russia	158	188	224	202	326
Exports (FOB FSU Spot)	189	195	270	213	526
China	229	218	270	230	410
Ammonium Nitrate(1)					
Russia	117	128	160	147	283
Exports (FOB FSU Spot)	133	144	202	185	309
Urea(1)					
Russia	185	201	239	218	341
Exports (FOB FSU Spot)	210	217	302	285	356
Ammonia(1)					
Russia	179	205	229	214	361
Exports (FOB FSU Spot)	241	245	270	282	508

Sources: Azotecon for data on Russia, The FMB Group for data on exports and CFMW for data on China.

(1) These fertiliser products are not sold by Hongri Acron in China.

As indicated above, prices for the Group's products and its sales are also affected by factors that affect the fertiliser industry generally, including those noted below.

Agricultural product prices

Movements in commodity crop prices affect the Group's results. During the 2005-2007 period, global grain prices increased significantly as a result of various factors, including crop failures (including as a consequence of adverse weather conditions), low grain stocks and increased demand, which was due, in part, to the demand for biofuels production. While adverse weather conditions can have adverse effects on the Group's sales in specific markets, on a global scale such conditions can result in a mismatch between grain supply and demand, which, in turn, can cause grain prices to rise. Higher grain prices normally stimulate increased grain production, increasing the demand for fertiliser, which can result in upward pressure on fertiliser prices. The average market prices for the Group's four main fertiliser products have increased significantly between 2005 and 2007 and between the first two quarters of the 2007 and 2008 as shown in the table above. Consequently, the Group's revenues have improved significantly between 2005 and 2007, as well as between the first two quarters of 2007 and 2008. Although commodity crop prices have been relatively high recently, prices may fall in the future and such fluctuations may adversely affect sales of the Group's products.

Weather conditions

The agricultural industry is heavily influenced by local weather conditions. Significant deviations from the typical weather patterns of a given region, variations in local climates or major weather-related disasters may reduce demand for the Group's fertiliser products if agricultural products or the land on which they grow are damaged or if such deviations, variations or disasters reduce the incomes of growers and thus their ability to purchase the Group's products.

Regulatory environment

Government policies relating to fertiliser prices, in particular state agricultural support and government trade policies, are of key importance to the Group's operations.

State agricultural support

Any changes in subsidies to growers or in other state support programs may inhibit the growth of, or cause a decline in, demand for fertiliser products. World Trade Organization and other international treaties and agreements may also result in reductions in subsidies for agricultural products or in adverse changes to state support programs. Additionally, governmental policies may regulate the number of acres that can be planted, the mix of crops planted or crop prices, any of which could adversely impact demand for the Group's products.

Fertiliser trade policies

The PRC government imposes high export tariffs on a number of fertiliser products, which decreases the profitability of some of the Group's products (including ammonia). Although Hongri Acron's products are all sold within the Chinese market, prices for its products are affected by China's tariffs on exports. The PRC government's tax regime for exports on fertiliser products has changed frequently and often significantly over the past three years. Recently, the PRC government announced a revised export tariff policy, which will impose a special tariff of 100% on fertiliser exports (including ammonia) based on the existing tariffs in the period from 20 April 2008 to 30 September 2008, which significantly increases the tariffs from previous years. Since export tariffs can often increase pricing pressure in China and drive down the prices for fertiliser products in the Chinese market, these changing export duties have had an adverse effect on Hongri Acron's revenues in the past and may continue to have an adverse effect on its revenues in the future, but may have a positive effect on the revenues of other Group companies.

In China, the prices of fertiliser products are generally subject to controls imposed by relevant central and local price administration authorities, either in the form of fixed prices, price ranges or price ceilings. From time to time, the Chinese central government publishes a central price catalogue and authorised local governments also publish their own local price catalogues. The Chinese central government directly regulates prices of fertiliser products in the central price catalogue and authorised local governments regulate prices of fertiliser products in the local price catalogues. Fertiliser products that are not in the central or local price catalogues are subject to a ceiling price. Currently, fertiliser products of Hongri Acron are not listed in either the central price catalogue or local price catalogues. Therefore, Hongri Acron can only adjust the price of its fertiliser products based on market demand and supply under the ceiling price set by government authorities. In the event that the ceiling price to which Hongri Acron's fertiliser products are subject is adjusted downward, or Hongri Acron is unable to raise its selling prices due to price controls set by Chinese authorities or competitive forces driving prices down, the profitability of the Group may be adversely affected.

The Russian government has also recently announced new export duties, which may have an impact on the Group's Russian sales. Previously, a 5% export duty was imposed only on multi-nutrient fertiliser containing nitrogen and phosphorous ("**NP**"). Subsequently, the Russian government introduced new export duties on certain chemicals that are effective from 19 April 2008 and are to remain in place until 30 April 2009. As a result, the following export duties are applicable to certain of the Group's products:

- on potash mineral or chemical fertilisers, an export duty of 5% of the relevant customs value; and
- on mineral or chemical fertilisers containing two or three of the following minerals: nitrogen, phosphorus or potash, an export duty of 8.5% of the relevant customs value.

This increased export duty may, in the future, depress fertiliser prices in the Russian market and have an adverse effect on the Group's revenues.

As described above, any export tariffs imposed by China or Russia can impact profitability in the Group's Russian and Chinese markets, as well as export profitability, while any import tariffs imposed in markets in which the Group exports its products can affect its export profitability. For additional information on tariffs and related regulatory matters, please see "*Certain Regulatory Matters—Russia—Trade Barriers*".

Cost of raw materials

The main components of the Group's costs of sales between 2005 and 2007 were the materials and components used to make the Group's multi-nutrient fertiliser products (*i.e.* apatite concentrate and potash), as well as fuel and energy costs and natural gas costs. The Group uses natural gas as the primary raw material for ammonia production in its production facilities in Russia and coal as the primary raw material for ammonia production in its production facilities in China. As a result of the current Russian regulatory environment, the cost of apatite and natural gas in Russia is significantly below the levels found in Western Europe and North

America. It should be noted, however, that given the significance of materials and components, fuel and energy costs and natural gas costs to the Group's total operating expenses, and the Group's limited ability to control these costs as compared to other operating costs, the volatility of these costs can materially affect the Group's profitability. See *"Risk Factors—Risks Relating to the Group's Business—The Group benefits from favourable prices of key raw materials and increases in the Group's production costs could have a material adverse effect on the Group's business, financial condition or results of operations"*.

Apatite and potash

The Group uses apatite concentrate as the phosphate raw material input at its Russian production facilities. The Group's entire apatite concentrate input is currently supplied by Apatite (either directly or through trading companies that the Group believes are owned by or affiliated with Apatite). Due to Apatite's status as a supplier with a dominant market position, the terms on which it supplies apatite concentrate are regulated and, as a matter of Russian law, the Russian courts may order Apatite to supply apatite concentrate on terms which the courts consider to be fair. As at the date of this Prospectus, Acron purchases its entire apatite concentrate demand directly from Apatite at the prices and volumes set by the Russian courts on the basis of a five-year contract between Acron and Apatite, which expires in December 2011. Dorogobuzh, on the other hand, purchases most of its apatite concentrate supplies from trading companies that the Group believes are owned by or affiliated with Apatite. Prices for these supplies are not regulated by FAS and in 2007 and the first quarter of 2008, these prices tended to be higher than those paid by Acron. In the course of price disputes with Apatite, there have been some short cessations in Apatite's supplies to Dorogobuzh's NPK unit, as well as a cessation in supply to Acron in August of 2007, which lasted for approximately one month. See "*Description of Business—Litigation—Disputes with Apatite*" and *"Risk Factors—Risks Relating to the Group's Business—The Group depends on a limited number of suppliers for, and limited supplies of, certain of the raw materials used in the production of its products"*.

In recent years, potash prices have increased significantly and FERTECON expects that these price increases will continue in the near future. See "*Overview of the Fertiliser Industry—Potash*". The Group's entire potash input in Russia is currently supplied by Silvinit pursuant to two 30-month potassium chloride framework supply agreements with an affiliate of Silvinit, which were entered into in December 2006. See "*Description of Business—Raw materials*".

The following table sets forth the average apatite and potash prices for the Group's Russian production facilities for the periods indicated.

	Average price				
	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
			(RUR/t)		
Apatite:					
Acron	1,390	1,600	1,610	1,608	2,019
Dorogobuzh	1,386	1,600	1,843	1,823	2,258
Potash:					
Acron	1,300	1,499	2,500	2,500	3,419
Dorogobuzh	1,314	1,492	2,548	2,441	3,500

These increases in apatite and potash prices contributed to an increase in the Group's cost of sales for the same period. In order to decrease dependence on third-party suppliers such as Apatite and Silvinit, the Group has obtained licences for the development of two apatite-nepheline ore deposits in the Murmansk region of Russia and a potassium-magnesium salt deposit in the Perm region of Russia. Based on its internal business plans, the Group currently intends, subject to availability of financing, mining equipment and suitably qualified personnel, to commence industrial mining and processing in 2011 and 2015, respectively. See "*Description of Business—Mining Companies and Reserves*".

The Group's potash input used at Hongri Acron is supplied by Sinochem Corporation, CNAMPGC Shanghai Corporation and Hong Kong Xiaoyang Company, so far as the Group is aware, currently the only importers of potash into China. The Group's total potash input requirement in China is currently between 150,000 and 160,000 tonnes per year. The price for potash supplied to Hongri Acron on CIF terms ranged from US$220 per tonne at the beginning of 2007 to US$400 at the end of 2007. The Group also uses a muriate of potash ("**MOP**") at Hongri Acron and prices for these have been increasing.

The Group uses phosphate rock as its phosphate raw material input at Hongri Acron. The Group's entire phosphate rock input requirement is currently approximately 350,000 tonnes per year. Hongri Acron purchases its phosphate rock requirement from a number of local suppliers, the main ones being Hubei Yaozhihe Chemical Joint Stock Company and Guizhou Kai Lin Co Ltd, which in aggregate satisfy approximately 60% of Hongri Acron's entire phosphate demand. The average price in 2007 for phosphate rock supplied to Hongri Acron was approximately US $100-120 per tonne (on CPT terms).

Natural gas

For both the three months ended 31 March 2008 and year ended 31 December 2007, the cost of natural gas supplies represented approximately half of the production costs of ammonia at the Group's Russian production facilities. Ammonia is the basic ingredient for the production of nitrogen fertilisers.

In Russia, the Group's production facilities have entered into five-year natural gas supply agreements on a take-or-pay basis with Gazprom subsidiaries. These supply agreements all expire on 31 December 2012. Approximately 60% of the natural gas input used by the Group's Russian production facilities is supplied by Gazprom subsidiaries under these five-year contracts with limited volume quotas and government-regulated prices. The remaining approximately 40% of the natural gas input used by the Group's Russian production facilities is supplied by Gazprom subsidiaries at commercial domestic prices which, as at the date of this Prospectus, are approximately 30-40% higher than the regulated prices, but lower than international natural gas prices.

Domestic natural gas prices in Russia are regulated by the government and have been rising over the last few years. Despite recent price increases, Russian natural gas prices currently remain significantly below Western European and North American levels. Following a governmental session held on 30 November 2006, the Russian government began to implement a steady increase in domestic natural gas prices. According to FERTECON, in 2007 natural gas prices in Russia increased by 15% as compared to 2006, which contributed to an increase in the Group's cost of sales for the same year.

In accordance with the Russian Government Resolution No. 333 of 28 May 2007, domestic gas tariffs are expected to increase to ensure the same domestic prices for Gazprom as export sales of gas by 2011. As a result, the Group expects that there will be an increase in its natural gas prices, both in terms of the approximately 60% of the Group's gas supply that is subject to regulated prices as described above, as well as to the approximately 40% of the Group's gas supply which is supplied at commercial domestic prices.

The following table sets forth the maximum percentage for the expected increases to the Group's gas supply, that is subject to regulated prices described above, for the periods indicated according to a report by the Russian Ministry of Economic Development and Trade.

	Maximum Percentage of Price Increase
From 1 January 2008 to 31 December 2008	25
From 1 January 2009 to 31 December 2009	20
From 1 January 2010 to 31 December 2010	28
From 1 January 2011	40

The following table sets forth the maximum percentage for the increases to the Group's gas supply, that is supplied at commercial domestic prices as described above, for the periods indicated pursuant to Russian Government Resolution No. 333 of 28 May 2007.

	Maximum Percentage of Price Increase
From 1 January 2008 to 31 December 2008	50
From 1 January 2009 to 30 June 2009	40
From 1 July 2009 to 31 December 2009	30
From 1 January 2010 to 30 June 2010	20
From 1 July 2010 to 31 December 2010	10

Such increases will, consequently, affect the Group's costs of sales.

Coal

In China, Hongri Acron's demand for coal is approximately 300,000 tonnes per year. Three suppliers satisfied approximately 75% of Hongri Acron's demand for coal in 2007. The remainder of Hongri Acron's coal demand for the year was purchased on the spot market in China. Coal prices in the PRC are priced at Chinese market prices, which are slightly lower than world market prices.

Sulphur

Sulphur is another key material used by Hongri Acron. It is supplied by a number of international and local manufacturers. Prices for sulphur have increased significantly between 2006 and 2007 and dramatically between the first quarters of 2007 and 2008.

Electricity

The Group uses a significant amount of electricity and heat during the production process. Electricity is supplied to Acron and Dorogobuzh by former subsidiaries of UES, the government-controlled national holding company for the Russian power sector that ceased to exist as of 1 July 2008. The Russian production companies have entered into long-term framework electricity supply agreements with their respective local suppliers. See "*Certain Regulatory Matters—Russia—Price Regulation for Natural Monopolies—Electricity*". The ongoing restructuring of the Russian electricity sector may result in price increases as the industry restructures and moves from regulated pricing to a market-based system, with the expectation that regulated contracts will be replaced by unregulated ones by 2011. The restructuring process could also impact on the Group's ability to maintain continued access of its Russian production facilities to electricity, as may any interruptions in service from the local suppliers of electricity to the Group. See *"Risk Factors—Risks Relating to the Group's Business—Interruptions in the supply of electricity could have a material adverse effect on the Group"*. Russian electricity tariffs are generally set on a cost plus basis and are tied to oil, gas and coal prices, as well as to inflation. Hongri Acron has its own steam electricity generator facility, which uses steam power from Hongri Acron's production of sulphuric acid, although this facility does not satisfy Hongri Acron's entire electricity demand. See *"Risk Factors—Risks Relating to the Group's Business—Interruptions in the supply of electricity could have a material adverse effect on the Group"*.

Changes in currency exchange rates

The Group's production facilities are located in Russia and China and a significant proportion of its products are sold in Russia, China and Europe. The Group's fertiliser products and some of Hongri Acron's raw materials are priced in, or in relation to, US dollars. The Group's Russian companies are required to settle transactions in Russia (including, among other things, purchases of energy, natural gas and raw materials) in Roubles, and most of the Group's general expenses and trade payables in Russia are denominated in Roubles. Most of the Group's trade receivables are in US dollars. Accordingly, exchange rate movements between the US dollar and the Rouble, RMB or the Euro can significantly affect the Group's revenues, costs and profitability. As a result of the increased weakening of the US dollar between 2005 and 2007 against the Euro, RMB, the Rouble and other currencies, the increase in the Group's revenues and overall results due to the significant increases in fertiliser prices during the same period were negatively impacted.

In addition, while the functional currency of the Group and the Group's Russian operations is the Rouble, the functional currency of the Group's Chinese operations is the RMB. Given that the Group reports its consolidated financial results in Roubles, any movement in the RMB against the Rouble will have a translation effect on the Group's operating results.

For additional information on the Group's exposure to foreign currency exchange rate risk, please see Note 33 to the Audited Consolidated Financial Statements, included elsewhere in this Prospectus.

The following table sets forth, for the periods indicated, the average and period end exchange rates of the Rouble against the Euro, US dollar and RMB, respectively.

	Average								
Currency	**2005**	**% change from 2005**	**2006**	**% change from 2006**	**2007**	**% change from 2007**	**Three months ended 31 March 2007**	**% change from 31 March 2007**	**Three months ended 31 March 2008**
Euro	35.1636	(2.98)	34.1144	2.68	35.0298	(1.67)	34.4463	5.46	36.3284
USD	28.3162	(4.17)	27.1355	(5.83)	25.5516	2.94	26.3037	(7.82)	24.2456
RMB	3.4447	(2.03)	3.3747	(0.40)	3.3611	0.88	3.3907	(0.09)	3.3875

Source: The Central Bank of Russia

	Period End								
Currency	2005	% change from 2005	2006	% change from 2006	2007	% change from 2007	31 March 2007	% change from 31 March 2007	31 March 2008
Euro	34.1850	1.50	34.6965	3.56	35.9332	(3.47)	34.6861	6.87	37.0676
USD	28.7825	(8.51)	26.3311	(6.79)	24.5462	5.96	26.0113	(9.59)	23.5156
RMB	3.5560	(5.19)	3.3716	(0.33)	3.3604	0.12	3.3646	(0.35)	3.3529

Source: The Central Bank of Russia

Seasonality

The Group is subject to certain seasonal fluctuations in its production output as a result of the planned maintenance schedules at Dorogobuzh and Hongri Acron. In order to complete maintenance and repair, the Group temporarily closes its ammonia production units at all three of its production facilities (Acron, Dorogobuzh and Hongri Acron). These planned maintenance works generally take place once every two years and occur sometime between May and September. During these periods, each of the relevant ammonia units is closed for approximately 25 to 45 days. There is one ammonia unit at each of Dorogobuzh and Hongri Acron and there are two ammonia units at Acron. Given that Acron has two ammonia units and the planned maintenance works are performed on a rotating basis between the two units, the Acron production facility generally does not experience overall annual fluctuations in its production output as a result of this maintenance, although it does experience lower output during the months of planned maintenance works similar to Hongri Acron and Dorogobuzh.

More specifically, the production output of Dorogobuzh and Hongri Acron is slightly lower in the second and third quarters of the year in which these planned maintenance works take place. This maintenance occurs at Dorogobuzh and Hongri Acron in the same year. These slight decreases in the production output at Dorogobuzh and Hongri Acron did decrease the Group's overall sales volume in 2006 compared to 2005. The next planned maintenance works for the Dorogobuzh and Hongri Acron ammonia units are expected to take place in August or September of 2008. Scheduled maintenance for one of Acron's two ammonia units commenced at the end of May 2008.

Hongri Acron tends to have higher inventory levels in December and January as a result of decreased demand in the Chinese market during the winter period. In addition, during the winter period, Hongri Acron tends to hold more of its inventory to help ensure proper storage conditions during the winter period when demand for Hongri Acron's products is lower. Although there is also a decreased demand for the Group's fertiliser products in Russia during the winter period, the Group's Russian production facilities do not experience extensive seasonality, since these production facilities are able to offset the decline in Russian sales in the winter through increased export sales. Hongri Acron cannot offset the seasonal effect in this way since all of its products are sold in China.

Lastly, Hongri Acron generates a higher proportion of revenue in northern China in the spring and summer months, when fertiliser sales are at their peak, while in southern China such seasonal sales peaks are less pronounced.

For information on seasonal impact to the Group's working capital, please see *"—Liquidity and capital resources*".

Product mix

The Group's ability to adjust its product mix to increase the proportion of sales of higher value-added products affects the Group's overall profitability. The Group continually manages its product portfolio in an effort to maximise profitability and, as part of its strategy, the Group is continuing to focus on higher value-added products, in particular NPK and UAN (sales of which commenced in the first quarter of 2008).

Recent developments

In March 2008, the Group won a tender (at a price of RUR 16.8 billion or approximately US$700 million) to acquire a licence to develop the Talitsky area of the Verkhnekamsk potassium-magnesium salts deposits in the Perm region of Russia. The purchase of the licence, which took place on 29 May 2008, was partially financed by a seven-

year credit facility agreement totalling RUR 13.4 billion entered into between Acron and Sberbank at a fixed annual interest rate of 11.25% per year. For more information, please see "*Description of Business—Mining Companies and Reserves*" and "*—Loan Agreements and Credit Facilities—Short-term borrowings—Acron*".

On 29 May 2008, the Company's general meeting of shareholders announced dividends in respect of the year ended 31 December 2007 in the amount of RUR 65.00 per share, for a total amount of RUR 3,099.7 million. The dividends will be paid to shareholders of record as at 14 April 2008. Given the total amount of RUR 1,191.4 million of interim dividends paid in 2007, the annual dividend to be paid to the Company's shareholders for the year ended 31 December 2007 is RUR 40 per share.

In May 2008, the Group acquired 98% of shares in 101109718 Saskatchewan Ltd, a salt mining company incorporated in Canada. 101109718 Saskatchewan Ltd. has the right to acquire, for an aggregate purchase price of CDN$61 million, 36 licences to explore potash deposits in the Canadian province of Saskatchewan. As at the date of this Prospectus, the company has acquired 26 such licences for approximately CDN$31 million. The Group expects that the remainder of the purchase price will be paid by the end of 2008 once the remaining 10 exploration licences that have been applied for have been obtained.

On 11 June 2008, the Group repaid in full the amounts outstanding (which totalled RUR 882.8 million) on the three-year nonconvertible bonds issued by Dorogobuzh on 15 June 2005. For more information on these bonds, please see "*—Liquidity and capital resources—Loan agreements and credit facilities—Bonds*".

On 27 June 2008, Acron's general meeting of shareholders announced an interim dividend of RUR 40 per share for the first quarter of 2008. This amounts to a total dividend payout of RUR 1,907.5 million.

Current Trading and Prospects

The Group believes that its financial and trading prospects in the period since 31 March 2008 remain favourable based on the continued improvement of its sales and marketing of existing products. The Group expects some decrease in its production and sales volumes in the second and third quarters of the year as a result of the planned maintenance works at its production facilities, which is a regular event, in line with its experience from previous years. The Group did not increase its fertiliser prices in the Russian market generally for the period beginning in February to the end of May 2008 and it has continued to see decreased sales volumes in the Chinese market.

Analysis of Results of Operations for the Three Months Ended 31 March 2007 and 2008 and for the Years Ended 31 December 2005, 2006 and 2007

The following tables set forth the Group's consolidated income statement data for the three months ended 31 March 2007 and 2008 and for the years ended 31 December 2005, 2006 and 2007.

	Three Months ended 31 March (unaudited)			
	2007		2008	
	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue
Income Statement Data				
Revenue	7,705.9	100%	11,661.1	100%
Cost of sales	(4,776.7)	62.0%	(5,089.6)	43.6%
Gross profit	**2,929.2**	**38.0%**	**6,571.5**	**56.4%**
Transportation services	(387.9)	5.0%	(660.7)	5.7%
Selling, general and administrative expenses	(593.2)	7.7%	(678.1)	5.8%
Gain/(loss) on disposal of property, plant and equipment, net	(18.2)	0.2%	(4.3)	0.0%
Other operating expenses	(43.6)	0.6%	(26.5)	0.2%
Operating profit	**1,886.3**	**24.5%**	**5,202.0**	**44.6%**
Finance income	42.7	0.6%	130.9	1.1%
Interest expense	(152.3)	2.0%	(136.4)	1.2%
Share of result of associates	(11.3)	0.1%	71.6	0.6%
Profit before taxation	**1,765.3**	**22.9%**	**5,268.0**	**45.2%**
Income tax expense	(465.4)	6.0%	(1,305.0)	11.2%
Net profit for the period	**1,299.9**	**16.9%**	**3,963.0**	**34.0%**

	Year ended 31 December					
	2005		2006		2007	
	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue
Income statement data						
Revenue	22,748.3	100%	23,624.5	100%	31,105.2	100%
Cost of sales	(13,952.9)	61.3%	(15,653.7)	66.3%	(18,943.5)	60.9%
Gross profit	**8,795.4**	**38.7%**	**7,970.8**	**33.7%**	**12,161.7**	**39.1%**
Transportation services	(1,477.2)	6.5%	(1,462.2)	6.2%	(1,725.4)	5.5%
Selling, general and administrative expenses	(2,265.7)	10.0%	(2,556.1)	10.8%	(2,595.1)	8.3%
Gain/(loss) on disposal of property, plant and equipment, net	0.8	0.0%	63.9	0.3%	(12.1)	0.0%
Other operating expenses	(71.7)	0.3%	(295.1)	1.2%	(180.0)	0.6%
Operating profit	**4,981.7**	**21.9%**	**3,721.2**	**15.8%**	**7,649.0**	**24.6%**
Finance income, net	39.2	0.2%	243.4	1.0%	466.4	1.5%
Interest expense	(369.2)	1.6%	(492.0)	2.1%	(509.6)	1.6%
Share of result of associates	—		—		(59.7)	0.2%
Profit before taxation	**4,651.6**	**20.4%**	**3,472.6**	**14.7%**	**7,546.2**	**24.3%**
Income tax expense	(1,268.1)	5.6%	(1,009.0)	4.3%	(1,877.9)	6.0%
Net profit for the year	**3,383.5**	**14.9%**	**2,463.6**	**10.4%**	**5,668.3**	**18.2%**

The following table sets forth the Group's sales volume for products by market for the three months ended 31 March 2007 and 2008 and for the years ended 31 December 2005, 2006 and 2007.

	Sales volume by market (000s t)				
	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
Straight nitrogen fertilisers	**1,553**	**1,707**	**1,796**	**501**	**490**
Russia	332	436	569	378	336
China(1)	26	25	19	7	5
Other exports(2)	1,195	1,245	1,209	116	149
Multi-nutrient fertilisers	**2,554**	**2,454**	**2,633**	**756**	**614**
Russia	266	321	436	95	141
China(1)	546	648	764	221	160
Other exports(2)	1,741	1,485	1,433	439	313
Other fertilisers(3)	**221**	**45**	**0**	**0**	**0**
Russia	0	0	0	0	0
China(1)	221	45	0	0	0
Other exports(2)	0	0	0	0	0

(1) Domestic Chinese sales by Hongri Acron

(2) Exports include exports by the Russian production facilities to China.

(3) Other fertilisers consisted of ammonium bicarbonate ("**ABC**") and monoammonium phosphate ("**MAP**") fertilisers, which were produced at Hongri Acron. The ABC and MAP production units were closed in 2006.

Three months ended 31 March 2007 compared to three months ended 31 March 2008

Revenue

The Group generates revenues principally from the sales of straight nitrogen-based fertilisers (including primarily ammonium nitrate, urea and ammonia) and multi-nutrient fertilisers (primarily NPK), produced at the Group's three production facilities and sold in the domestic Russian and Chinese markets, as well as from export sales. The Group's export activities focus mainly on China, Thailand, Nigeria, Mexico and Finland.

The Group's revenue consists of the net invoiced value from the manufacturing and sale of fertilisers and other chemical products, net of value-added tax and custom duties after the elimination of sales within the Group. Revenue from sales of chemical fertilisers and related by-products is recognised at the point of transfer of risks

and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. A portion of sales and purchases are settled by mutual settlements or non-cash settlements. For further information about such sales, see Notes 3 and 32 of the Audited Consolidated Financial Statements included elsewhere in this Prospectus.

Revenue increased by RUR 3,955.2 million, or 51.3%, from RUR 7,705.9 million in the three months ended 31 March 2007 to RUR 11,661.1 million in the three months ended 31 March 2008. This significant increase was primarily attributable to increases in global fertiliser prices (which resulted in increased prices for the Group's products, in particular its compound fertiliser products), offset by a slight decrease in the Group's sales volumes.

The following table sets forth a breakdown of sales to third parties of the Group by geographical segment for the three months ended 31 March 2007 and 2008.

	Three months ended 31 March			
	2007		2008	
	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue
Russian domestic sales	2,193.4	28.5%	4,004.4	34.3%
Chinese domestic sales[1]	1,628.5	21.1%	1,601.6	13.7%
Exports[2]	3,884.1	50.4%	6,055.2	52.0%
Revenue	**7,705.9**	**100.0%**	**11,661.1**	**100%**

(1) Domestic Chinese sales by Hongri Acron

(2) Exports include exports by the Russian production facilities to China.

Revenue from the Group's Russian sales increased by RUR 1,811.0 million, or 82.6%, from RUR 2,193.4 million in the three months ended 31 March 2007 to RUR 4,004.4 million in the three months ended 31 March 2008. This increase was primarily attributable to increased prices for the Group's products (in particular ammonium nitrate), as well as to an increase in Russian sales volumes of multi-nutrient fertilisers, particularly NPK, which reflected increased demand for the product in the Russian market. This increase was offset by a decrease in the sales volumes for the Group's straight-nitrogen fertiliser products, as well as a slight decrease in Dorogobuzh's NPK sales volumes as a result of the temporary closure of an NPK production unit for planned maintenance works during the first quarter of 2008. The Group did not increase its fertiliser prices in the Russian market from February 2008 (see "—*Current Trading and Prospects*"). In the three months ended 31 March 2008, the Group generated 34.3% of its total revenue from Russian domestic sales as compared to 28.5% in the three months ended 31 March 2007.

Revenue from the Group's Chinese sales decreased by RUR 26.9 million, or 1.7%, from RUR 1,628.5 million in the three months ended 31 March 2007 to RUR 1,601.6 million for the three months ended 31 March 2008. The decrease was primarily due to a decrease in the sales volumes of multi-nutrient fertilisers, particularly of NPK and, to a lesser extent, bulk blends, as a result of decreased demand from customers who are waiting to make purchases once prices have decreased (in the expectation that prices will decrease as a result of the Chinese export tariffs) or who are purchasing less expensive fertiliser products, which are not produced by Hongri Acron. This was partially offset by a slight increase in fertiliser prices.

Revenue from the Group's exports increased by RUR 2,171.1 million, or 55.9%, from RUR 3,884.1 million in the three months ended 31 March 2007 to RUR 6,055.2 million in the three months ended 31 March 2008. This increase was primarily attributable to an increase in fertiliser prices (in particular ammonium nitrate), offset by a decrease in sales volumes in multi-nutrient fertilisers in line with the Group's strategic shift toward increasing Russian sales.

Cost of sales

Cost of sales increased by RUR 312.9 million, or 6.6%, from RUR 4,776.7 million in the three months ended 31 March 2007 to RUR 5,089.6 million in the three months ended 31 March 2008. This increase was primarily attributable to increases in materials and components used, increases in natural gas costs and fuel and energy costs as a result of an increase in natural gas prices and heat tariffs.

The following table sets forth the Group's costs of sales for the three months ended 31 March 2007 and 2008.

	Three months ended 31 March			
	2007		2008	
	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue
Cost of sales components:				
Change in inventories of finished goods and work in progress	231.5	3.0%	(318.8)	(2.7)%
Staff costs	479.9	6.2%	478.7	4.1%
Materials and components used	1,987.3	25.8%	2,430.2	20.8%
Fuel and energy	600.3	7.8%	676.8	5.8%
Natural gas	1,017.1	13.2%	1,236.4	10.6%
Depreciation	257.1	3.3%	275.5	2.4%
Production overheads	21.5	0.4%	21.8	0.2%
Repairs and maintenance	155.8	2.0%	250.7	2.1%
Social expenditure	26.2	0.3%	38.3	0.3%
Total	**4,776.7**	**62.0%**	**5,089.6**	**43.6%**

Changes in inventories of finished goods and work in progress. Changes in inventories of finished goods and work-in-progress, which consists of fluctuations in the amount and value of the Group's fertiliser products held in inventory during the period, went from positive RUR 231.5 million in the three months ended 31 March 2007 to negative RUR 318.8 million in the three months ended 31 March 2008. This change was primarily attributable to a build-up of products, particularly in relation to Hongri Acron, which resulted from the fact that production output remained relatively stable between the two periods while sales volumes decreased. This change also reflects an increase in the value of the Group's inventories given rising raw materials costs.

Staff costs. Staff costs primarily consist of wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits, such as health services and kindergarten services. At the beginning of each year, there is an indexation of salaries to adjust for inflation, which results in increases in the basic salaries of employees.

Staff costs decreased by RUR 1.2 million, or 0.3%, from RUR 479.9 million in the three months ended 31 March 2007 to RUR 478.7 million in the three months ended 31 March 2008. This decrease was primarily attributable to the allocation of special vacation allowances to certain employees of an NPK facility at Dorogobuzh due to the temporarily closure of the facility for planned maintenance works. These vacation allowances were classified under selling, general and administrative costs rather than cost of sales.

Materials and components used. Materials and components used primarily consist of apatite and potash at the Group's Russian production facilities and apatite, potash, phosphate and sulphur at Hongri Acron's production facilities. The cost of materials and components used increased by RUR 442.9 million, or 22.3%, from RUR 1,987.3 million in the three months ended 31 March 2007 to RUR 2,430.2 million in the three months ended 31 March 2008. This increase was primarily attributable to adjustments to Acron's and Dorogobuzh's contract prices with Silvinit (which generally takes place annually around the end of the fiscal year), which resulted in increased potash prices beginning in the end of February, as well as increases to apatite prices at Dorogobuzh and significant increases to sulphur prices at Hongri Acron.

Fuel and energy. Fuel and energy costs, which consist of the electricity and heat consumption related to the production of the Group's fertiliser products at the Russian production facilities, increased by RUR 76.5 million, or 12.7%, from RUR 600.3 million in the three months ended 31 March 2007 to RUR 676.8 million in the three months ended 31 March 2008, which was primarily attributable to increases in electricity and heat tariffs.

Natural gas. Natural gas costs, which primarily consist of the natural gas costs related to the production of the Group's fertiliser products, increased by RUR 219.3 million, or 21.6%, from RUR 1,017.1 million in the three months ended 31 March 2007 to RUR 1,236.4 million in the three months ended 31 March 2008. The increase was primarily attributable to rising domestic gas prices pursuant to the Russian government resolution that aims to increase domestic gas tariffs to ensure the same domestic prices for Gazprom as export sales of gas by 2011. Effective from 1 January 2008, the prices of a majority of the Group's gas supply increased by 25%.

See *"Risk Factors—Risks Relating to the Group's Business—The Group benefits from favourable prices of key raw materials and increases in the Group's production costs could have a material adverse effect on the Group's business, financial condition or results of operations"*.

Repairs and maintenance. Costs related to repairs and maintenance, which primarily consist of the costs of repairs and maintenance of the Group's production facilities, increased by RUR 94.9 million, or 60.9%, from RUR 155.8 million in the three months ended 31 March 2007 to RUR 250.7 million in the three months ended 31 March 2008. The increase was primarily attributable to increased regular maintenance works, particularly in relation to an NPK facility at Dorogobuzh.

Gross profit

As a result of the factors discussed above, gross profit increased by RUR 3,642.3 million, or 124.3%, from RUR 2,929.2 million in the three months ended 31 March 2007 to RUR 6,571.5 million in the three months ended 31 March 2008. Gross margin was 56.4% in the three months ended 31 March 2008 compared to 38.0% in the three months ended 31 March 2007.

Transportation services

Transportation services primarily consist of railway tariffs payable for the transportation of products from the Group's production facilities by rail to export ports, as well as to European and domestic customers. Transportation services increased by RUR 272.8 million, or 70.3%, from RUR 387.9 million in the three months ended 31 March 2007 to RUR 660.7 million in the three months ended 31 March 2008. The increase was primarily attributable to an increase in railway transportation tariffs imposed by the Russian government.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of the Group's costs related to its administrative staff costs, marketing services, audit, legal and consulting services, business trip expenses, bank services, security, buildings, maintenance and rent, representation expenses and taxes other than income tax. At the beginning of each year, there is an indexation of salaries to adjust for inflation, which results in increases in the basic salaries of administrative employees.

Selling, general and administrative expenses increased by RUR 84.9 million, or 14.3%, from RUR 593.2 million in the three months ended 31 March 2007 to RUR 678.1 million in the three months ended 31 March 2008. This increase was primarily attributable to increases in taxes other than income tax, staff costs, as well as buildings, maintenance and rent expense, partially offset by decreases in security costs.

Taxes other than income taxes, which primarily consist of Russian property taxes and other local taxes, increased by RUR 28.4 million. This increase was primarily attributable to certain additions to the Group's property, plant and equipment and other assets (such as the completion of construction works), which increased the Group's taxable assets. Staff costs, which consist primarily of expenses related to head office employees, sales staff and administrative staff at the Group's production facilities, increased by RUR 23.4 million. This increase was primarily as a result of the allocation of special vacation allowances to certain employees of an NPK facility at Dorogobuzh due to the temporarily closure of the facility for planned maintenance works. These vacation allowances were classified under selling, general and administrative costs rather than cost of sales.

Other operating expenses

Other operating expenses, which consist of charity expenses, gain/(loss) on disposal of investments and other expenses, decreased by RUR 17.1 million, or 39.2%, from RUR 43.6 million in the three months ended 31 March 2007 to RUR 26.5 million in the three months ended 31 March 2008. This decrease was attributable to a gain on the disposal of investments, which more than offset charity and other expenses.

Finance income

Finance income, which consists of interest income from loans provided, dividend income and foreign exchange gains, increased by RUR 88.2 million, or 206.6%, from RUR 42.7 million in the three months ended 31 March 2007 to RUR 130.9 million in the three months ended 31 March 2008. This increase was primarily attributable to an increase in interest income and a foreign exchange gain, which resulted from the weakening of the US dollar against the Rouble.

Interest expense

Interest expense decreased by RUR 15.9 million, or 10.4%, from RUR 152.3 million in the three months ended 31 March 2007 to RUR 136.4 million in the three months ended 31 March 2008. This decrease was primarily attributable to the repayment of borrowings by Dorogobuzh and Hongri Acron, as well as a decrease in the interest rates on several of Hongri Acron's loans, despite an increase in borrowings overall.

Income tax expense

The statutory tax rate is currently 24% in Russia and 25% in China. The corporate tax rate in China changed to 25% from 30% in 2008.

As a foreign-invested entity, under Chinese income tax rules Hongri Acron was entitled to special tax treatment for a five-year period from the time it became foreign-invested. In 2002 and 2003, Hongri Acron enjoyed a tax holiday, while in 2004, 2005 and 2006, Hongri Acron paid corporate taxes at one half the applicable rate, or 15%. In 2007, this special tax regime ended and Hongri Acron paid corporate taxes at a rate of 30%. Since 2002, the Group, as a foreign company doing business in China, has received a discretionary exemption from the 3% local tax applicable to Hongri Acron.

Income tax expense increased by RUR 839.6 million, or 180.4%, from RUR 465.4 million in the three months ended 31 March 2007 to RUR 1,305.0 million in the three months ended 31 March 2008. This increase was primarily attributable to a substantial increase in the Group's profit before taxation. The Group's effective tax rate for the three months ended March 2007 was 26.3% compared to 24.8% for the three months ended 31 March 2008.

Net profit for the period

Net profit for the first quarter increased by RUR 2,663.1 million, or 204.9%, from RUR 1,299.9 million in the three months ended 31 March 2007 to RUR 3,963.0 million in the three months ended 31 March 2008 for the reasons mentioned in the discussion above.

Year ended 31 December 2006 compared to year ended 31 December 2007

Revenue

Revenues increased by RUR 7,480.7 million, or 31.7%, from RUR 23,624.5 million in the year ended 31 December 2006 to RUR 31,105.2 million in the year ended 31 December 2007. This significant increase was primarily attributable to increases in global fertiliser prices (which resulted in increased prices for the Group's products, in particular its compound fertiliser products), as well as to an increase in the Group's sales volumes across all product lines (in particular NPK and ammonium nitrate).

The following table sets forth a breakdown of sales to third parties of the Group by geographical segment for the years ended 31 December 2006 and 2007.

	Year ended 31 December			
	2006		2007	
	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue
Russian domestic sales	5,238.1	22.2%	8,050.7	25.9%
Chinese domestic sales[1]	4,842.9	20.5%	6,847.4	22.0%
Exports[2]	13,543.6	57.3%	16,207.1	52.1%
Revenue	**23,624.5**	**100.0%**	**31,105.2**	**100.0%**

(1) Domestic Chinese sales by Hongri Acron
(2) Exports include exports by the Russian production facilities to China.

Revenues from the Group's Russian sales increased by RUR 2,812.6 million, or 53.7%, from RUR 5,238.1 million in the year ended 31 December 2006 to RUR 8,050.7 million for the year ended 31 December 2007. This increase was primarily attributable to an increase in fertiliser prices in the Russian market, including ammonium nitrate and NPK prices, as well as to an increase in Russian sales of both straight nitrogen and mulit-nutrient fertilisers, including ammonium nitrate and NPK, in line with the Group's strategic shift toward increasing Russian sales (where the Group sells more of its higher value-added products such as NPK). In 2007, the Group generated 25.9% of its total revenue from Russian domestic sales as compared to 22.2% in 2006.

Revenue from the Group's Chinese sales increased by RUR 2,004.5 million, or 41.4%, from RUR 4,842.9 million in the year ended 31 December 2006 to RUR 6,847.4 million in the year ended 31 December 2007. The increase was primarily due to an increase in NPK prices in the Chinese market, as well as to increased sales volumes of mulit-nutrient fertilisers, including NPK and steam-granulated NPK. The increase also reflects a full year of methanol sales in 2007 compared to a partial year of methanol sales in 2006 since Hongri Acron commenced methanol production and sales in mid-2006.

Revenue from the Group's exports increased by RUR 2,663.5 million, or 19.7%, from RUR 13,543.6 million in the year ended 31 December 2006 to RUR 16,207.1 million in the year ended 31 December 2007. This increase was primarily attributable to an increase in prices for the Group's export products, which was partially offset by a slight decrease in export sales volumes, in line with the Group's strategy to increase its Russian sales.

Cost of sales

Cost of sales increased by RUR 3,289.8 million, or 21.0%, from RUR 15,653.7 million in the year ended 31 December 2006 to RUR 18,943.5 million in the year ended 31 December 2007. This increase was primarily attributable to increases in materials and components used, increases in natural gas costs and fuel and energy costs as a result of an increase in natural gas prices and heat tariffs, as well as changes in inventories, partially offset by lower repair and maintenance costs.

The following table sets forth the Group's cost of sales for years ended 31 December 2006 and 2007.

	Year ended 31 December			
	2006		2007	
	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue
Cost of sales components:				
Change in inventories of finished goods and work in progress	(49.1)	(0.2)	141.1	0.5
Staff costs	1,619.7	6.9	1,628.2	5.2
Materials and components used	6,694.7	28.3	8,817.2	28.3
Fuel and energy	2,038.4	8.6	2,285.3	7.3
Natural gas	2,936.5	12.4	3,906.6	12.6
Depreciation and amortisation	924.3	3.9	1,009.6	3.2
Production overheads	157.6	0.7	172.3	0.6
Repairs and maintenance	1,123.0	4.8	748.1	2.4
Social expenditure	208.6	0.9	235.2	0.8
Total	**15,653.7**	**66.3**	**18,943.5**	**60.9**

Changes in inventories of finished goods and work in progress. Changes in inventories of finished goods and work in progress went from negative RUR 49.1 million in the year ended 31 December 2006 to RUR 141.1 million in the year ended 31 December 2007. This change was primarily attributable to the timing differences in the deliveries of export products to ports.

Staff costs. Staff costs increased by RUR 8.5 million, or 0.5%, from RUR 1,619.7 million in the year ended 31 December 2006 to RUR 1,628.2 million in the year ended 31 December 2007. This slight increase was primarily attributable to increases in employees' salaries across the Group's three production facilities to adjust for inflation, offset by a decrease in the number of employees across all three of the Group's production facilities. The number of employees at Hongri Acron decreased by 325 employees as a result of the closure of obsolete production facilities. The aggregate number of employees at Acron and Dorogobuzh decreased by 1,176 employees, primarily as a result of a spin-off of certain of the Group's non-core assets, including OOO Acron-Servis (a former Acron subsidiary which provided cleaning services) and OOO Dorogobuzh Remstroy (a former Dorogobuzh subsidiary which provided equipment repair services).

Materials and components used. The cost of materials and components used increased by RUR 2,122.5 million, or 31.7%, from RUR 6,694.7 million in the year ended 31 December 2006 to RUR 8,817.2 million in the year ended 31 December 2007. This significant increase was primarily attributable to an increase in the prices of materials and components used in the Group's production (principally potash, apatite and sulphur), as well as to the increased volumes of materials and components used as a result of an increase in the Group's production volumes overall.

Fuel and energy. Fuel and energy costs increased by RUR 246.9 million, or 12.1%, from RUR 2,038.4 million in the year ended 31 December 2006 to RUR 2,285.3 million in the year ended 31 December 2007, which was primarily attributable to increases in electricity and heat tariffs.

Natural gas. Natural gas costs increased by RUR 970.1 million, or 33.0%, from RUR 2,936.5 million in the year ended 31 December 2006 to RUR 3,906.6 million in the year ended 31 December 2007. The increase was primarily attributable to rising domestic gas prices pursuant to the Russian government resolution that aims to increase domestic gas tariffs to ensure the same domestic prices for Gazprom as export sales of gas by 2011. Natural gas costs also increased as a result of an increase in the Group's production in 2007, since in 2006 the Group conducted its regular maintenance works of the Dorogobuzh ammonia unit. During this time, the ammonia unit remained closed for approximately 30 days.

Repairs and maintenance. Costs related to repairs and maintenance decreased by RUR 374.9 million, or 33.4%, from RUR 1,123.0 million in the year ended 31 December 2006 to RUR 748.1 million in the year ended 31 December 2007. This decrease was primarily attributable to the fact that there were no regular maintenance works for the Group's production facilities at Dorogobuzh and Hongri Acron in 2007.

Gross profit

As a result of the factors discussed above, gross profit increased by RUR 4,190.9 million, or 52.6%, from RUR 7,970.8 million in the year ended 31 December 2006 to RUR 12,161.7 million in the year ended 31 December 2007. Gross margin was 39.1% in 2007 compared to 33.7% in 2006.

Transportation services

Transportation services increased by RUR 263.2 million, or 18.0%, from RUR 1,462.2 million in the year ended 31 December 2006 to RUR 1,725.4 million in the year ended 31 December 2007. The increase was primarily attributable to an increase in the volume of products transported as a result of increased sales in 2007, as well as to an increase in railway transportation tariffs imposed by the Russian government.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by RUR 39.0 million, or 1.5%, from RUR 2,556.1 million in the year ended 31 December 2006 to RUR 2,595.1 million in the year ended 31 December 2007. This increase was primarily attributable to an increase in other expenses and marketing services expenses, which was partially offset by a decrease in audit, legal and consulting services.

Other expenses, which include printing services and other miscellaneous expenses, increased by RUR 89.2 million. Marketing services increased by RUR 44.3 million, which was primarily attributable to increased costs related to the Group's additional marketing activities (including promotional campaigns and participation in industry exhibitions) in order to further develop primarily the Chinese distribution network. Audit, legal and consulting services, which consist primarily of the audit and legal fees, fees related to valuation services and other third-party consulting services provided to the Group, decreased by RUR 103.9 million. This decrease was primarily attributable to a reduction in the amount of legal and public relation activities which were outsourced by the Group in 2007.

Other operating expenses

Other operating expenses decreased by RUR 115.1 million, or 39.0%, from RUR 295.1 million in the year ended 31 December 2006 to RUR 180.0 million in the year ended 31 December 2007, which was primarily attributable to a significant decrease in the Group's other expenses (from RUR 148.1 million in 2006 to RUR 58.9 million in 2007) and a decrease in charity expenses (from RUR 96.5 million in 2006 to RUR 75.2 million in 2007).

Finance income, net

Finance income, net increased by RUR 223.0 million, or 91.6%, from RUR 243.4 million in the year ended 31 December 2006 to RUR 466.4 million in the year ended 31 December 2007. This increase was attributable to a significant increase in the Group's dividend income (amounting to RUR 228.3 million), primarily from Silvinit.

Interest expense

Interest expense increased by RUR 17.6 million, or 3.6%, from RUR 492.0 million in the year ended 31 December 2006 to RUR 509.6 million in the year ended 31 December 2007. This increase was primarily attributable to a slight increase in interest expense as a result of interest rate increases, despite a decrease in the Group's net debt and a slight increase in foreign exchange gain as a result of the appreciation of the Rouble against the US dollar while the Group held net US dollar liabilities.

Income tax expense

Income tax expense increased by RUR 868.9 million, or 86.1%, from RUR 1,009.0 million in the year ended 31 December 2006 to RUR 1,877.9 million in the year ended 31 December 2007. This increase was primarily attributable to the substantial increase in the Group's profit before tax. The Group's effective tax rate for the year ended 31 December 2006 was 29.1% compared to 24.9% for the year ended 31 December 2007. The decrease in the Group's effective tax rate was primarily attributable to fewer provisions and non-tax deductible expenses in 2007 compared to 2006, which related to its Russian tax expense. This was partially offset by an increase in the statutory tax rate in China (which increased from 15% in 2006 to 30% in 2007) following the end of the special tax regime, as discussed above.

Net profit for the year

Net profit for the year increased by RUR 3,204.7 million, or 130.1%, from RUR 2,463.6 million in the year ended 31 December 2006 to RUR 5,668.3 million in the year ended 31 December 2007 as a result of the factors described above.

Year ended 31 December 2005 compared to year ended 31 December 2006

Revenue

Revenue increased by RUR 876.2 million, or 3.9%, from RUR 22,748.3 million in the year ended 31 December 2005 to RUR 23,624.5 million in the year ended 31 December 2006. The increase was primarily attributable to increases in global fertiliser prices, partially offset by a slight decrease in the Group's total sales volume as a result of regular maintenance works at the Group's Dorogobuzh and Hongri Acron ammonia units in 2006 which resulted in the temporary closure of these units for approximately 30 days.

The following table sets forth a breakdown of the Group's sales by geographic segment for the years ended 31 December 2005 and 2006.

	Year ended 31 December			
	2005		2006	
	(RUR millions)	% of total revenue	(RUR million)	% of total revenue
Russian domestic sales	3,223.0	14.2%	5,238.1	22.2%
Chinese domestic sales[1]	4,444.7	19.5%	4,842.9	20.5%
Exports[2]	15,080.6	66.3%	13,543.6	57.3%
Revenue	**22,748.3**	**100.0%**	**23,624.5**	**100.0%**

(1) Domestic Chinese sales by Hongri Acron

(2) Exports include exports by the Russian production facilities to China.

Revenue from the Group's Russian sales increased by RUR 2,015.1 million, or 62.5%, from RUR 3,223.0 million in the year ended 31 December 2005 to RUR 5,238.1 million for the year ended 31 December 2006. This increase was primarily attributable to an increase in Russian sales of both straight nitrogen and multi-nutrient fertiliser, including NPK and ammonium nitrate, in line with the strategic shift toward increasing Russian sales, as well as an increase in fertiliser prices in the Russian market, including NPK and ammonium nitrate prices. In 2006, the Group generated 22.2% of its total revenue from Russian domestic sales as compared to 14.2% in 2005.

Revenue from the Group's Chinese sales increased by RUR 398.2 million, or 9.0%, from RUR 4,444.7 million in the year ended 31 December 2005 to RUR 4,842.9 million in the year ended 31 December 2006. The increase was attributable primarily to the commencement of production of methanol

following completion of a new methanol production facility at Hongri Acron in mid-2006, as well as to the commencement of the production of steam-granulated NPK following completion of a new steam granulation facility in September of 2005. As a result, in 2006, Hongri Acron's revenues reflected a full year of sales of steam-granulated NPK compared to approximately three months in 2005, as well as approximately six months of methanol sales in 2006. These increases were partially offset by a decrease in sales volume of other fertilisers as a result of the permanent closure of ABC and MAP fertiliser production units, and a decrease in the production of ammonia following closures of outdated production facilities in line with the Group's strategy to focus on the production of higher value-added fertiliser products.

Revenue from the Group's exports decreased by RUR 1,537.0 million, or 10.2%, from RUR 15,080.6 million in the year ended 31 December 2005 to RUR 13,543.6 million in the year ended 31 December 2006. This decrease was primarily attributable to a strategic shift to increase Russian sales, as well as to the utilisation of production volumes from Dorogobuzh to satisfy demand in the Russian market in the first instance, given the decreased production output at Dorogobuzh in 2006 as a result of the regular maintenance works.

Cost of sales

Cost of sales increased by RUR 1,700.8 million, or 12.2%, from RUR 13,952.9 million in the year ended 31 December 2005 to RUR 15,653.7 million in the year ended 31 December 2006. This increase was primarily attributable to increases in materials and components used, changes in inventories and increases in fuel and energy and natural gas costs.

The following table sets forth the Group's costs of sales for the years ended 31 December 2005 and 2006.

	Year ended 31 December			
	2005		2006	
	(RUR millions)	% of total revenue	(RUR millions)	% of total revenue
Cost of Sales components:				
Change in inventories of finished goods and work in progress	(481.5)	(2.1)	(49.1)	(0.2)
Staff costs	1,509.9	6.6	1,619.7	6.9
Materials and components used	6,235.0	27.4	6,694.7	28.3
Fuel and energy	1,798.1	7.9	2,038.4	8.6
Natural gas	2,696.3	11.9	2,936.5	12.4
Depreciation and amortisation	872.9	3.8	924.3	3.9
Production overheads	114.8	0.5	157.6	0.7
Repairs and maintenance	933.7	4.1	1,123.0	4.8
Social expenditure	273.8	1.2	208.6	0.9
Total	**13,952.9**	**61.3**	**15,653.7**	**66.3**

Changes in inventories of finished goods and work in progress. Changes in inventories of finished goods and work in progress went from negative RUR 481.5 million in the year ended 31 December 2005 to negative RUR 49.1 million in the year ended 31 December 2006. This change was primarily due to the Group's decision to increase the sale of finished products by Hongri Acron. In 2005, Hongri Acron began to stockpile a portion of its NPK products while it waited for expected NPK price increases in the Chinese market in order to sell its NPK products at a higher price. As prices increased in the second half of 2006, the Group released and sold many of these finished products which had previously been held in its inventory. By the end of 2006, the Group released most of these finished goods from its inventory at Hongri Acron.

Staff costs. Staff costs increased by RUR 109.8 million, or 7.3%, from RUR 1,509.9 million in the year ended 31 December 2005 to RUR 1,619.7 million in the year ended 31 December 2006. This increase was primarily attributable to increases in employees' salaries across the Group's three production facilities to adjust for inflation, as well as to the hiring of additional employees for Hongri Acron's methanol and bulk blends production units. These additional hirings were offset by a decrease in the total number of employees at Hongri Acron, which declined by 261 employees as a result of the closure of two production units. There was also a decrease in the aggregate number of employees at the Group's Russian production facilities, which decreased by 107 employees.

Materials and components used. The cost of materials and components used increased by RUR 459.7 million, or 7.4%, from RUR 6,235.0 million in the year ended 31 December 2005 to RUR 6,694.7 million in the year ended 31 December 2006. This increase was primarily attributable to an increase in the prices of materials and components used in production, particularly apatite and potash prices, offset by decreased volumes of materials and components used as a result of a decrease in production volumes overall. Overall production volumes decreased in 2006 due to the temporary closure of the ammonia units at Dorogobuzh and Hongri Acron for regular maintenance works.

Fuel and energy. Fuel and energy costs increased by RUR 240.3 million, or 13.4%, from RUR 1,798.1 million in the year ended 31 December 2005 to RUR 2,038.4 million in the year ended 31 December 2006. This increase was primarily attributable to increases in electricity and heat tariffs.

Natural gas. Natural gas costs increased by RUR 240.2 million, or 8.9%, from RUR 2,696.3 million in the year ended 31 December 2005 to RUR 2,936.5 million in the year ended 31 December 2006. This increase was primarily attributable to rising gas prices in Russia, with the Group's average prices increasing by approximately 12%, which was partially offset by a decrease in consumption during the temporary closure of the Dorogobuzh ammonia unit for regular maintenance works in 2006.

Repairs and maintenance. Costs related to repairs and maintenance increased by RUR 189.3 million, or 20.3%, from RUR 933.7 million in the year ended 31 December 2005 to RUR 1,123.0 million in the year ended 31 December 2006. This increase was primarily attributable to regular maintenance works at the Dorogobuzh and Hongri Acron ammonia units, which took place in 2006.

Gross profit

As a result of the factors described above, gross profit decreased by RUR 824.6 million, or 9.4%, from RUR 8,795.4 million in the year ended 31 December 2005 to RUR 7,970.8 million in the year ended 31 December 2006. Gross margin was 33.7% in 2006 compared to 38.7% in 2005.

Transportation services

Transportation services remained substantially unchanged, decreasing by RUR 15.0 million, or 1.0%, from RUR 1,477.2 million in the year ended 31 December 2005 to RUR 1,462.2 million in the year ended 31 December 2006. This slight decrease was primarily attributable to a decrease in the volume of products transported to export ports as a result of a decrease in the Group's export sales, in line with the Group's strategy to increase its Russian sales and the utilisation of more of Dorogobuzh's production to satisfy Russian demand, as noted above. This decrease was partially offset by an increase in Russian railway tariffs.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by RUR 290.4 million, or 12.8%, from RUR 2,265.7 million in the year ended 31 December 2005 to RUR 2,556.1 million in the year ended 31 December 2006. This increase was primarily attributable to an increase in staff costs and, to a lesser extent, increases in other expenses and marketing services, partially offset by a decrease in buildings maintenance and rent expenses.

Staff costs increased by RUR 173.7 million, or 15.4%, which was primarily attributable to increases in the basic salaries of the Group's administrative employees as a result of an indexation of salaries to adjust for inflation. Other expenses increased by RUR 58.4 million, which was primarily attributable to provisions made with respect to the closure of ABC and MAP production units at Hongri Acron as discussed above. Marketing services increased by RUR 63.4 million, which was primarily attributable to the Group's strategy to further expand and develop its sales and distribution networks in Russia and China. Building maintenance and rent costs decreased by RUR 59.6 million, which was primarily attributable to a decrease in leased office space as a result of the optimisation of management at the Group's office in Moscow.

Other operating expenses

Other operating expenses increased by RUR 223.4 million, or 311.6%, from RUR 71.7 million in the year ended 31 December 2005 to RUR 295.1 million in the year ended 31 December 2006. This increase was primarily attributable to relatively stable income from the disposal of investments over the two years, which was,

however, more than offset by charitable activities by Acron and the disposal of non-core assets, in particular OOO MSZ-Acron (a former Acron subsidiary which provided equipment repair services) and OOO Dorogobuzhskiy polimer (a former Dorogobuzh subsidiary which produced polypropylene bags).

Finance income, net

Finance income, net increased by RUR 204.2 million, or 520.9%, from RUR 39.2 million in the year ended 31 December 2005 to RUR 243.4 million in the year ended 31 December 2006. This increase was primarily attributable to a foreign exchange gain of RUR 127.3 million in 2006 compared to a foreign exchange loss of RUR 74.9 million in 2005, which resulted from the weakening of the US dollar against the Rouble in 2006.

Interest expense

Interest expense increased by RUR 122.8 million or 33.3%, from RUR 369.2 million in the year ended 31 December 2005 to RUR 492.0 million in the year ended 31 December 2006. This increase was primarily attributable to an increase in interest expense as a result of the Group's increased borrowings and interest rate increases in relation to the Group's Chinese borrowings, partially offset by a decrease in interest rates in relation to the Group's Russian borrowings in 2006.

Income tax expense

Income tax expense decreased by RUR 259.1 million, or 20.4%, from RUR 1,268.1 million in the year ended 31 December 2005 to RUR 1,009.0 million in the year ended 31 December 2006. This decrease was primarily attributable to a decrease in the Group's profits before taxation. The Group's effective tax rate for the year ended 31 December 2005 was 27.3% compared to 29.1% for the year ended 31 December 2006. The increase in the effective tax rate was primarily attributable to an increase in the Group's provisions and other non-tax deductible expenses.

Net profit for the year

Net profit for the year decreased by RUR 919.9 million, or 27.2%, from RUR 3,383.5 million in the year ended 31 December 2005 to RUR 2,463.6 million in the year ended 31 December 2006 as a result of the factors described above.

Liquidity and capital resources

Historically, the Group has relied on cash provided by operations and bank loans to finance its working capital and ensure its liquidity. The Group's management expects that these sources will be its main sources of cash in the future. The Group's cash requirements relate primarily to its production and operation activities, the repayment of liabilities as they become due and capital expenditures. The Group's liquidity and working capital requirements are subject to seasonal variations over a calendar year. A key factor affecting the Group's working capital is the scheduled interruptions in production due to planned maintenance works, and in particular reduced cash being generated from operations resulting from the reduction of production levels during the time that the Dorogobuzh and Hongri Acron ammonia units are closed for planned maintenance works and higher costs during such time (generally between May and September) due to increased repair and maintenance activity. For more information, please see "*—Significant factors affecting the Group's results of operations—Seasonality*".

The Group had cash and cash equivalents of RUR 1,459.5 million and RUR 5,239.8 million as at 31 March 2007 and 2008, respectively, and RUR 1,338.8 million, RUR 1,239.3 million and RUR 1,335.3 million as at 31 December 2005, 2006 and 2007, respectively. The Group's cash and cash equivalents are held primarily in Roubles, RMB and US dollars.

Cash flow data

The following table sets out selected cash flow data for the Group for the three months ended 31 March 2007 and 2008 and for the years ended 31 December 2005, 2006 and 2007.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(RUR millions)				
Cash flow data:					
Net cash generated from operating activities	1,965.0	2,024.7	5,584.2	1,049.5	3,864.3
Net cash used in investing activities	(1,214.3)	(4,334.5)	(2,427.4)	(387.8)	(706.0)
Net cash provided from/(used in) financing activities	(532.7)	2,292.6	(3,027.6)	(427.5)	750.6
Effect of exchange rate changes on cash and cash equivalents	28.8	(82.3)	(33.3)	(13.9)	(4.4)
Net increase/(decrease) in cash and cash equivalents	246.7	(99.5)	96.0	220.3	3,904.5
Cash and cash equivalents at the beginning of the period	1,092.0	1,338.8	1,239.3	1,239.3	1,335.3
Cash and cash equivalents at the end of the period	1,338.8	1,239.3	1,335.3	1,459.5	5,239.8

Net cash generated from operating activities

Cash provided by operating activities primarily consists of the Group's revenue generated during the period, which is offset by the operating expenses incurred by the Group and adjusted for working capital changes.

The Group's net cash generated from operating activities was RUR 3,864.3 million in the three months ended 31 March 2008. Operating cash flow before working capital changes was RUR 5,498.9 million in the three months ended 31 March 2008. Net working capital changes were negative RUR 999.5 million, which was primarily a result of a decrease in trade payables, an increase in gross trade receivables, an increase in other receivables as a result of Hongri Acron's receipt of payment for land it sold to the PRC government and an increase in inventories (primarily reflecting increased inventory being held at Hongri Acron as a result of decreased sales volumes, as described above). This was partially offset by a decrease in other payables. As a result of the foregoing factors, the Group recorded cash generated from operations of RUR 4,499.4 million in the three month ended 31 March 2008.

Net cash generated from operating activities was RUR 1,049.5 million in the three months ended 31 March 2007. Operating cash flows before working capital changes was RUR 2,021.0 million in the three months ended 31 March 2007. Net working capital changes were negative RUR 718.8 million, which was primarily a result of increases in advances to suppliers and decreases in trade payables and other payables. This was partially offset by decreases in gross trade receivables and in inventories. As a result of the foregoing factors, the Group recorded cash generated from operations of RUR 1,302.2 million in the three months ended 31 March 2007.

The Group's net cash generated from operating activities was RUR 5,584.2 million in the year ended 31 December 2007. Operating cash flow before working capital changes was RUR 8,586.3 million in the year ended 31 December 2007. Net working capital changes were negative RUR 1,089.1 million in the year ended 31 December 2007, which was primarily as a result of increases in advances to suppliers and inventories. The increase in advances to suppliers principally resulted from the execution of a new contract with a subsidiary of Gazprom. The terms of the new contract resulted in increases to the Group's natural gas prices and included a requirement for a prepayment by the Group. The increase in inventories was as a result of the year-end build-up of products at Hongri Acron as described above, as well as to an increase in the value of its inventories given rising raw materials costs. This was partially offset by a decrease in gross trade receivables and other receivables as a result of a change in policy with the Group's customers requiring that substantially all shipments to the Group's Russian and domestic Chinese customers be made on a prepayment basis, as well as to an increase in other current liabilities and other payables. As a result of the foregoing factors, the Group recorded cash generated from operations of RUR 7,497.2 million in the year ended 31 December 2007.

The Group's net cash generated from operating activities was RUR 2,024.7 million in the year ended 31 December 2006. Operating cash flow before working capital changes was RUR 4,679.5 million in the year ended 31 December 2006. Net working capital changes were negative RUR 1,188.8 million in the year ended 31 December 2006. This was primarily as a result of an increase in the balances of:

- gross trade receivables, which was primarily attributable to the execution of a new agreement with NPKhemical Trading Inc. in November 2006. Pursuant to the agreement, the Group delivered the

products at the end of 2006, although it received the majority of the payments due in 2007. Starting in 2006, the Group began phasing in a change to its customer policy, requiring substantially all deliveries of its goods to Russian and domestic Chinese customers to be effected on a prepayment basis only. At the time of the execution of this contract, however, it was agreed that the payments would be made at a later date;

- other receivables, which was primarily attributable to the disposal of a parcel of land at Hongri Acron; and
- inventories, which was primarily attributable to the Group's decision to increase its purchases of raw materials (mostly phosphate) as a result of the continued increases to the price of raw materials, which was partially offset by a decrease in the finished goods inventories at all three of the Group's production facilities.

This was partially offset by an increase in advances from customers, which returned to levels equivalent to prior periods following a lower level in 2005 at Hongri Acron as a result of decreases in advances from customers in anticipation of the planned maintenance works at Hongri Acron in 2006, which resulted in decreased output for Hongri Acron's customers in that year.

As a result of the foregoing factors, the Group recorded cash generated from operations of RUR 3,490.7 million in the year ended 31 December 2006.

The Group's net cash generated from operating activities was RUR 1,965.0 million in the year ended 31 December 2005. Operating cash flow before working capital changes net of non-cash items (including depreciation and amortisation expense) was RUR 5,716.5 million in the year ended 31 December 2005. Net working capital changes were negative RUR 2,270.4 million in the year ended 31 December 2005, which was primarily as a result of increases in inventories, advances to suppliers and other receivables, as well as to decreases in advances from customers and other payables. The increases in inventories were as a result of the Group's decision to increase its purchases of raw materials as a result of the continued increases to the price of raw materials (particularly at Hongri Acron), as well as to the Group's intentional delay in the sale of NPK products from Hongri Acron while the Group waited for expected NPK price increases in the Chinese market in order to sell its NPK products at a higher price. The Group experienced increases in advances to suppliers as a result of increased activity in capital construction, including the commencement of the construction of a methanol facility at Hongri Acron at the end of 2005, which required a number of prepayments to be made in relation to equipment for the facility. Decreases in advances from customers reflected a decrease in Hongri Acron's sales at the end of the year. Other payables in 2005 decreased as a result of a decrease in dividend and interest accruals. This was partially offset by an increase in trade payables as a result of increased raw materials stock levels at Hongri Acron. As a result of the foregoing factors, the Group recorded cash generated from operations of RUR 3,446.1 million in the year ended 31 December 2005.

Changes in working capital items from period to period have had, and will continue to have, a significant effect on cash provided by operating activities.

Cash flow used in investing activities

In the three months ended 31 March 2008, net cash used in investing activities was RUR 706.0 million. This reflects the purchase of property, plant and equipment of RUR 745.5 million, which included primarily the purchase of ammonia and urea equipment at Acron and, to a lesser extent, the completion of the UAN transshipment facilities and storage units at the Estonian Sillamäe port, and the provision of loans to related parties and third parties in an amount of RUR 118.8 million. This was partially offset by dividends received, primarily from Silvinit, amounting to RUR 114.5 million and loans redeemed from related parties amounting to RUR 88.8 million. In the three months ended 31 March 2007, net cash used in investing activities was RUR 387.8 million. This primarily reflects the purchase of property, plant and equipment of RUR 719.2 million and loans provided of RUR 93.6 million. This was partially offset by the proceeds of sale of leasehold land rights of RUR 213.2 million and proceeds from loans repaid of RUR 150.7 million.

In 2007, net cash used in investing activities was RUR 2,427.4 million. This primarily reflects the purchase of property, plant and equipment of RUR 2,524.4 million, which primarily consisted of the development of a UAN facility at Acron, the construction of an air separation unit at Acron and the reconstruction of an ammonia facility at Dorogobuzh. This use of cash was also attributable to the provision of loans to related parties and third parties, and the purchase of available-for-sale investments. This was partially offset by the repayment of loans issued by the Group, the sale of property, plant and equipment and dividends received, primarily from Silvinit.

In 2006, net cash used in investing activities was RUR 4,334.5 million. This primarily reflects the purchase of property, plant and equipment of RUR 2,818.3 million, which included the finalisation of a new UFR facility at Acron, the construction of a formalin facility at Acron and the commencement of a UAN facility at Acron, and the acquisition of RUR 1,249.4 million of additional shareholdings in certain of the Group's subsidiaries (namely an additional 5.45% stake in Dorogobuzh in July 2006 from Refco Holdings Limited (which is one of the Company's direct shareholders), an additional 10.83% stake in Dorogobuzh in October 2006 from JSC Granit (a holding company in which the Group has held a 100% stake since October 2006) and a 100% stake in Andrex), as well as to the provision of loans to related parties and third parties. This was partially offset by the repayment of loans issued by the Group.

In 2005, net cash used in investing activities was RUR 1,214.3 million. The cash outflow was primarily attributable to the purchase of property, plant and equipment of RUR 1,326.8 million, which primarily consisted of the construction of new methanol and bulk blends capacity at Hongri Acron's production facilities, the provision of loans to related parties and third parties, and the purchase of available-for-sale investments. This was partially offset by the repayment of loans issued by the Group.

For additional information on the provision of loans to related parties, see "*Related Party Transactions" and Note 4 to the Interim Financial Information and Note 8 to the Audited Consolidated Financial Statements included elsewhere in this Prospectus.*

Cash flow provided from/(used in) financing activities

Net cash flow provided from financing activities in the three months ended 31 March 2008 amounted to RUR 750.6 million. This reflects the proceeds from borrowings of RUR 5,162.5 million, which was partially offset by the repayment of borrowings of RUR 3,873.5 million and dividends paid of RUR 498.7 million. Net cash flows used in financing activities in the three months ended 31 March 2007 were RUR 427.5 million. This reflects the repayment of borrowings of RUR 956.9 million and the payment of dividends of RUR 446.4 million, which was partially offset by the proceeds from borrowings of RUR 975.8 million.

Net cash flow used in financing activities in 2007 amounted to RUR 3,027.6 million. This reflects the repayment of borrowings of RUR 6,411.0 million and dividends paid of RUR 1,624.1 million, which was partially offset by the proceeds from borrowings of RUR 5,007.5 million.

Net cash flow provided from financing activities in 2006 amounted to RUR 2,292.6 million, which resulted from proceeds from the Group's borrowings of RUR 6,723.9 million, partially offset by the repayment of borrowings of RUR 3,642.0 million and dividend payments of RUR 789.3 million.

Net cash flow used in financing activities in 2005 amounted to RUR 532.7 million, which resulted from the repayment of borrowings of RUR 5,313.0 million and dividend payments of RUR 1,058.1 million, which was partially offset by proceeds from borrowings of RUR 5,838.3 million.

Available-for-sale investments

Investments previously classified as at fair value through profit or loss were retrospectively designated by the Group as available-for-sale in line with requirements of IAS 39 (Amendment) "The Fair Value Option" effective from 1 January 2006.

The Group has investments classified as available-for-sale in the following companies:

Name	Activity	Country of registration	31 December 2007	31 March 2008
			(RUR millions)	
Silvinit	Potash mining	Russia	13,229.4	16,327.3
Apatite	Apatite concentrate mining	Russia	3,637.9	9,064.3
Sberbank	Banking	Russia	254.4	182.4
Other			184.8	194.8
Total			**17,306.6**	**25,768.8**

For the three months ended 31 March 2008, fair value gains on available-for-sale investments were recognised in equity in an amount totalling RUR 8,452.2 million, and in an amount totalling RUR 11,938.8 million for the year ended 31 December 2007. These investments principally comprise equity

securities which are listed on the RTS. The share price quoted by RTS for Apatite, Silvinit and Sberbank amounted to US$605, US$1,150 and US$3.13 per share as at 31 March 2008, respectively and US$230, US$850 and US$4.22 per share as at 31 December 2007, respectively. For further information about available-for-sale investments, see Note 8 to the Interim Financial Information and Note 18 to the Audited Consolidated Financial Statements included elsewhere in the Prospectus.

Investments in associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group has the following investments in associates:

	2007	2008
	(RUR millions)	
Balance at 1 January	422.2	362.6
Share of income/(loss) before tax	(59.7)	71.6
Balance at 31 December/31 March	**362.6**	**434.2**

The amount above primarily represents the Group's investment in Sibneftegaz, of which it held approximately 21% as at 31 March 2008.

Indebtedness

Borrowings

The Group has a number of facility agreements and credit lines in place with different banks. As at 31 March 2008, the Group's long-term borrowings amounted to RUR 2,616.8 million and its short-term borrowings, including the current portion of long-term borrowings, amounted to RUR 4,083.5 million.

The following tables set forth certain information relating to the Group's short-term and long-term borrowings as at 31 December 2005, 2006 and 2007 and as at 31 March 2008.

	As at 31 December			As at 31 March
	2005	2006	2007	2008
	(RUR millions)			
Short-term borrowings (including current portion of long-term borrowings)	1,937.0	1,764.1	2,418.1	4,083.5
Long-term borrowings	2,217.3	5,278.1	3,081.0	2,616.8
Total	**4,154.3**	**7,042.2**	**5,499.1**	**6,700.3**

For information regarding the currency split, interest rates and maturity of the Groups borrowings see Note 21 to the Audited Consolidated Financial Statements and Note 11 to the Interim Financial Information included elsewhere in this Prospectus.

Loan agreements and credit facilities

The Group's facility agreements include various general and financial covenants which require the Group (or one of its subsidiaries, as the case may be), among other things, to respect certain financial ratios, such as financial indebtedness to EBITDA and financial indebtedness to net worth, as well as other general covenants which are customary to credit facilities. All of the Group's facilities with Sberbank provide that Sberbank may unilaterally amend the annual interest rate in the event of increases in refinancing rates of the CBR. As at the date of the Prospectus, the Group believes that it is in compliance with such ratios.

Short-term borrowings

Loan agreements

Acron

- On 27 July 2005, Acron entered into a US$30 million credit facility with VTB Bank Europe Plc (formerly Moscow Narodny Bank Limited), under which amounts borrowed bear interest at an annual rate of LIBOR plus 3.45%. The credit facility was secured by a pledge of rights (claims) to receive monetary funds in foreign currency under the Group's export contracts and rights to debit Acron's Russian bank accounts. The final maturity date is 1 May 2009.

  The facility was granted in two credit tranches, of US$15 million each:

  On 2 August 2005, Acron drew down from the first tranche of a US$15 million loan facility from VTB Bank Europe Plc ("**Tranche 1**"). Amounts borrowed under Tranche 1 have an annual interest rate of LIBOR plus 3.45%. The final maturity date for Tranche 1 is 2 November 2008. The repayment dates in respect of Tranche 1 are 12 months after the drawdown date and each three months thereafter, as well as the final maturity date. Tranche 1 can be repaid prior to its stated maturity, either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under Tranche 1 was approximately US$3 million.

  On 1 February 2006, Acron drew down from the second tranche of a US$15 million facility from VTB Bank Europe Plc ("**Tranche 2**"). Amounts borrowed under Tranche 2 have an annual interest rate of LIBOR plus 3.45%. The final maturity date for Tranche 2 is 1 May 2009. The repayment dates for Tranche 2 are 12 months after the drawdown date and each three months thereafter, as well as the final maturity date. Tranche 2 can be repaid prior to its stated maturity, either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under the Tranche 2 facility was approximately US$1 million.

- On 31 March 2006 and 2 May 2006, Acron entered into two identical US$20 million revolving credit lines with Sberbank. Outstanding principal amounts under these loans have an annual interest rate of 7.9% until 9 July 2006 (inclusive) and an annual floating interest rate of up to 8.4% thereafter. The credit facilities were secured by a charge on Acron's bank accounts with Sberbank and a pledge of Acron's promissory notes. The final maturity dates are 30 March 2009 and 30 April 2009, respectively. The facilities can be repaid prior to their stated maturity, either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under the credit facilities was approximately US$20 million each.

- On 10 January 2008, Acron entered into a RUR 50 million credit facility with Bank VTB Severo-Zapad JSC at an annual interest rate of 10.87%. The credit facility was secured by a charge on Acron's bank account with Bank VTB Severo-Zapad. The final maturity date is 3 June 2009. The facility can be repaid prior to its stated maturity either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility agreement was approximately RUR 50 million.

- On 11 April 2008, Acron entered into a RUR 170 million credit facility with Sberbank at an annual interest rate of 8.5%. The credit facility was secured by a charge on Acron's bank account with Sberbank. The final maturity date is 10 April 2009. The facility can be repaid prior to its stated maturity either in whole or in part.

- On 17 April 2008 and 18 April 2008 Acron entered into two identical RUR 100 million credit facilities with Sberbank at an interest rate of 10.25%. The credit facilities were secured by a charge on Acron's bank accounts with Sberbank. The final maturity dates of the credit facilities are 16 April 2009 and 17 April 2009, respectively. The facilities can be repaid prior to their stated maturity date, either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under the credit facilities was approximately RUR 100 million and approximately RUR 100 million, respectively.

- On 17 April 2008, Acron entered into a US$2 million credit facility with JSC Commerzbank (Eurasia) at an annual interest rate of LIBOR plus 2.5%. The final maturity date is 16 April 2009. According to management, as at 30 June 2008, the outstanding principal amount under this credit facility was approximately US$2 million.

- On 16 May 2008, Acron entered into a US$15 million credit facility with JSC Commerzbank (Eurasia) at an annual interest rate of LIBOR plus 2.5%. The final maturity date is 15 May 2009. According to management, as at 30 June 2008, the outstanding principal amount under this credit facility was approximately US$15 million.
- On 23 May 2008, Acron entered into a US$15 million credit facility with JSC Commerzbank (Eurasia) at an annual interest rate of LIBOR plus 2.5%. The final maturity date is 22 May 2009. According to management, as at 30 June 2008, the outstanding principal amount under this credit facility was approximately US$15 million.
- On 20 June 2008, Acron entered into a RUR 675 million revolving credit line with Sberbank at an annual interest rate of 10.75%. The final maturity date is 18 June 2009. According to management, as at 30 June 2008, the outstanding principal amount under this credit facility was approximately RUR 645 million.

Dorogobuzh

- On 13 June 2006, Dorogobuzh entered into a US$30 million credit facility with UniCredit Bank (formerly International Moscow Bank) at an annual floating interest rate of three months LIBOR plus 2.75-3.75%. The credit facility was guaranteed by a charge on Dorogobuzh's bank account with UniCredit Bank. The final maturity date is 13 June 2009. The credit facility can be repaid prior to its stated maturity, either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately US$30 million.

Hongri Acron

- On 23 May 2008, Hongri Acron entered into a credit facility with China Merchants Bank Ltd Qingdao Branch Taiwan Road Sub-branch for RMB 10 million. The outstanding principal amount under this loan has an annual interest rate of 8.217%. The credit facility is unsecured. The final maturity date is 22 May 2009. According to management, as at 30 June 2008, the outstanding principal amount under this facility was approximately RMB 10 million.
- On 30 May 2008, Hongri Acron entered into a RMB 15 million credit facility with Industrial and Commercial Bank of China Luozhuang Sub-branch at an annual interest rate of 7.47%. The credit facility is secured by a guarantee from Huasheng Jianquan Group Corp.] The final maturity date is 29 May 2009. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 15 million.
- On 18 June 2008 and 20 June 2008, Hongri Acron entered into two RMB 15 million credit facilities with China Construction Bank Luozhuang Sub-branch at annual interest rates of 7.8435%. The credit facilities are secured by a guarantee from Shandong Huasheng Jiangquan Group Corp. The final maturity date is 17 June 2009. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 30 million.
- On 05 June 2008, Hongri Acron entered into a RMB 20 million credit facility with China Merchants Bank Ltd Qingdao Branch Taiwan Road Sub-branch at an annual interest rate of 8.217%. The credit facility is unsecured. The final maturity date of the loan is 27 May 2009. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 20 million.
- On 21 September 2007, Hongri Acron entered into a RMB 10 million credit facility with China Construction Bank Luozhuang Sub-branch at an annual interest rate of 7.29%. The credit facility was secured by pledge of real property. The final maturity date of the loan is 20 September 2008. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 10 million.
- On 26 September 2007, Hongri Acron entered into a RMB 20 million credit facility with Huaxia Bank Jinan Sub-branch at an annual interest rate of 7.29%. The credit facility was secured by a guarantee from Hengtong Chemical Co. Ltd. The final maturity date of the loan is 26 September 2008. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 20 million.
- On 4 December 2007, Hongri Acron entered into a RMB 20 million credit facility with Luozhuang Rural Credit Union Cengshi Branch at an annual interest rate of 7.29%. The credit facility was secured

by a guarantee from Huasheng Jiangquan Group Corp. The final maturity date is 4 December 2008. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 20 million.

- On 18 January 2008, Hongri Acron entered into a RMB 40 million credit facility with Bank of China Luozhuang Branch at an annual interest rate of 8.217%. The credit facility was secured by a guarantee from Huasheng Jiangquan Group Corp. The final maturity date is 18 January 2009. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 40 million.
- On 12 March 2008, Hongri Acron entered into a RMB 30 million credit facility with China Construction Bank Luozhuang Sub-branch at an annual interest rate of 7.8435%. The credit facility was secured by pledge of real property. The final maturity date is 11 March 2009. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 30 million.
- On 21 April 2008, Hongri Acron entered into a RMB 18 million credit facility with China Construction Bank Luozhuang Sub-branch at an annual interest rate of 7.8415%. The credit facility was secured by pledge of real property. The final maturity date is 20 April 2009. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 18 million.

Long-term borrowings

Loan agreements

Acron

- On 7 August 2006 and 31 October 2006, Acron entered into two identical RUR 270 million revolving credit lines with Sberbank. Outstanding principal amounts under these loans have an annual interest rate of 8% until 9 October 2006 (inclusive) and 9 January 2007 (inclusive), respectively, and at an annual floating interest rate of up to 8.5% thereafter. The credit facilities were secured by a charge on Acron's bank accounts with Sberbank and a pledge of Acron's promissory notes for the aggregate nominal amount of RUR 612.0 million (as at 6 June 2008). The final maturity dates are 6 August 2009 and 30 September 2009, respectively. The facilities can be repaid prior to their stated maturity dates, either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under the credit facilities was approximately RUR 540 million.
- On 31 October 2006, Acron entered into an unsecured US$30 million credit facility with JSC Raiffeisenbank at an annual interest rate of one month LIBOR plus 3.25%. The final maturity date is 27 February 2009. The credit facility was secured by a charge on Acron's bank account. The facility can be repaid prior to its stated maturity, either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately US$30 million.
- On 28 September 2007, Acron entered into a RUR 110 million credit facility with Sberbank at an annual interest rate of 7%, for a term of one year. The credit facility was secured by a charge on Acron's bank accounts. The final maturity date is 26 September 2009. The facility can be repaid prior to its stated maturity either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under this credit facility was approximately RUR 110 million.
- On 14 September 2007, Acron entered into a RUR 270 million revolving credit line with Sberbank at an annual interest rate of 8% until 9 October 2007 (inclusive) and an annual floating interest rate of up to 8.5% thereafter. The final maturity date is 30 September 2009. The credit facility was secured by a charge on Acron's bank accounts and a pledge of Acron's promissory notes. The facility can be repaid prior to its stated maturity either in whole or in part. According to management, as at 30 June 2008, the outstanding principal amount under this credit facility was approximately RUR 270 million.
- On 20 May 2008, Acron entered into a RUR 13.4 billion credit facility agreement with Sberbank at an annual interest rate of 11.25% in order to finance the acquisition of the licence for the development of the Talitsky deposits obtained by VPC. The sole purpose of the loan is to finance a loan to VPC. The repayment of the facility was secured by a pledge of 634,000 ordinary shares in Silvinit and a 100% participation share in VPC. The final maturity date is 19 May 2015. The facility can be repaid prior to its stated maturity dates, in whole or in part. According to management, as at 30 June 2008, the outstanding principal under the credit facility agreement was approximately RUR 13.4 million.

Hongri Acron

- On 16 May 2005, Hongri Acron entered into a RMB 20 million credit facility with China Construction Bank Luozhuang Sub-branch. Effective from January 2008, the outstanding principal amount has an annual interest rate of 5.3625%. The credit facility is secured by a guarantee from Hengtong Chemical Co. Ltd. The final maturity date is 16 March 2010. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 20 million.
- On 21 June 2005, Hongri Acron entered into a RMB 160 million credit facility with China Construction Bank Luozhuang Sub-branch. Effective from January 2008, the outstanding principal amount under this loan has an annual interest rate of 7.623%. The credit facility agreement is secured by a pledge of real property. In connection with this loan, the Board of Directors of Hongri Acron adopted a resolution restricting its ability to pay dividends until the loan is fully repaid. The first maturity date (for RMB 40 million) is 21 December 2008 and the final maturity date (for the remaining outstanding amount) is 21 December 2009. According to management, as at 30 June 2008, the outstanding principal amount under the credit facility was approximately RMB 80 million.
- On 26 June 1998 Hongri Acron entered into a credit facility with China Development Bank. This credit facility was renewed in 2001, and, then again in 2007 for a total amount of RMB 345.6 million. Effective from January 2008, the outstanding principal amount under this loan has an annual interest rate of 7.83%. The credit facility is secured by a guarantee from Shandong Lanling Group Corp. The first maturity date (for RMB 25 million) is 20 November 2008 and the final maturity date (for the remaining outstanding amount) is 26 June 2009. According to management, as at 30 June 2008, the outstanding principal amount under this facility was approximately RMB 60.6 million.

BCT

- On 8 December 2006, BCT entered into a €44.6 million credit facility with Nordea Bank Finland Plc ("**Nordea**") at an annual floating interest rate of EURIBOR plus 1.3%. The credit facility was secured by a pledge of 7,801 shares in BCT, a mortgage over real property, a right of superficies on the plot to be formed on the real estate and a trilateral agreement (among Nordea, BCT and Acron) under which Acron guarantees the completion of the Estonian Sillamäe port in compliance with a trilaterally-agreed schedule. The facility matures in 2015.
- On 2 February 2007, BCT entered into two interest-bearing loan agreements with individuals, Mr. Vladimir Volohonski and Mr. Indrek Luukas, whereby BCT borrowed an aggregate of €34,128. Each loan agreement is for a term of three years and bears an interest of 9% per annum. According to management, as at 30 June 2008, the outstanding principal amount under this facility was approximately €17,000.

Bonds

- On 13 December 2000, Acron issued and placed in the aggregate principal amount of RUR 0.5 million fifty-year nonconvertible interest-bearing bearer bonds. The annual interest rate is the RUR equivalent of US$0.01508 at the exchange rate established by the CBR for the day that is ten days prior to the interest payment dated. According to management, as at 30 June 2008, the aggregate outstanding principal amount under the bond issue was approximately RUR 16,724.59.
- On 15 June 2005, Dorogobuzh issued, in the aggregate principal amount of RUR 900 million, three-year nonconvertible interest-bearing bearer bonds. The bonds issued by Dorogobuzh were guaranteed by Acron. Bonds in an aggregate principal amount of RUR 17.1 million were redeemed by Dorogobuzh in December 2006. As at 31 March 2008, the aggregate principal amount outstanding of the bonds was RUR 882.8 million and the annual coupon interest rate was 8.6%. The bonds were repaid on 11 June 2008.

Promissory notes

According to management, as at 30 June 2008, the total amount of Acron's issued and outstanding promissory notes was approximately RUR 2.2 billion. The final maturity dates vary through 30 September 2009. The promissory notes are used to provide security for credit facilities with Sberbank.

According to management, as at 30 June 2008, the total amount of Hongri Acron's issued and outstanding promissory notes was approximately RMB 205 million. The final maturity dates are 10 September 2008, and 16 October 2008, 11 November 2008 and 16 November 2008, respectively.

Finance leases

Acron-Trans, as lessee, has entered into two separate agreements, dated 25 April 2007, with OOO Raiffeisen-Leasing, as lessor, each for the lease of 50 liquid nitrogenous manure rail cars. The leases are each for a period of 85 months, at the end of which Acron-Trans has the right to purchase the rail cars for a price of RUR 118 per car. The aggregate purchase price over the term of the agreements is RUR 178.0 million, subject to adjustment if the Mosprime rate changes. The agreement provides for an annual interest rate of 10.64%, calculated as a set Mosprime rate plus a margin of 4.94%. In the event the set Mosprime rate changes by 0.5%, the lease rate is subject to reset. Acron-Trans may purchase the rail cars prior to the end of the lease term, but only after the 43rd month, and will incur a pre-payment penalty.

Off-balance sheet arrangements

The Group has no off-balance sheet arrangements other than financial guarantees issued to third parties in respect of borrowings from non-group companies for amounts totalling approximately RUR 900 million as at 31 March 2008 and approximately RUR 1,100 million as at 31 December 2007, respectively. In April 2008, Hongri Acron issued a guarantee of RMB 10 million in respect of borrowings from a non-group company. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. No amount has been accrued in the Financial Statements for the Group's obligation under these guarantees.

Contractual obligations and commercial commitments

A summary of the Group's total contractual obligations and commercial commitments to make future payments as at 31 March 2008 is presented below.

	Payments Due by Period			
	Total	Within 1 Year	Between 2 and 5 Years	After 5 Years
	(RUR millions)			
Contractual obligations as at 31 March 2008[1]				
Commitments in relation to property, plant and equipment	812.8	812.8	—	—
Finance lease payments	103.0	25.5	64.0	13.5
Borrowings	6,700.3	4,083.5	1,705.9	910.9
Total	7,616.1	4,921.8	1,769.9	924.4

(1) Excludes obligations of non-consolidated investee companies.

In addition to the obligations set out above, the Group has obligations under its subsoil licenses. Under each of the licenses for the Oleniy Ruchey and Partomchorr deposits, the Group has an obligation, over a period of 15 years from November 2006, to invest approximately US$18 million for the development and support of the cities near which the Group has mining rights (Koashva and Apatity). Under these licenses, the Group is to invest approximately US$1 million per year in respect of these obligations. In addition, under these licenses and the license for the Talitsky deposit, the Group is obliged to provide support to local social programs and training and employment of the local population.

Capital expenditures

The Group's cash outflows to purchase property, plant and equipment was RUR 1,326.8 million, RUR 2,818.3 million and RUR 2,524.4 million for 2005, 2006 and 2007, respectively. For the period of 2005 to 2007, the Group's capital expenditures mainly focused on the following: (i) the development of a urea-formaldehyde concentrate and urea-formaldehyde resins facility at Acron, which was commissioned in 2006, (ii) a methanol facility at Hongri Acron, which was commissioned in 2006, (iii) a UAN facility at Acron, which was commissioned at the end of 2007, as well as the acquisition of ammonia and urea units for Dorogobuzh. In addition, the Group has acquired a fleet of railway carriages and railway tanks and has also continued construction of transhipment capacities at BCT. A number of capital investments were made in respect of

efficiency improvements, including a new air separation unit at Dorogobuzh, which was commissioned in 2006. The Group's cash outflow to purchase property plant and equipment was RUR 745.5 million for the three months ended 31 March 2008. The Group has budgeted approximately RUR 2,030 million, RUR 960 million and RMB 185 million for capital expenditures at Acron, Dorogobuzh and Hongri Acron, respectively in 2008. The Group's expected capital expenditures for 2008 include the construction of a new urea facility at Acron and the construction of a second UAN unit at Acron. For more information, please see "*Description of Business—Investment Programme and Capital Expenditure*".

Quantitative and qualitative disclosure about market risk

The Group's activities expose it to a variety of financial risks, including foreign currency exchange risk, interest rate risk, price risk and credit risk. The Group's overall risk management programme seeks to minimise potential adverse effects on its financial performance. For additional information about such risks, see Note 33 to the Audited Consolidated Financial Statements, included elsewhere in this Prospectus.

Foreign currency risk

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group's functional currency, which is the Rouble. Foreign currency risk arises from the Group's international operations, future commercial transactions in foreign currencies (including repayment of foreign currency-denominated borrowings) and recognition of assets and liabilities denominated in a currency other than Roubles, which is not the Group's functional currency. The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results. The Group does not currently hedge foreign exchange exposure using financial instruments.

The Group relies on export sales to generate foreign currency earnings. As the Group's sales outside of Russia represent a significant portion of its production, the Group is exposed to foreign currency risk arising primarily from the volatility of the US dollar and RMB, the two currencies in which major export sales are denominated. See "*—Significant factors affecting the Group's results of operations—Changes in currency exchange rates*".

Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. The Group is exposed to interest rate risk principally in relation to its outstanding bank debt. In particular, it is exposed to changes in the LIBOR interest rate of US dollar-denominated debt. The Group does not currently engage in any hedging activities with respect to interest rates.

Price risk

The Group is exposed to equity securities price risk, primarily through its investments in equity stakes of Silvinit and Apatite, which are classified on the consolidated balance sheet as available-for-sale investments. Monitoring of the fair value of the stakes is performed on a regular basis to assess risk of impairment of the stakes. No impairment of these investments was recognised as at 31 December 2007 or 31 December 2006.

Credit risk

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

Trade receivables. In accordance with the Group's credit policy, the credit quality of a new customer of a trade receivable is analysed before the Group provides it with the standard terms of goods supply and payments. The Group gives preference to customers with an independent credit rating. New customers without an independent credit rating are evaluated on a sample basis by an appointed rating agency. The credit quality of other customers is assessed taking into account their financial position, past experience and other factors.

Summary of significant accounting policies

In the course of preparing its accounts, the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include the items mentioned below. See also Note 4 to the Audited Consolidated Financial Statements included elsewhere in this Prospectus.

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 16 of the Audited Consolidated Financial Statements included elsewhere in this Prospectus. At 31 December 2007 no impairment of goodwill was required.

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, in industry and sector performance, or in operating or financing cash flows, or when there are significant adverse consequences of changes in technology.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. For additional information, please see Note 30 to the Audited Consolidated Financial Statements included elsewhere in the Prospectus.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. The Group believes that these transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Useful lives of property, plants and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Valuation of available-for-sale investments.

As at 31 December 2006 and 2005, the investments in Apatite and in Silvinit had no active market in line with the requirements of IAS 39. For these investments, fair value was estimated by using valuation techniques based on the application guidance of IAS 39 (revised). As at 31 December 2007, the Group concluded that the

investments in Apatite and in Silvinit were traded in active market in line with requirements of IAS 39, and fair value was determined by reference to the current market value at the close of business on 31 December 2007. Although the free float and volume of trades of investments may be not significant, their quoted prices are readily and regularly available from exchange, and the Group believes that those prices represent actual and regularly occurring market transactions on an arm's length basis.

Consolidation of subsidiaries

Although the Company has only a 50% interest in Acron-Trans, it has the power to cast the majority of votes at meetings of the board of directors. Accordingly, the Company has consolidated Acron-Trans for the purposes of the Group's consolidated financial statements.

New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not early adopted. For information on these new accounting pronouncements, please see Note 6 to the Audited Consolidated Financial Statements and Note 3 to the Interim Financial Information included elsewhere in this Prospectus.

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources the Company believes to be reliable, including a report produced by FERTECON at the Company's request. The Company accepts responsibility for accurately reproducing such information, data and statistics but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers. See also "Risk factors—Risks relating to the Jurisdictions in which the Group operates—Economic risks—The official data upon which prospective investors may base their investment decision may not be as reliable as equivalent data from official sources in more developed economies."

Fertiliser Fundamentals

Fertilisers serve an important role in global agriculture. Commercially-produced fertilisers give plants the primary nutrients needed in a form they can readily absorb and use. The three main nutrients are nitrogen, phosphorus, and potassium.

The three nutrient types are not interchangeable and have different functions in the development of the plant. Simplified, the role of each nutrient is as follows:

- Nitrogen: for overall plant growth—measured as N
- Phosphorus: for root growth—measured as P_2O_5
- Potassium: for flowering and fruit development—measured as K_2O

Crops need all three nutrients in optimum quantities for maximum yield. Crops remove nutrients from the soil, which need to be replaced or the yield will fall. The quantities needed vary from crop to crop and from soil to soil.

Fertiliser demand growth

Historically, fertiliser demand has continued to grow decade on decade, with one key exception—in the 1990s when the collapse of the Soviet Union removed the supply of cheap fertilisers firstly to Central Europe and then to the FSU. There used to be a high demand in these regions, which is now expected to recover from the extremely low levels of the past 15 years.

The expectation is that overall fertiliser demand will continue to grow. There will continue to be weather and crop price-related variations from year to year but the overriding movement is expected to be upwards. There are likely to be variations in the growth levels among the three core nutrients, but all three are expected to continue to grow.

The following table sets out global fertiliser demand.

GLOBAL FERTILISER DEMAND
(Million tonnes nutrient)

	N	P	K
1985	70.1	33.7	25.5
1995	77.6	31.3	20.8
2005	88.3	37.4	27.4
2008[E]	99.0	40.0	32.4

Source: *FERTECON*

In 2000s demand continued to grow strongly in Asia and Latin America, almost compensating for the collapse of Central Europe and FSU demand.

The following table sets out fertiliser demand by region in 2007 as compared to fertiliser demand in 1985.

GLOBAL FERTILISER DEMAND BY REGION
(Million tonnes)

	Western Europe	Central Europe	FSU	Africa	Middle East	Asia	Oceania	North America	Latin America
1985	23.6	9.8	25.2	3.6	1.9	35.9	1.5	20.1	7.4
2005	16.0	3.9	4.6	4.1	2.7	81.8	3.2	21.7	15.0

Source: *FERTECON*

Demand drivers

The core drivers of fertiliser demand are population and economic growth. In recent years an additional factor has developed generating growth for fertilisers—biofuels. The growing of crops for ethanol or biodiesel has created an additional demand for fertilisers, particularly in the United States. A significant part of this demand is driven by government incentives and mandates. Much of the expected growth in biofuels may come from cellulosic biofuels which will not be major fertiliser users. However, a substantial portion—most notably the production of ethanol from sugar cane—is expected to be economically viable long-term and should represent an increasing factor in fertiliser demand.

These factors apply to all fertilisers, although demand growth is expected to be higher for phosphate and potash. There have been many years of under-application of phosphate and potash in many developing countries and the soil has been "mined" of nutrients as nitrogen use has increased yields without replenishing other nutrients. This problem is recognised by governments such as those of India and China and is beginning to be reflected in policy.

Population

Population growth is the underlying driver of fertiliser demand. Food production needs to increase to feed this population and given finite quantities of land, yields per acre have to increase, which can only be achieved by greater fertiliser use. Organic fertiliser supplies are limited and so any growth is expected to be through usage of mineral fertilisers mined from the earth (phosphate and potash) or extracted from the atmosphere using energy (nitrogen).

The following table sets out the world population growth scenarios.

WORLD POPULATION
(Billion)

	Low	Medium	High
2000	6.1	6.1	6.1
2005	6.5	6.5	6.5
2010E	6.8	6.9	6.9
2015E	7.1	7.3	7.4
2020E	7.3	7.6	7.9
2025E	7.5	8.0	8.4
2030E	7.7	8.3	8.9

Source: *United Nations*

Land availability

Due to increased urbanisation level, for example, in China, land availability for agriculture is falling, thus the productivity of the remaining land must be increased, including through the use of fertilisers. Other countries, for example, Brazil are building up new agricultural areas, most often they need to be fertilised at a high rate to improve their fertility. Both factors lead to increased fertiliser usage.

Another factor in land availability is set-aside programmes, under which land has been taken out of cultivation under government schemes to reduce crop surpluses. The EU and the US are the main regions where this has taken place. These schemes are now being rolled back as crop shortages rather than surpluses become the rule. In 2008, the EU reduced the 10% compulsory setaside scheme to 0%, theoretically increasing cultivatable land in the EU for crops under the Common Agricultural Policy by 10%.

The following table sets out decreases in the arable land per capita.

ARABLE LAND PER CAPITA
(Hectares)

1950	0.5
1960	0.4
1970	0.4
1980	0.3
1990	0.3
2000	0.2
2010E	0.2

Source: *FAO, IPNI, Potash Corp.*

Better nutrition

One of the most influential drivers of increased fertiliser demand in the last few years has been the increasing wealth in many third world countries, notably China and India. The driving factors for such increases are:

- Increased affluence leads to better diets;
- Better diets generally result in increased meat consumption—developed countries consume more meat;
- Meat production involves feed grain consumption—to produce 1 kilogram of protein in the form of meat requires 2-7 kilograms of feed grain.

This increases the demand for fertilisers to produce feed grains. Another factor in more varied diets is increased consumption of fruit and vegetables—higher priced crops that require adequate fertilisation to ensure not just yield but quality. Higher value crops are less sensitive to fertiliser pricing and often use high value-added products such as NPK.

Affordability

Fertilisers represent a minority proportion of the cost of producing a crop, particularly in a commercial environment. Higher fertiliser prices are only sustainable as long as there is a positive margin from applying fertilisers. High crop prices mean that even large increases in fertiliser prices can be absorbed. Accordingly, high crop prices tend to support high fertiliser prices.

US CORN AND UREA PRICE

	Urea (US$/tonne NOLA)	US corn (US$/bushel)
1991	135	2.3
1992	129	2.0
1993	121	2.5
1994	150	2.2
1995	225	3.1
1996	203	2.7
1997	133	2.4
1998	105	1.9
1999	87	2.1
2000	132	2.1
2001	121	2.2
2002	111	2.3
2003	173	2.4
2004	203	2.0
2005	256	2.0
2006	229	3.0
2007	347	4.0

Source: *FERTECON*

Ammonia

Ammonia is a basic raw material for mineral fertilisers. Ammonia is normally used as a building block for other fertiliser products. Stored as a liquid under pressure or refrigerated, it becomes a gas when exposed to air, and is injected into the soil as a gas. Ammonia is used for the production of mineral fertilisers, and, to a lesser extent, for direct application in agriculture and other industrial needs. Ammonia is synthesised through the conversion, refinement and subsequent purification of natural gas.

World demand for ammonia totalled 155 million tonnes in 2007. Approximately 78% of ammonia demand is for fertiliser production with a further 3% used for direct application in agriculture. Non-fertiliser end-uses account for 19%.

WORLD CONSUMPTION OF AMMONIA 2007
(Million tonnes)

For Direct application	4.6	
For Non-fertiliser end-uses	29.9	Includes non-fertiliser urea
For Fertiliser production	120.5	Of which: 74.2 Fertiliser urea
		16.9 AN/CAN/ASN
		5.3 AS
		6.6 Other nitrogen
		8.9 MAP/DAP
		8.6 Other Compounds
Total world consumption	155.0	

Source: *FERTECON*

In 2007 global ammonia demand increased by over 4%. This was due to expansions in both fertiliser and industrial demand for ammonia.

GLOBAL AMMONIA DEMAND
(Million tonnes)

	For direct applications	For fertiliser production	For non-fertiliser end-uses	Total	% increase
2005	4.5	112.8	27.4	144.7	n/a
2006	4.4	115.3	29.1	148.8	+2.8%
2007	4.6	120.6	29.9	155.1	+4.2%

Source: *FERTECON*

Regionally, ammonia demand is highest in Asia, CIS and North America. FERTECON expects the highest growth rates for ammonia demand to be in the Middle East, driven by the development of new ammonia/urea projects within the region. FERTECON expects that, although the urea is primarily intended for export, the ammonia consumption is to be within the Middle East.

The following table sets out a breakdown of ammonia demand by region in 2005 as compared to fertiliser demand in 2005.

GLOBAL AMMONIA DEMAND BY REGION
(Million tonnes)

	EU 15	EU 12	Other Europe	CIS	Africa	Middle East	Asia	Oceania	North America	Latin America
2000	14.1	5.4	2.0	12.62	4.0	5.6	60.0	1.0	22.6	3.5
2005	13.5	6.5	2.2	14.83	3.9	7.0	71.2	1.1	20.7	4.5

Source: *FERTECON*

World ammonia output totalled 157 million tonnes in 2007. It was produced from a total installed capacity of 185 million tonnes per year, giving a utilisation rate of 85%. Capacity is concentrated in Asia, notably in China which currently accounts for close to one-third of global output. Ammonia capacity is located in 67 countries but 10 countries, each with an output in excess of 3 million tonnes, account for close to three-quarter of global output.

The following tables set out a breakdown of ammonia output by region and country in 2007.

GLOBAL AMMONIA PRODUCTION BY REGION—2007
(Million tonnes)

EU	Other Europe	CIS	Africa	Middle East	Asia/ Oceania	North America	Latin America
17.3	0.9	21.0	5.1	9.9	78.6	14.4	9.4

Source: *FERTECON*

GLOBAL AMMONIA PRODUCTION BY COUNTRY—2007
(Million tonnes)

China	Russia	India	USA	Trinidad	Indonesia	Ukraine	Canada	Egypt	Pakistan	Saudi Arabia	Others
51.0	13.1	12.5	9.8	5.3	5.2	5.1	4.6	3.2	3.1	3.0	40.8

Source: *FERTECON*

Capacity growth has been concentrated in regions with growing domestic demand for ammonia, such as Asia, but also in regions with comparatively low-cost gas costs which has encouraged export-orientated developments. Thus, growth in ammonia capacity has been concentrated in Asia, notably China, as well as the Middle East, Latin America, and North Africa. There have been capacity losses in West Europe and the United States, due to the impact of increases in production costs which have rendered parts of the industry uncompetitive.

The following table sets out a breakdown of ammonia production capacity by region in 2000 as compared to 2005.

GLOBAL AMMONIA CAPACITY BY REGION
(Million tonnes)

	EU	Other Europe	CIS	Africa	Middle East	Asia	Oceania	North America	Latin America
2000	22.4	1.5	22.1	4.5	7.9	69.8	1.0	23.0	8.1
2005	20.8	1.9	22.2	4.8	9.2	80.4	1.2	18.2	11.0

Source: *FERTECON*

World trade in ammonia totalled 19.6 million tonnes in 2007, representing only a small proportion of global ammonia supply, ranging around 11-13% over the past ten years. World prices for ammonia have increased in recent years. The key drivers for the ammonia price are oil and gas prices. Higher gas prices in Europe create a higher base price for ammonia in the near term, and in the longer term, FERTECON expects that a higher energy price forecast would increase the floor price in a weak ammonia market.

FERTECON believes that a general softening in ammonia prices may come as a result of new low-cost capacity additions in the Middle East and the expected decline in US imports due to the addition of new ammonia capacity there in the coming years. However, FERTECON expects prices generally to remain at historically higher levels due to the high-cost base for marginal producers.

AVERAGE AMMONIA PRICES
(US$ per tonne)

	Yuzhny FOB	Caribbean FOB	Middle East FOB	NW Eur CFR	Tampa/ USG CFR	Far East CFR
2005	240	284	267	295	316	293
2006	245	284	269	331	323	317
2007	271	299	276	352	340	320
End of June 2008	535	541	495	590	587	530

NB: Differentials between FOB and CFR prices do not necessarily equate to the freight as suppliers will have a range of sales to different regions.

Source: *FERTECON*

Urea

Urea is an organic compound of carbon, nitrogen, oxygen and hydrogen and is produced from synthetic ammonia and carbon dioxide as an assortment of granules, flakes, pellets, crystals and solutions. Urea is the most widely used dry nitrogen fertiliser. It is a solid nitrogen product typically applied in granular form. Once applied to the soil, urea is converted to ammonia, which reacts with water to form ammonium. It is also used as a raw material for the manufacture of plastics (specifically, urea-formaldehyde resins), glues (urea formaldehyde or urea-melamine-formaldehyde) and as a component of compound mineral fertilisers.

Overall demand for urea was 141 million tonnes in 2007. Most urea is used in agriculture, but there is a significant technical use for melamine, urea formaldehydes etc. Furthermore, in order to comply with tighter NOx emission controls which were introduced in the EU in October 2005 for heavy duty road vehicles with diesel engines, truck manufacturers are equipping new vehicles with selective catalytic reduction, which uses urea as the reducing agent.

The following table sets out urea demand by region in 2007.

GLOBAL UREA DEMAND BY REGION—2007
(Million tonnes)

FSU	Africa	Oceania	Asia	Europe	North America	Latin America	Middle East
1.4	4.2	1.4	101.5	7.0	11.3	9.8	4.2

Source: *FERTECON*

World urea output totalled 142 million tonnes in 2007. It was produced from a total installed capacity of 164 million tonnes per year, giving a utilisation rate of 86%. Capacity is concentrated in Asia. Urea capacity is located in China and India with an output in excess of 54 and 20 million tonnes, respectively, accounting for approximately half of global output.

The following table sets out a breakdown of urea output by region and country in 2007.

GLOBAL UREA PRODUCTION BY REGION—2007
(Million tonnes)

EU 15	EU 12	Other Europe	CIS	Africa	Middle East	Asia	Oceania	North America	Latin America
4.9	3.8	0.4	11.1	4.9	12.8	89.9	0.5	9.3	4.6

Source: *FERTECON*

GLOBAL UREA PRODUCTION BY COUNTRY—2007
(Million tonnes)

China	India	Indonesia	Russia	USA	Pakistan	Egypt	Saudi Arabia	Ukraine	Canada	Qatar	Others
54.0	20.0	5.8	5.8	5.7	4.8	4.1	3.8	3.6	3.6	3.0	31.8

Source: *FERTECON*

Capacity growth has been concentrated in regions with growing domestic demand for urea, such as Asia, and particularly in China and India.

The following table sets out a breakdown of urea production capacity by region in 2007 as compared to 2000.

GLOBAL UREA CAPACITY BY REGION
(Million tonnes)

	EU 15	EU 12	Other Europe	CIS	Africa	Middle East	Asia	Oceania	North America	Latin America
2000	5.9	5.4	0.7	10.5	2.8	10.0	77.2	0.5	12.4	4.2
2007	5.0	4.9	0.6	11.8	5.0	15.0	104.1	0.5	10.0	6.6

Source: *FERTECON*

Urea demand increased in 2007 from 32.0 million tonnes to 37.3 million tonnes, which FERTECON believes reflects a move towards the increased production of biofuels and a reduction in the area of agricultural land planted with food crops, with Asia and North America primarily responsible for the increasing imports.

The largest increase in urea export supplies in 2007 originated from China, where export volumes increased by 4.3 million tonnes to reach a record total of nearly 6 million tonnes. Export supplies from most other origins in 2007 fell below the previous year's level, with Russia maintaining constant levels.

An increase in export supplies is expected from the Middle East and North Africa (Egypt and Algeria), because of new projects currently under implementation and planned. Exports from Europe in general, are expected to decline.

Urea prices have increased over the last several years and, similar to ammonia, were affected by increases in oil and gas prices.

AVERAGE UREA PRICES
$ per tonne FOB in bulk

	Middle East prilled	Middle East granular	FSU/Yuzhnyy prilled	US Gulf NOLA granular	Caribbean granular
2005	242	243	220	283	239
2006	238	229	223	252	225
2007	319	315	308	383	325

Source: *FERTECON*

Phosphates

Total world demand for phosphates was approximately 40 million tonnes P_2O_5 in 2007. Approximately 27% of this is applied in the form of straight phosphate (mostly single super phosphate or triple super phosphate), approximately half in the form of MAP/DAP and the balance in the form of other NPs, PKs and NPKs, with the final category being by far the largest.

The following table sets out phosphates demand by product in 2007.

GLOBAL PHOSPHATE DEMAND BY PRODUCT—2007
(Million tonnes P_2O_5)

SSP	TSP	Other straight P	MAP/DAP	Other NP/PK	NPK
6.8	28.0	8.0	20.4	8.0	8.4

Source: *FERTECON*

The World's largest consumer of phosphate is China, representing around 25% of total consumption. Other major consuming countries are India, the US and Brazil.

The following table sets out a breakdown in phosphates demand by region in 2007.

GLOBAL PHOSPHATE DEMAND BY COUNTRY—2007
(Million tonnes P_2O_5)

China	India	USA	Australia	Brazil	Europe	Pakistan	CIS	Others
10.9	5.2	4.0	1.0	2.9	3.1	0.9	0.7	10.0

Source: *FERTECON*

Phosphate consumption is expanding faster than nitrogen consumption as for many years there has been under-application of phosphate compared to nitrogen in many developing countries, notably China and India. In both countries it is government policy to increase application rates of phosphate to get a better nutrient balance.

The following table sets out a breakdown of production of phosphates by region in 2007.

GLOBAL PHOSPHATE EXPORTS BY MAJOR PRODUCING COUNTRY—2007
(Million tonnes)

US	Russia	Lithuania	Tunisia	Morocco	Jordan	China	Australia	Others
6.0	2.9	0.7	1.1	1.6	0.7	3.3	0.2	1.0

Source: *FERTECON*

The following table sets out a breakdown of phosphoric acid capacity by region.

GLOBAL PHOSPHORIC ACID CAPACITY BY REGION
(Million tonnes)

	2003	2004	2005	2006	2007
West Europe	1.5	1.3	1.3	1.2	1.2
Central Europe	1.4	1.3	1.1	1.0	1.0
East Europe & Central Asia	5.6	5.0	4.9	4.8	4.7
North America	12.4	11.8	11.6	11.1	10.0
Latin America	2.1	1.5	1.6	1.7	1.7
Africa	7.2	7.2	7.1	7.1	7.0
Middle East	2.2	2.2	2.2	2.2	2.2
South Asia	1.9	1.9	2.0	2.1	2.1
East Asia	7.6	8.4	10.4	11.4	12.2
Oceania	0.4	0.4	0.5	0.5	0.5

Source: *IFA*

Approximately 11.5 million tonnes of DAP and approximately 6 million tonnes of MAP were imported in 2007. India and Pakistan are the largest importers of DAP and Brazil, Argentina and Canada the biggest importers of MAP. The United States, China and Russia are major exporting countries.

Phosphate prices were relatively low until 2007 when a combination of earlier production rationalisation in the United States and an increase in demand led to a sharp increase in prices from approximately $250 FOB US Gulf for DAP to a 2007 price of $428. The rise in DAP prices has been followed by an increase in phosphoric acid (an intermediate in phosphate production which is traded internationally), sulphur and phosphate rock prices.

The following table sets out average DAP prices for the years of 2005, 2006 and 2007.

DAP PRICE
(US$ per tonne FOB US Gulf)

2005	246
2006	259
2007	428

Source: *FERTECON*

Potash

Of all the three nutrients, the potash market is the most concentrated with a small number of major suppliers. Historically, prices for potash have been stable, but strong demand in recent years has resulted in sharp increases. Economically viable potash reserves are limited and in concentrated ownership.

Total world demand for potash was 35 million tonnes K_2O in 2007. In 2007, four large markets accounted for 61% of total potash demand: China, the United States, India and Brazil. These four markets are expected to remain the largest markets. Fertiliser end-uses still account for the largest part of potash consumption, i.e. approximately 94% on a world-wide basis.

The following table sets out potash demand by country in 2007.

POTASH DEMAND BY COUNTRY—2007 ESTIMATES
(Million tonnes)

China	USA	India	Brazil	Others
7.6	5.8	2.4	4.7	14.6

Source: *FERTECON*

Demand in the FSU collapsed in the 1990s but is now starting to recover. In 2007, Russian demand was only 0.3 million tonnes, but FERTECON expects it to grow significantly in the coming years. FERTECON also expects demand in other regions to increase. Most of this demand growth is expected to be met by imported products.

Potash supply is highly concentrated. Only 12 countries currently produce significant amounts of potash. Two major supply points—Canada and the FSU—account for two thirds of world production, represented by six producers combined into just three marketing organisations. Worldwide, five marketing organisations control 85% of sales of which three—Canpotex, BPC and K+S—account for 70% of sales.

The following two tables set out estimated potash supply by region or country, and the number of producers in each region or country in 2007.

POTASH PRODUCTION—2007 ESTIMATES
(Million tonnes K_2O)

Canada	FSU	Germany	Israel	Jordan	China	US	Others
10.9	11.3	3.6	2.2	1.1	2.1	1.2	1.8

Source: *FERTECON*

POTASH PRODUCERS
(Number of companies)

Canada	FSU	Germany	Israel	Jordan	China	US	Others
3	3	1	1	1	12	3	3

Source: *FERTECON*

Total capacity in 2007 is estimated at 40 million tonnes K_2O. Capacity utilisation is relatively high, and FERTECON estimates it was 86% in 2007, giving total production of 34.2 million tonnes K_2O.

The following table sets out potash production capacity by region in 2007.

GLOBAL POTASH CAPACITY BY COUNTRY—2007
(Million tonnes K_2O)

Canada	USA	Brazil	Chile	UK	Spain	Germany	Belarus	Israel	Jordan	Russia	China
14.2	1.4	0.5	0.6	0.6	0.4	4.2	5.2	2.3	1.2	6.1	2.8

Source: *FERTECON*

The higher prices and strong demand has stimulated development in new projects. Such projects include current expansion plans of existing producers, mines in the Congo and Argentina and two greenfield projects in Canada and two in Russia.

Around 73% of production enters into international trade. FERTECON estimates trade in potash in 2007 to have totalled approximately 28.1 million tonnes K_2O—approximately 46.8 million tonnes of product. Trade in potash is orderly and mostly under long-term contract with annual, semi-annual or quarterly price negotiations. This contrasts with most other fertiliser products, which are sold on a spot price basis.

For many years potash prices were relatively stable but in recent years have increased strongly as demand surged and capacity utilisation increased. Potash prices have increased significantly in recent years. The following table sets out changes in prices for potash.

POTASH PRICE
US$ per tonne standard KCI FOB Vancouver spot

2005	161
2006	175
2007	210

Source: *FERTECON*

NPK

NPK is a complex fertiliser that is a chemical combination of all three nutrients: nitrogen, phosphorus and potassium. It offers the advantage of providing balance nutrient supply in a single application. In recent years, NPKs have become more popular and trade has increased.

The following table sets out NPK demand by region in 2007.

NPK DEMAND BY REGION—2007
(Million tonnes)

	Demand
EU 15	7.1
EU 12	1.9
Other Europe	1.8
CIS	2.1
Africa	2.1
Middle East	0.8
Asia	26.0
Oceania	0.1
North America	0.8
Latin America	3.5

Source: *FERTECON*

The following table sets out a breakdown of NPK production by region in 2007.

NPK PRODUCTION AND CAPACITY BY REGION—2007
(Million tonnes)

	Capacity*	Production
EU 15	8.9	6.3
EU 12	1.9	1.9
Other Europe	5.8	3.4
CIS	7.7	5.9
Africa	2.6	1.4
Middle East	2.4	0.9
Asia	29.6	24.0
Oceania	0.0	0.0
North America	1.0	0.8
Latin America	1.8	1.7

Source: *FERTECON*
* excludes long-term idled plants

World trade volumes of NPK are around 12 million tonnes. Key import markets for NPKs are Europe (mostly intra-regional), Asia (China and Thailand in particular) plus important volumes into Africa, and Latin America. Imports by EU countries totalled 4.7 million tonnes in 2006, of which 2.9 million tonnes was trade

within the EU. A further 0.85 million tonnes came from Norway, with 0.150 million tonnes from other Europe and 0.76 million tonnes from the CIS. Russia has become the largest exporting country of NPKs. The EU as a whole exported 4.53 million tonnes in 2007, Norway 1.94 million tonnes and Russia 3.00 million tonnes.

In the past NPK prices tended to trace urea prices. However, as phosphate and potash prices have increased substantially in the last two years the cost of the latter have taken a greater role in NPK pricing. FERTECON expects NPK prices to reflect the prices for the individual nutrients with a small premium to reflect the value added.

The following table sets out prices for NPK between 2005 and 2008.

NPK PRICE
US$ per tonne FOB bulk

2005	192
2006	198
2007	280

Source: *FERTECON*

Russian agriculture and fertiliser market

Climatic and geographic factors limit Russia's agriculture to a small part of the country. The amount of land in agricultural use has declined from 197 million hectares in 2000 to 191.7 million ha, in 2005.

The success of farming in Russia is dependent on an adequate supply of farm inputs. Before the collapse of the USSR, apparent consumption of all fertiliser nutrients ran at high levels as agriculture was heavily subsidised and there was substantial waste. Until 1988 consumption of fertilisers grew and peaked between 1985/88 with nutrient consumption at 27 million tonnes in 1988. However, from 1989, demand began to fall sharply for all three nutrients, with the largest percentage falls in phosphate and potash.

The following table sets out fertiliser nutrient consumption in Russia.

FERTILISER NUTRIENT CONSUMPTION IN RUSSIA
(Million tonnes)

	N	K_2O	P_2O_5
1986	5.7	3.3	4.6
1987	5.9	3.4	4.6
1988	5.7	3.3	4.7
1989	4.8	2.9	4.6
1990	4.3	2.3	4.3
1991	4.0	2.4	3.7
1992	2.6	1.3	1.5
1993	2.0	0.9	0.9
1994	0.9	0.3	0.2
1995	1.0	0.3	0.3
1996	0.9	0.4	0.3
1997	0.9	0.4	0.3
1998	0.7	0.3	0.2
1999	1.0	0.2	0.1
2000	0.9	0.1	0.3
2001	1.0	0.2	0.3
2002	0.9	0.2	0.3
2003	0.8	0.2	0.3
2004	0.9	0.2	0.3
2005	0.9	0.2	0.3
2006	0.9	0.2	0.4
2007	1.0	0.3	0.4

Source: *FERTECON*

The decline is associated with removal of subsidies, the increase in price for fertiliser and the insolvency of agricultural enterprises. The relative inefficiency of farming in Russia is reflected in its yields for field crops, which are low by European and North American standards. There has been some improvement over the years, but yields still have significant scope to improve.

The farming sector in Russia remains fragmented, characterised by different-sized enterprises. Much of the country's agricultural output continues to come from household plots, whilst a significant portion is produced on large farms. There is also some smaller agricultural output on private farms, and the number of these has been increasing. Russia is increasing its agricultural production year-on-year. According to figures released by the Rosstat, agricultural production across all farms reached RUR 2.0 trillion in 2007, an increase of 3.3% compared with 2006. Russian government support to the farm sector is climbing back to the levels before the 1998 financial crisis. Much of the revival that is currently seen in Russian agricultural sector today is due to the growth of the Russian economy.

However, Russian domestic agriculture is still unable to fully meet its own domestic requirements, hence the need for substantial agricultural imports. Indeed Russia is one of the largest agricultural importers globally, ranking alongside the EU, the US, China and Canada. Recent high commodity prices have also led to a large upturn in Russian exports of grain and oilseeds.

In October 2005, the then President, Vladimir Putin, listed the Agroindustrial Complex as one of the four National Priority Projects (being insurance, education, housing and agriculture). In response, the Russian government approved a RUR 1.1 trillion agricultural budget for the five-year period between 2008 and 2012. Vladimir Putin, newly-appointed Prime Minister after standing down as President this year, has maintained this emphasis on agriculture. Mr. Putin has said that agriculture has moved to the top of the incoming government's agenda. The emphasis is for Russia to become a major player in world food markets.

A report published in March 2007 by the Organisation for Economic Co-operation and Development (OECD) claims that government support to agriculture is lower in the major emerging economies than on average in the developed countries of the OECD. The OECD says support to producers has risen over recent years in all the countries studied except Russia, where levels were already relatively high. After the collapse of the USSR, Russian agriculture was characterised by a lack of fertiliser application, low soil nutrient levels and consequently a fall in yields. In order to improve agricultural production, the low level of fertiliser application has had to be addressed. Deliveries of fertiliser to the domestic market are on the rise, and an increasing number of Russian fertiliser producers are placing more and more emphasis on the local market but moving into the development of distribution centres, for example, and into the re-education of farmers. There is also a move to develop blending facilities in Russia for the production of NPK blends in order to replenish deficient soils.

Ammonium nitrate (AN) and monammonium phosphate (MAP) are the main products used in Russia. Despite concerns in recent years over the safety of straight AN, this fertiliser still dominates in Russia, although consumption is a lot lower than it was in 1990. Urea usage in Russia remains limited, with most of the country's production going to export. From apparent consumption of about 400,000 tonnes N in 1990, consumption today is less than 100,000 tonnes/year N of urea. FERTECON expects urea usage to increase, though AN will remain the main nitrogen fertiliser used in Russia. Russia has, however, begun to use urea ammonium nitrate solutions (UAN) in recent years, and though domestic production is increasing, this is more for export markets, and FERTECON does not expect consumption to increase significantly over the coming years.

Potash consumption has declined dramatically in Russia over the last 20 years. Russia consumes mainly standard white and pink potassium chloride. There is very little granular MOP used in the country. Most of the potassium chloride sold in Russia goes into NPK production, and the largest part of compound fertiliser production is exported to other markets, predominantly China. There is also some consumption of potash amongst industrial users.

Consumption of potash within agriculture remains very low compared to Soviet era levels. In 1990/1991, potash fertiliser consumption stood at nearly 2.4 million tonnes K_2O but by 1992 was almost half this level and consumption continued its dramatic downwards movement throughout the 1990s, and by the turn of the century amounted to less than 200,000 tonnes K_2O. In the last five years, consumption has been increasing very modestly year-on-year, but in 2008 FERTECON expects it to still only amount to less than 350,000 tonnes K_2O.

Phosphate fertiliser consumption in Russia is dominated by MAP, though products such as single super phosphate (SSP), triple super phosphate (TSP) and various compounds are also used. In the late 1980s, Russian apparent consumption of P_2O_5 stood at around 4.7 million tonnes nutrient, declining to 4.3 million tonnes P_2O_5 in 1990.

Chinese agriculture and fertiliser market

China is the largest fertiliser market in the world, accounting for approximately 30% of world fertiliser nutrient consumption. The majority of fertiliser consumption is met by domestic production. Chinese ammonia production in 2007 was around 51.5 million tonnes, representing about a third of world output.

China has its own substantial phosphate rock deposits and there has been a rapid build-up of concentrated phosphate fertiliser production. In 2000 China phosphate fertiliser production was estimated at 6.63 million tonnes P_2O_5 with high analysis phosphates accounting for 35% of the total. In 2007, total phosphate fertiliser production is estimated by FERTECON to have reached 13.5 million tonnes P_2O_5.

China is still a net importer of fertiliser nutrients, mainly due to a shortage of domestic potash resources. In 2007 Chinese exports of fertilisers exceeded 14.4 million tonnes and China was the world's leading exporter of urea.

Government policy towards fertiliser is mainly concerned with maintaining agricultural output and thus in ensuring adequate fertiliser supply at costs which protect the livelihood of farmers. To a lesser extent there is a concern with improving the energy efficiency of the fertiliser industry. Concern about rapidly rising fertiliser prices, blamed on an increase in exports, has led to increased tarrifs export from April 2008, which are due to last until the end of September 2008, but may be extended.

Future Government policy towards exports will have a significant bearing on world fertiliser trade balances and on the structure of the domestic industry in China. A long-term restriction of exports would likely result in an oversupply of nitrogen fertilisers within China and would likely see substantial plant closures, removing much of the less energy efficient units. Phosphate fertiliser capacity would also be in excess of supply and this could reinforce existing policies to cut back production at smaller and less energy efficient plants.

About 15% of China's land area can be cultivated, but the arable land area of China accounts for only 10% of the world's total yet feeds 20% of the world's population. About 75% of cultivated land is devoted to food crops and rice accounts for about one third of this.

The total arable area is about 1.3 million square kilometres but because of double and triple cropping the sown area is closer to 2 million square kilometres. Most rice is grown in the south of the country especially the Yangtze River valley which is usually used to mark the cropping boundary between north and south. In terms of planted area, corn is the second most important crop and grown in the north and north east. Wheat is grown all over China but especially in the north. The area under vegetables is now thought to be close to the area under wheat, approximately 23 million ha, and fruit covers another 10 million ha.

Chinese fertiliser consumption is noticeable for its high levels of potassium sulphate usage, which can be largely explained by the high fertiliser use on fruits and vegetables.

In the past ten years nutrient use for fertilisers is estimated to have grown by about 39%, from about 35.0 million tonnes nutrient in 1997-98 to 48.8 million tonnes nutrient in 2006-2007. Most of this increase in consumption has occurred over the past five years thanks to sustained Government support for agriculture, specifically aimed at increasing food production and building up farmers' incomes. These policies are likely to continue, which should mean continued growth in the use of fertiliser nutrients in China. However, there have long been concerns that fertiliser use is in excess of optimum rates in many areas, especially for nitrogen. The rapid increase in fertiliser prices seen over the past year may also have a negative impact on fertiliser demand although it is not easy to gauge the extent to which farmers may cut back on fertiliser use due to high prices.

CHINA FERTILISER NUTRIENT CONSUMPTION

(Million tonnes)

	N	P	K
1997/98	22.6	9.2	3.3
1998/99	22.6	9.3	3.3
1999/00	23.8	8.8	3.2
2000/01	22.7	8.7	3.4
2001/02	22.7	8.9	3.9
2002/03	26.0	9.9	4.3
2003/04	25.0	9.8	4.6
2004/05	26.9	10.6	5.4
2005/06	29.7	11.0	5.5
2006/07	31.0	11.7	6.1

Source: *FERTECON*

The Chinese Government is striving to protect farmers from fertiliser price increases and this is the main motivation behind the tarrifs on exports. The Government hopes that by increasing supply in the domestic market, prices could be kept at affordable levels, but this policy can work on the supply of nitrogen and phosphate only. China's dependence on potash imports means that increases in international prices will be passed on to Chinese farmers so potash consumption is expected to be more affected by global price increases. The majority of potash used in China is applied in the form of NPKs so higher prices of potash may translate into a shift towards NPK formulations with less potash.

The table below shows the estimated breakdown of nitrogen fertiliser consumption derived from supply, with 58% of apparent consumption as urea, 19% as ABC, 10-11% as other straight nitrogen fertilisers, 7% in complex NP and NPK and 5% in ammonium phosphates.

APPARENT CONSUMPTION OF NITROGEN FERTILISER IN CHINA—2007

(Million tonnes)

Urea	ABC	Other straight N	N in AP	N in NP/NPK
17.4	5.5	3.1	1.5	2.0

Source: *FERTECON*

The China Phosphate Fertiliser Industry Association estimates NP-NPK production at about 35 million product tonnes in 2007 although some sources put the more likely figure for NPKs in all forms to be around 50 million tonnes, after taking into consideration small scale plants and bulk blending. In both the nitrogen and phosphate sectors there is a trend towards the use of higher analysis fertilisers—in nitrogen towards more urea and in phosphates towards ammonium phosphates. These in turn are being used to produce higher analysis NPKs in addition to the production of complex or chemically combined compounds. Nevertheless, a significant proportion of both nitrogen and phosphate fertiliser production in China is in the form of low analysis fertilisers. Products like ABC, ammonium chloride and ammonium sulphate have all benefited from strong urea prices and encouraged plants to maintain output although much of the ammonium chloride and ammonium sulphate production is co-product. In the event of a squeeze on the market, as might happen if urea exports are banned in the long-term, market could put further pressure on smaller plants and reduce ABC's share. There has been a relatively steady production of low analysis phosphate fertilisers, especially SSP. Today Single-superphosphate's share of the phosphate market is about 35% and production is under pressure as the Government seeks to improve energy efficiencies. Shandong produces the most urea, 4.3 million tonnes in 2007 or over 17% of the total urea output of China, followed by Henan and Shanxi, both with nearly 12% share of national output. A clear majority of fertiliser production capacity in China is wholly or partially state owned, ranging from three state oil-gas companies, provincial coal companies to local authority-owned plants. The Chinese government is also closely involved with fertiliser production through state control and regulation of power and the railways, especially in the way subsidies are allocated for fertiliser production, storage and transportation. At the provincial and county level there are also forms of control which limit the freedom of the market for fertilisers, often aimed at protecting local companies. But there is increasing private sector involvement in the industry and a desire by the central government to see a more rational use of resources.

In recent years several conglomerates have developed whose core business is fertilisers and which are expanding production by acquisition across the country. Old plants are revamped and investment made to revitalize previously retired capacity. Despite the limitations on the free market in fertilisers, end-users are by and large free to buy from any supplier and there is a move towards winning customers by improving marketing. The use of brands for fertilisers is widespread and there is a growing recognition of the importance of quality and reliability. Foreign participation in the marketing of fertilisers has been allowed in principle from the end of 2007, although the extent to which real freedom exists for foreign-owned companies to operate in the Chinese import and distribution market remains to be seen.

OVERVIEW

The Group is a leading Russian and global mineral fertiliser producer with a diversified product portfolio consisting of multi-nutrient fertilisers such as NPK and bulk blends, as well as straight nitrogen-based products such as urea, ammonium nitrate and UAN. The Group also produces organic synthesis products, including methanol, formaldehyde and UFR, and inorganic synthesis products, such as low-density ammonium nitrate, carbon dioxide and calcium carbonate.

NPK, a mix of three primary nutrients, nitrogen, phosphorus and potassium, accounted for approximately half of the Group's 2007 fertiliser sales by volume, making it the most important contributor to the Group's sales. According to FERTECON, based on 2007 production output, the Group ranked first in Russia and second worldwide in the production of NPK fertilisers and accounted for approximately six per cent of the total NPK production output in China. Based on 2007 revenue, according to FERTECON, the Group was the third-largest nitrogen-focused fertiliser producer in Russia and the fourth-largest in Europe. In addition, FERTECON estimates that the Group produced approximately one per cent of the total production output of nitrogen and phosphate fertilisers globally and approximately 13% of such output in Russia in 2007.

The Group's products are sold in over 50 countries. In 2007, the Group sold a substantial proportion of its total fertiliser sales volume of 4.4 million tonnes in fast-growing, developing markets such as Russia (23%) and China (18%), as well as countries in Latin America and Asia and other countries of the former USSR. The Group also sold 1.3 million tonnes of organic and inorganic synthesis products in 2007.

The Group has fertiliser production facilities in three locations:

- Acron, located in the Novgorod region in the northwest of Russia;
- Dorogobuzh, located in the Smolensk region in the central-western part of Russia; and
- Hongri Acron, located in the Shandong province of China.

The Group believes these locations provide it with a strong platform to capitalise on expected fertiliser demand growth in Russia and China, which, according to FERTECON, are expected to experience some of the faster-growing fertiliser consumption growth globally.

The Group has distribution networks in Russia and China. In Russia, the Group has a network of 20 regional distribution subsidiaries, 16 of which own specialised warehouses, giving it significant storage and sales facilities across Russia's major agricultural regions. Approximately half of the Group's sales volume in the Russian market is handled by this distribution network. In China, Hongri Acron has established a distribution network of over 1,200 independent wholesale distributors, who in turn sell products to an estimated (by management) 32,000 local retailers, across 27 of the country's 31 administrative units. The Group sells substantially all of its sales volume designated for the Chinese market through this network.

The Group also has significant logistics and transportation capabilities. These capabilities include approximately 1,700 railway units (which cover approximately half of the Group's rail transport needs in Russia) and two sea port trans-shipment facilities on the Baltic Sea, one at the Kaliningrad port in Russia and the other at the Estonian Sillamäe port. The Group ships a substantial proportion of its exports through these port facilities.

In addition, with a view to securing supplies of phosphate and potash, the Group has acquired licences for the development of two apatite-nepheline ore deposits in the Murmansk region of Russia, and a potassium-magnesium salt deposit in the Perm region of Russia. Subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the licenses, the Group is to commence industrial mining and processing at these sites in 2013 and 2015, respectively.

The Group had total revenues of RUR 22,748.3 million (US$ 967.4 million), RUR 23,624.5 million (US$ 1,004.6 million) and RUR 31,105.2 million (US$ 1,322.7 million) for the years ended 31 December 2005, 2006, and 2007, respectively, and total revenues of RUR 7,705.9 million (US$ 327.7 million) and RUR 11,661.1 million (US$ 495.9 million) for the three months ended 31 March 2007 and 2008, respectively. The Group had net profit of RUR 3,383.5 million (US$ 143.9 million), RUR 2,463.6 million (US$ 104.8 million) and RUR 5,668.3 million (US$ 241.0 million) for the years ended 31 December 2005, 2006 and 2007, respectively, and net profit of RUR 1,299.9 million (US$ 55.3 million) and RUR 3,963.0 million (US$ 168.5 million) for the

three months ended 31 March 2007 and 2008, respectively. The Group had EBITDA of RUR 5,854.5 million (US$ 249.0 million), RUR 4,645.6 million (US$ 197.6 million) and RUR 8,658.6 million (US$ 368.2 million) for the years ended 31 December 2005, 2006, and 2007, respectively, and EBITDA of RUR 2,143.4 million (US$ 91.1 million) and RUR 5,477.5 million (US$ 232.9 million) for the three months ended 31 March 2007 and 2008, respectively. See "*Selected Consolidated Historical Financial Data*" for a reconciliation of EBITDA to net profit.

COMPETITIVE STRENGTHS

The Group believes that it has the following significant strengths, providing it with a competitive advantage in the domestic and international fertiliser markets:

- **Diversified portfolio and a focus on value-added products**. The Group focuses on the production of value-added products such as NPK, UAN and bulk blends. In 2007, NPK accounted for approximately half of the Group's total fertiliser sales volume. During the three months ended 31 March 2007 and 2008, NPK accounted for approximately 52% and 49% of the Group's total fertiliser sales volume, respectively. The Group began producing UAN in January 2008. The Group believes its focus on value-added products provides for profitability and geographic diversification of sales, reduces seasonality in the sales of fertiliser and will enable it to capture growth that the Group expects will occur in the value-added fertiliser market for these products. According to data produced by the International Fertiliser Industry Association, NPK consumption has been increasing consistently and UAN has remained stable over the last 10-15 years. The Group's management believes that NPK and UAN demand will increase at levels above those of expected overall fertiliser demand in the medium term.

- **Strong platform to capture demand from high growth countries.** The Group has a strong presence in the fast-growing, developing markets of Russia and China and is also focused on other emerging markets such as Latin America, Asia and other countries of the former USSR. In 2007, the Group derived 25.9% of its revenue from sales to Russia and 22.0% from sales to China. In the past several years, a majority of the Group's export sales volumes are derived from higher growth emerging markets. Given the proximity of the Group's Russian and Chinese production facilities to the main agricultural regions of these countries and its logistics and distribution networks, the Group believes that it is well-placed to capture expected demand growth for fertiliser in Russia and China more cost-effectively than many of its competitors. The Group believes that fertiliser demand in these countries has high growth potential because of the rising incomes of their populations, which generally leads to more protein-intensive diets, China's growing population, and the need to achieve greater yields from available arable land. In addition, the Group believes that growing awareness among farmers in Russia and China of the benefits of multi-nutrient fertilisers has contributed to the increase in overall fertiliser demand. According to FERTECON data, Russia and China are expected to be among the markets with the fastest-growing fertiliser demand and FERTECON expects that Russia, in particular, will experience significant growth in fertiliser demand in the near future. The Group believes that its strength in Russia and China positions it well to capture the expected growth in these countries.

- **Competitive cost position**. The Group believes it has a number of cost and operational benefits compared to many of its competitors, both in more developed countries and in Russia. In particular, the Group believes that it has access to lower-cost natural gas than most of its competitors in Western Europe and North America, that its gas consumption efficiency compares well to the average of its Russian peers, and that the favourable geographic locations of its facilities provide the Group with lower transportation costs compared to its Russian peers.

  - *Lower gas costs.* In Russia, the Group currently enjoys lower prices for natural gas, which is a key input in nitrogen fertiliser production, than many of its competitors in more developed countries in Western Europe and North America. Approximately 40% of the natural gas input used by the Group's Russian production facilities is supplied at commercial domestic prices which, as of the date of this prospectus, are approximately 30-40% higher than the regulated price, but lower than international gas prices. The Company believes that despite planned gas price increases in Russia, Russian producers are expected to maintain a significant discount over European and North American competitors, since Russian producers pay no export duties for gas and generally have lower transportation costs. The Group also believes it is, to a limited extent, protected from rising market-determined prices for gas since approximately 60% of its gas volume is procured under state-regulated tariffs under a five-year contract.

  - *Gas consumption efficiency.* The Group believes it is one of Russia's most efficient ammonia producers. For example, according to data produced by the former Soviet State Institute for Nitrogen Industry

("**GIAP**"), in 2007 the Group's Russian production facilities had an estimated combined average consumption rate of 1.15 thousand cubic metres of natural gas per tonne of ammonia produced, compared to the Russian industry average of 1.243 thousand cubic metres of natural gas per tonne.

- *Strategic location of production facilities.* The Group's production facilities are strategically located, providing competitive advantages in terms of short-haul routes to key ports and markets in Russia and China. The Acron and Dorogobuzh production facilities are both located in close proximity to the ports of the Baltic Sea as well as to the principal agricultural areas of Russia and Ukraine. More specifically, the Acron production facility is located 190km from the nearest sea port and the Dorogobuzh production facility is located 680km from the nearest sea port, which are significantly shorter distances than those of the Group's main Russian competitors. The Group's Chinese production facility is located in the centre of the major Chinese agricultural region and close to inbound sea ports in China.

- **Downstream vertically-integrated producer with developing upstream capabilities.**
  - *Strong logistics and distribution capabilities*. The Group operates a large, integrated logistics network with its main infrastructural components comprising two sea port terminals (at Russia's Kaliningrad port and Estonia's Sillamäe port) and approximately 1,700 railcars, tank cisterns, capacity containers and other railway units serving approximately half of the Group's rail transport needs in Russia. The Group believes this logistics network provides it with improved delivery times, faster turn-around of transportation, increased flexibility and reduced reliance on the Russian state railways, as well as reduced logistical bottlenecks. In addition, the Group has distribution networks in Russia and China. In Russia, the Group's distribution network comprises 20 regional distribution subsidiaries, 16 of which own specialised warehouses, which gives the Group significant storage and sales facilities across Russia's major agricultural regions. A majority of the Group's Russian sales volume is sold through this network. In China, the Group has established a distribution network of over 1,200 independent wholesale distributors, who in turn sell products to an estimated (by management) 32,000 local retailers, across 27 of the country's 31 administrative units, through which it sells substantially all of its sales volume designated for the Chinese market.
  - *Development rights to key raw materials*. The Group is expanding into upstream mining and has recently acquired licences to develop significant phosphate and potash resources, important raw materials in the production of NPK, which will enhance the Group's vertical integration. In November 2006, the Group secured licences for the development of two apatite-nepheline ore deposits in the Murmansk region of Russia and in May 2008 it obtained a licence to develop a potassium-magnesium salt deposit in the Perm region of Russia. Subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the licenses, the Group is to commence industrial mining and processing at these sites in 2013 and 2015 respectively. The Group expects these developments to reduce, and potentially eliminate, its dependence on key third-party suppliers, help ensure a stable supply of these products and mitigate pricing pressures.

- **Experienced management team.** The Group has strong management teams at the operational level in production, logistics and distribution, with extensive experience in their areas of operation. Many of these managers have spent most of their careers working in the Group's businesses. Most members of the Group's senior management team have substantial experience in managing a mineral fertiliser business and provide stable and strategic leadership to the business as a whole. Most members of Acron's senior management have worked within the Group for over ten years. In particular, Acron's President (General Director) has worked with the Group and its predecessors for over 35 years and Acron's Chairman of the Board of Directors has worked with the Group for over 12 years.

STRATEGY

The Group's strategic objective is to become one of the five leading mineral fertiliser producers in the world in terms of production, sales and profitability. To achieve this objective, Acron has developed a strategy that includes the following key elements:

Continue increasing the level of vertical integration. The Group is actively pursuing a strategy of becoming a vertically-integrated mineral fertiliser producer, including development of its own key raw material base and further expansion of its logistics and distribution networks. The Group may also consider opportunistic acquisitions to further these objectives:

- *Develop own production of phosphate and potash*. The Group intends to continue to develop its own raw materials base of apatite concentrates and potash, which are key raw materials for production of

NPK. The Group has secured licences for the development of two apatite-nepheline ore deposits in the Murmansk region of Russia and of a potassium-magnesium salt deposit in the Perm region of Russia, and is in the process of developing these deposits. Subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the license, the Group is to commence industrial extraction of apatite-nepheline ore and commission the processing plant by 2013. With regard to the potassium-magnesium salt deposit, subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the license, the Group is to commence industrial mining and production of potash by 2015. The Group believes that development of these resources will reduce, and potentially eliminate, the Group's dependence on key third-party suppliers, help ensure a stable supply of these products and mitigate pricing pressures.

- *Further develop logistics infrastructure*. The Group intends to expand and increase the efficiency of its logistics operations by continuing to invest in its port facilities and rolling stock. The Group intends to continue to develop and expand its Sillamäe port facilities to satisfy its expected demand for shipment of its sea-borne exports through the Baltic Sea ports. Subject to sufficient cash flow from its operations, the Group also plans to purchase an additional 1,300 units of rolling stock, with the aim of satisfying internally all of its expected Russian railway transportation needs. In addition, the Group plans to monitor opportunities for acquiring and/or developing port facilities in other locations (for example, on the Black Sea coast and on the east coast of Brazil) that could further secure routes to the Group's current or potential export markets.
- *Further develop distribution network*. The Group intends to further develop its distribution network, particularly in China and internationally. In addition, the Group established its own international trading company incorporated in the United States in June 2008 for sea-borne export sales.

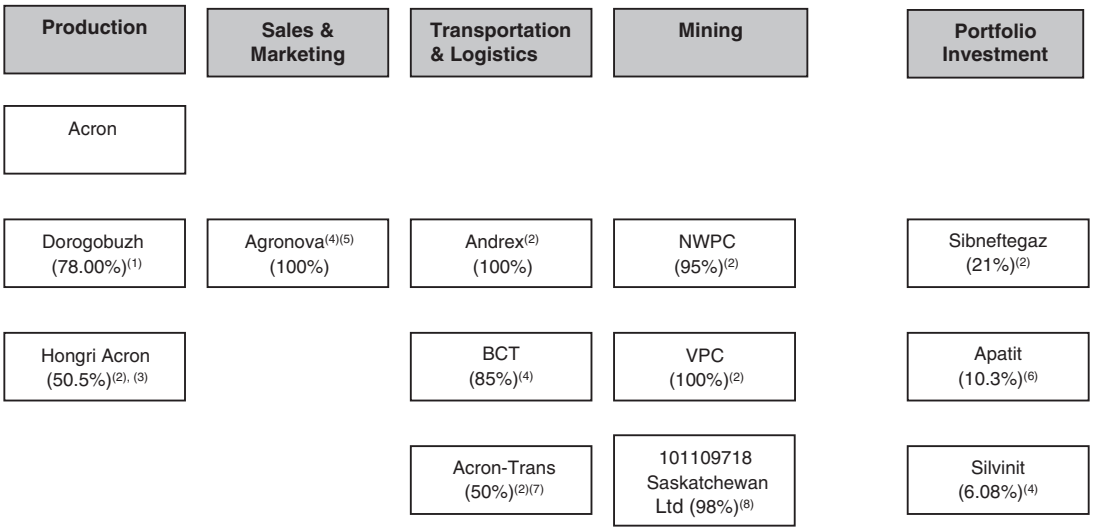
- **Expand sales in higher growth markets**
  - *Expand sales in the domestic Russian and Chinese markets*. The Group believes that the expected growth of the Russian and Chinese agricultural sectors will result in an increase in demand for value-added fertiliser products. Given the proximity of the Group's production facilities to the main Russian and Chinese agricultural regions and its established logistics and distribution networks in these countries, the Group believes it is well placed to capture expected demand growth and intends to increase its sales in these markets.
  - *Expand sales in high-growth export markets*. Additionally, in the long-term, the Group intends to increase its sales in other higher-growth export markets including in Latin America (particularly, in Brazil), in South East Asia (particularly, in Thailand) and Africa.

Maintain low cost base. The Group continuously strives to improve the efficiency of its operations. Having completed a number of projects aimed at improving energy efficiency at the Acron production facility, the Group is now focusing on the introduction of gas efficiency improvements at Dorogobuzh, as well as on other improvements across all three of its production facilities. Specific projects include continuing to upgrade an ammonia production facility at Dorogobuzh, which is expected to improve gas efficiency; upgrading an air separation facility at the Acron production facility, which is expected to result in reduced electricity consumption and expansion of a facility for conversion of phosphogypsum waste into gypsum powder at Hongri Acron, which is expected to reduce production waste by turning the former into a sellable product. See "*—Investment Programme and Capital Expenditure*".

Grow share of value-added products. In the next three years, the Group expects to expand its urea and UAN annual production capacities to approximately 925 and 1,000 thousand tonnes, respectively. This will enable the Group to increase its value-added fertiliser production derived from ammonia, and potentially reduce its sales of commodity ammonia. To achieve this goal, the Group intends to expend approximately US$10 million until 2011 on this additional urea and UAN production capacity for Acron's production facilities. See "*—Investment Programme and Capital Expenditure*". The Group believes that in the longer term the development of its own raw material base will allow it to increase production and sales of value-added complex fertilisers, including NPK and bulk blends.

CORPORATE STRUCTURE

In addition to being the Group's major production company, Acron is the Group's holding company. The following chart sets out the Group's corporate and operational structure by business area and indicates the percentage of shares controlled, directly or indirectly, by Acron in each entity. Additionally, the chart shows the Group's portfolio investments, which are not consolidated within the Group.



Notes:

(1) Directly and indirectly owned by Acron; in addition, Dorogobuzh directly holds 8.54% of shares in Acron; following the Offering, it will hold 8.48%.

(2) Indirectly owned by Acron.

(3) The other principal shareholders of Hongri Acron are Linyi Zhongtai Chemical Co., Ltd. (7.5%) and Shandong Luxin International Economy CLS (7%).

(4) Directly owned by Acron.

(5) Directly and indirectly owned by Acron; in addition, Dorogobuzh directly holds 1%.

(6) Shares of 10.3% in common share capital is held indirectly through Nordic RusHolding, a closed joint stock company incorporated in Russia in which Acron holds 51% of the shares and Yara holds 49%. Acron's economic interest is approximately 5.25%.

(7) RosBusinessTrans, a limited liability company incorporated in Russia owns the remaining 50% of the shares in Acrontrans.

(8) Held indirectly through Acron's wholly-owned subsidiary, TrustService, a limited liability company incorporated in Russia, that directly holds 98% of shares in 101109718 Saskatchewan Ltd.

THE GROUP'S HISTORY AND DEVELOPMENT

Acron's business was founded in 1961 with the commencement of construction of an integrated chemical plant in the city of Veliky Novgorod, approximately 180km from Saint Petersburg, and was developed as a large, state-owned enterprise engaged in the production of straight nitrogen fertilisers. In 1982, Acron's predecessor began producing NPK, which is currently the main fertiliser produced by the Group. Until privatisation, most of Acron's production output was sold for the needs of the Soviet planned economy.

In 1992, Acron was registered as a joint stock company, and during 1992 and 1993, Acron was privatised as part of the large-scale privatisation of the Russian industry. In 1994, Acron acquired a controlling stake in the then-recently privatised Dorogobuzh, another formerly state-owned integrated chemical plant founded in the mid-1960s. Dorogobuzh acquired an 8.05% stake in Acron in 1997, and subsequently purchased an additional 0.49% of Acron's shares from minority shareholders. As at the date of this Prospectus, Acron holds (both directly and through holding companies, Nordic RusHolding and ZAO Granit) approximately 78% of Dorogobuzh's outstanding shares. Following these acquisitions, Acron integrated Dorogobuzh's operations with its own and began managing the two facilities as a single business.

In the early 1990s, Acron commenced export activities. In 1996, Acron began to develop its Russian distribution network through its acquisition of formerly state-owned storage and distribution facilities. These facilities were subsequently transferred to Agronova, the Group's sales and marketing holding company, which was established in 2005 and is 99% owned by Acron and 1% owned by Dorogobuzh.

In 2002, Acron acquired a controlling stake in Shandong Hongri Chemical Joint Stock Company Ltd. from the municipal government of the city of Linyi, in the Shandong province of China. The acquisition was made by

Acronagrotrans Ltd, a British Virgin Islands holding company indirectly owned by Acron, for RMB 172.4 million. Following the acquisition, the company was renamed Shandong Hongri Acron Chemical Joint Stock Company, Ltd. Hongri Acron's business was founded in the 1960s and developed as an integrated state-owned chemical plant. Hongri Acron is a foreign-invested joint stock company, incorporated under the laws of the PRC.

In an effort to expand its logistics capabilities, in 2006 the Group purchased controlling stakes in two companies that own and operate facilities in two Baltic Sea ports. Dorogobuzh acquired the entire share capital of Andrex, which owns and operates shipment facilities for dry and blended fertilisers at Kaliningrad port in Russia, and Acron acquired 65% of the shares in BCT, which operates shipment facilities at the Sillamäe port in Estonia. In 2007, Acron acquired an additional 20% of the shares of BCT.

In 2003, Acron acquired 50% of the shares in Acron-Trans a company established in Veliky Novgorod. Acron-Trans is the Group's licenced railway cargo carrier and transports the raw materials and production output of the Group's Russian production facilities.

The Group also has three recently-established mining companies. In 2005, the Group established NWPC, which in 2006 won a tender and obtained a licence for the development of two apatite-nepheline ore deposits in the Murmansk region of Russia. In 2006, the Group established VPC, which in March 2008 won a tender and has since obtained a licence to develop a potassium-magnesium salt deposit in the Perm region in central Russia. In May 2008, the Group acquired a 98% interest in a Canadian company, 101109718 Saskatchewan Ltd., which holds licences to explore for potash in a potash salt deposit in the Canadian province of Saskatchewan.

In December 2007, Acron's shares were listed on the "B" quotation list of the MICEX and RTS exchanges in Moscow. Effective from 16 June 2008, Acron's shares were added to the RTS index, the main index for the Russian securities industry, inclusion into which is based on liquidity, capitalisation and other criteria.

PRODUCTS AND PRODUCTION

Product range

The Group's product range can be divided into four broad categories on the basis of the raw materials required, applicable manufacturing technologies, nutrient content and other factors:

- **straight nitrogen fertilisers**, including ammonia, urea, ammonium nitrate, and UAN;
- **multi-nutrient fertilisers**, including NPK, NP and bulk blends;
- **organic synthesis products**, including methanol, formaldehyde, UFC and UFR; and
- **inorganic synthesis products**, including low-density ammonium nitrate, calcium carbonate, food-grade carbon dioxide, argon and hydrochloric acid.

A number of the Group's products are used as feedstock for the production of other Group products. In particular, ammonia is used as feedstock for the production of straight nitrogen and multi-nutrient fertilisers, urea is used as feedstock for the production of UFC and UFR, and methanol is used as feedstock for the production of formaldehyde, UFC and UFR. In 2007, approximately 81% of the Group's ammonia production, 22% of the Group's urea production and 42% of the Group's methanol production was used as feedstock. In 2008, the Group began using urea and ammonium nitrate as feedstock for its production of UAN.

Production volumes

The following table sets out production volumes of the Group's primary products for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 and 2008.

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(thousand tonnes)				
Straight nitrogen fertilisers:					
Ammonia	1,708.6	1,591.0	1,689.9	431.7	421.9
Ammonium nitrate	964.8	1,160.9	1,214.2	332.6	299.3
Urea	411.4	413.6	449.8	108.0	100.8
Urea-ammonium nitrate (UAN)	—	—	1.1	—	38.6
Multi-nutrient fertilisers*:*					
NPK	2,293.3	2,213.8	2,239.1	596.4	541.4
NP	135.8	29.8	136.1	28.4	2.6
Bulk blends	248.1	270.4	293.0	76.8	53.4
Organic synthesis products*:*					
Methanol	97.4	157.1	230.8	57.6	62.8
Formaldehyde	141.5	149.0	183.9	38.7	53.7
Urea-formaldehyde concentrate (UFC)	—	3.4	5.7	—	2.9
UFR	120.1	134.9	203.0	44.9	58.0
Inorganic synthesis products*:*					
Low-density ammonium nitrate	186.0	179.5	188.9	38.2	65.2
Calcium carbonate	599.1	548.8	554.3	159.1	137.2
Food-grade carbon dioxide	54.8	54.7	57.4	10.9	10.8
Argon	6.6	6.4	6.8	1.8	1.9
Hydrochloric acid	138.1	134.8	158.7	38.0	34.4

Note: *The table above sets out the volume of production of certain principal products of the Group, irrespective of whether such products are sold to the Group's customers or utilised in other production processes by the Group.*

Production Facilities

The Group's three production facilities are (i) the Acron production facility located in Veliky Novgorod in the north west of Russia, owned by Acron, (ii) the Dorogobuzh production facility located in the Smolensk region in the central-western part of Russia, owned by Dorogobuzh, and (iii) the Hongri Acron production facility located in the city of Linyi, in the Shandong province of China, owned by Hongri Acron.

The following table indicates the breakdown of the Group's annual production capacity as at 31 March 2008 on the basis of the Group's data by product and production facility:

	Acron	Dorogobuzh	Hongri Acron
	(thousand tonnes)		
Ammonia	1,000	450	100
Ammonium nitrate, low-density ammonium nitrate and NP	900	900	—
Urea	450	—	—
Urea-ammonium nitrate (UAN)	500	—	—
NPK	1,100	600	500
Bulk blends	—	450	200
Methanol	100	—	100
Formaldehyde	200	—	—
UFR	200	—	—

By virtue of the technologies employed and the cross-similarities between some products, the annual production capacities listed above can, in some instances, be shifted between product groups. In some combinations, bottlenecks will limit production to a lower volume than the sum of the product groups shown above, and annual achievable production capacity varies with product specification. For example, if Dorogobuzh were to produce 450,000 tonnes of bulk blends, annual production of ammonium nitrate would be reduced to approximately 450,000, as opposed to 900,000 tonnes. The annual production capacities listed above assume planned downtime for purposes of maintenance turnarounds so actual capacity varies depending on actual downtime. For these reasons, total capacity per facility is variable.

The table above does not include inorganic synthesis products, which are by-products of other products such as calcium carbonate (a by-product of NPK production), food grade carbon dioxide (a by-product of ammonia production), argon (a by-product of ammonia production) and hydrochloric acid (a by-product of NPK production).

Acron

Overview and facilities

Acron's production facility is located in the city of Veliky Novgorod, approximately 180 km from Saint Petersburg. Acron's production facility was originally commissioned in 1967. The Acron production facility principally manufactures NPK, as well as ammonia, urea, ammonium nitrate and UAN.

The production assets of Acron consist of an ammonia production line, an NPK production line, a urea production line, an ammonium nitrate production line, a formaldehyde and UFR production line, a methanol production line, a nitric acid production line and an ammonium solution and liquid carbon dioxide production line. The following table sets forth certain information about the Acron production facility:

Production line	Designer	Commissioned	Major upgrades	Approximate annual production capacity
Ammonia (two units)	Toyo Engineering Corporation (TEC)	• 1975 for unit 1 • 1979 for unit 2	1998	• 1 million tonnes of ammonia in aggregate with 500,000 tonnes per unit
NPK (two units)	TEC	• 1982 for unit 1 • 1984 for unit 2		• 1.1 million tonnes of NPK in aggregate with 550,000 tonnes per unit
Urea (four units)	GIAP	• Between 1969 and 1970		• 450,000 tonnes of urea in aggregate with 112,500 tonnes per unit
Ammonium nitrate (two units)	GIAP	• 1977 for unit 1 • 1979 for unit 2		• 900,000 tonnes of ammonia nitrate in aggregate • 450,000 tonnes per unit • Unit 1 can produce up to 380,000 tonnes of NP instead of ammonium nitrate • Unit 2 can produce up to 400,000 tonnes of low-density ammonia nitrate instead of ammonium nitrate
Formaldehyde, UFR and UFC (five formaldehyde units)	GIAP	• 1971 for formaldyhyde units		• 150,000 tonnes of formaldehyde in aggregate • 30,000 tonnes of formaldehyde per unit
(three UFR units)	GIAP	• 1971 for UFR units		• 90,000 tonnes of UFR in aggregate • 30,000 tonnes of UFR per unit • Units process formaldehyde into UFR
(one formaldehyde / UFC unit)	Haldor Topsoe (Denmark)	• 2006 for formaldehyde / UFC unit		• 75,000 tonnes of formaldehyde or 46,300 tonnes of UFC

Production line	Designer	Commissioned	Major upgrades	Approximate annual production capacity
(one UFR unit)	GIAP RHE (Germany)	• 2006		• 105,000 tonnes of UFR
Methanol	GIAP	• 1967	1997	• 100,000 tonnes of methanol
Nitric acid (seven units)	GIAP	• between 1976 and 1979		• 1,380,000 tonnes of nitric acid in aggregate
Ammonium solution and food grade carbon dioxide	GIAP			
(ammonium solution)		• 1969		• 40,000 tonnes of ammonium solution
(food grade carbon dioxide)		• 1975		• 23,000 tonnes of food grade carbon dioxide
(UAN)		• 2007		• 500,000 tonnes of UAN

The key raw materials used by the Acron production facility in its production process are natural gas supplied by Gazprom group through a pipeline connected to the Acron production facility, apatite concentrate supplied by Apatite and potassium chloride (potash) supplied by Silvinit. See "*—Raw Materials*".

The ammonia units undergo maintenance turnarounds once every two years, generally between May and September for approximately 25 to 45 days. The maintenance turnaround for each ammonia unit generally takes place in alternate years such that when one unit is taken down the other continues to operate. For units of other products maintenance turnarounds are generally scheduled to occur every one or two years. According to management, the Group has a maintenance budget for Acron's production assets of approximately RUR 1,000 million for 2008.

Production volumes

The following table sets out the production volumes of the principal products at Acron's production facility for the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2007 and 2008:

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(Thousand tonnes)				
Straight nitrogen fertilisers, *including*:					
Ammonia	1,063.5	1,042.5	1,114.0	280.2	292.8
Ammonium nitrate	327.7	546.4	526.6	154.1	128.8
Urea	411.4	413.6	449.8	108.0	114.5
Urea-ammonium nitrate (UAN)	—	—	1.1	—	38.6
Multi-nutrient fertilisers, *including:*					
NPK	1,111.4	1,120.6	1,006.4	299.8	301.2
NP	135.8	29.8	136.1	28.4	2.6
Bulk blends	—	—	47.5	—	31.1
Organic synthesis products, *including:*					
Methanol	97.4	98.8	102.1	24.7	27.5
Formaldehyde	141.5	149.0	183.9	38.8	53.7
Urea-formaldehyde concentrate (UFC)		3.4	5.7	2.9	
UFR	120.1	134.9	203.0	45.1	57.9
Inorganic synthesis products, *including:*					
Low-density ammonium nitrate	159.9	133.0	139.2	30.1	51.1
Calcium carbonate	386.4	367.9	348.2	96.1	101.0
Food-grade carbon dioxide	20.5	22.1	23.3	4.1	4.5
Argon	6.6	6.4	6.8	4.1	4.5

Note: The table above sets out the volume of production of certain principal products by Acron production facility, irrespective of whether such products are sold to the Group's customers or utilised in other production processes by the Group.

Dorogobuzh

Overview and facilities

The Dorogobuzh production facility is located in the city of Dorogobuzh, in the Smolensk region in the central-western part of Russia, approximately 320 km from Moscow. The Dorogobuzh production facility was originally commissioned in 1965 and the ammonia and ammonium nitrate units have been upgraded recently. The Dorogobuzh production facility principally manufactures NPK, as well as ammonia, ammonium nitrate and bulk blends.

The Dorogobuzh production assets consist of an ammonia production line, an NPK production line, ammonium nitrate production lines, low concentration nitric acid production lines and a liquid carbon dioxide production line. The following table sets forth certain information about the Dorogobuzh production facility:

Production line	Designer	Commissioned	Major upgrades	Approximate annual production Capacity
Ammonia	TEC	• 1979	2008	• 450,000 tonnes of ammonia
NPK	TEC	• 1984		• 550,000 tonnes of NPK
Ammonium nitrate (two units)	GIAP	• 1979 for unit 1 • 1980 for unit 2	2004	• 900,000 tonnes of ammonium nitrate in aggregate with 450,000 tonnes per unit • One unit may also be used to produce low-density ammonium nitrate
Bulk blends	Own design	• 2004		• Maximum capacity is limited by AN capacity 900
Low-concentration nitric acid (three units)	GIAP	• 1975, 1983, 1984		• 360,000 tonnes of nitric acid in aggregate with 120,000 tonnes per unit
(two units)		• 1979-1980		• 760,000 tonnes of nitric acid in aggregate with 380,000 per unit
Food grade carbon dioxide	Air Liquide (France)	2002		• 50,000 of tonnes of carbon dioxide

The key raw materials used by the Dorogobuzh production facility in its production process are natural gas supplied by the Gazprom group through a pipeline connected to the production facility, apatite concentrate supplied by Apatite and potash supplied by Silvinit. See "*—Raw Materials*".

The ammonia unit generally undergoes a maintenance turnaround once every two years, generally between May and September for approximately 25 to 45 days. For units of other products, maintenance turnarounds are scheduled to occur every one or two years. According to management, the Group has a maintenance budget for Dorogobuzh's production assets of approximately RUR 800 million for 2008. The next planned maintenance for the ammonia unit is expected to take place in August or September of 2008. See "*Operating and Financial Review—Significant factors affecting the Group's results of operations—Seasonality*".

Production volumes

The following table sets out the production volumes of the principal products at Dorogobuzh in the years ended 31 December 2005, 2006 and 2007, and in the three months ended 31 March 2007 and 2008:

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(Thousand tonnes)				
Straight nitrogen fertilisers, *including*:					
Ammonia	491.1	444.2	474.4	124.4	104.4
Ammonium nitrate	637.1	614.5	687.6	203.9	172.0
Multi-nutrient fertilisers, *including:*					
NPK	633.7	552.5	618.4	161.4	104.9
Bulk blends	217.4	151.4	106.6	41.7	2.6
Inorganic synthesis products, *including:*					
Low-density ammonium nitrate	26.1	46.5	49.7	8.1	14.1
Calcium carbonate	212.7	180.9	206.1	55.9	34.9
Food-grade carbon dioxide	34.3	32.6	34.1	6.9	6.3

Note: The table above sets out the volume of production of certain principal products by Dorogobuzh production facility, irrespective of whether such products are sold to the Group's customers or utilised in other production processes by the Group.

Hongri Acron

Overview and facilities

The Hongri Acron production facility is located in city of Linyi, Shandong province of China, approximately 660 km from Beijing and 584 km from Shanghai. The Hongri Acron production facility was originally commissioned in the 1960s, with the majority of Hongri Acron's current core production units having been commissioned in the past ten years. In particular, Hongri Acron commissioned a new methanol production facility in 2006. The Hongri Acron production facility principally manufactures NPK, as well as ammonia, bulk blends (steam granulated NPK) and methanol. Hongri Acron is currently waiting for the local authorities to issue a new land use certificate for certain property on which a portion of its production facility is located.

The Hongri Acron production assets comprise an ammonia production line, a sulphuric acid production line, an NPK production division and a methanol production line. The following table sets forth certain information about the Hongri Acron production facility:

Production line	Designer	Commissioned	Major upgrades	Approximate annual production capacity
Ammonia[1]	Local project institutes	• 2000		• 100,000 tonnes of ammonia
Sulphuric acid (two units)	Local project institutes	• 1996 for unit 1 • 2000 for unit 2		• 400,000 tonnes of sulphuric acid in aggregate consisting of 200,000 tonnes per unit
NPK[2] (four units):	Local project institutes	• 1991, 1995 for unit 1 • 1998 for unit 2 • 1999 for unit 3 • 2005 for unit 4		• 700,000 tonnes of NPK in aggregate • 100,000 tonnes of NPK for unit 1 • 200,000 tonnes of NPK for each remaining unit
Methanol	Local project institutes	• 2006		• 100,000 tonnes of methanol

Notes:

(1) In contrast to the Group's Russian production facilities, which use natural gas as the feedstock for producing ammonia, Hongri Acron uses coal as feedstock through coal-gasification technology because of the limited availability of natural gas in China.

(2) Unit 4 of the NPK production line is a bulk blends unit but is able to produce NPK using steam granulation technology.

Instead of using natural gas as feedstock for the production of mineral fertilisers, as in the Group's Russian production facilities, Hongri Acron uses coal as its principal raw material. The coal is supplied to the Hongri Acron production facility by several local coal producers, mostly by rail. Other key raw materials include potash supplied by local suppliers, phosphate rock supplied by a number of local suppliers and sulphur supplied by a number of international and local manufacturers. See "*—Raw Materials*".

The ammonia unit undergoes a maintenance turnaround once every two years, generally between May and September for approximately 25 to 45 days. For units of other products, maintenance turnarounds are generally scheduled to occur every one or two years. According to management, the Group has a planned maintenance budget of approximately RMB 50 million for 2008. The next planned maintenance for the ammonia unit is expected to take place in August or September of 2008. See "*Operating and Financial Review—Significant factors affecting the Group's results of operations—Seasonality*".

Production volumes

The following table sets out the production volumes of principal products at Hongri Acron in the years ended 31 December 2005, 2006 and 2007, and in the three months ended 31 March 2007 and 2008:

	Year ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	(Thousand tonnes)				
Straight nitrogen fertilisers, *including*:					
Ammonia	154.0	104.3	101.5	27.1	24.7
Multi-nutrient fertilisers, *including:*					
NPK	548.2	540.7	614.4	148.9	146.8
Bulk blends	30.7	119.0	138.9	35.1	19.7
Organic synthesis products, *including:*					
Methanol	—	58.3	128.8	32.9	35.3
Inorganic synthesis products, *including:*					
Sulphuric acid	138.1	134.8	158.7	38.0	34.4

Note: The table above sets out the volume of production of certain principal products by Hongri Acron production facility, irrespective of whether such products are sold to the Group's customers or utilised in other production processes by the Group.

SALES, MARKETING AND DISTRIBUTION

Overview

The Group markets its products to a wide range of domestic and international customers in Russia, Asia (primarily China), Latin America, North America, Western and Central Europe, countries of the former USSR and Africa.

The Group believes that the Russian and Chinese markets, which currently constitute the Group's principal markets, are strategically important to its business and it has continued to develop its marketing and distribution networks organically in these markets. The Group believes that it has an established and diversified customer base in the domestic and international markets in which it operates. Most of the Group's major customers have been purchasing the Group's products for several years and the Group believes its relationships with its major customers are stable. The Group sells its products directly to end-users, as well as through distributors who then sell the products to their ultimate customers.

The Group regularly monitors prices in the relevant markets for the types of products it produces and considers whether to adjust the prices at which it sells products accordingly. The Group generally requires all sales of its products to be made on a pre-payment basis with limited exceptions made for a few major customers with a strong track record of timely payment.

Products of the Group's Russian production facilities are distributed in the Russian market as well as exported. All of Hongri Acron's products are sold in the Chinese market. With the exception of Agronitrogen Logistics LTD (in 2007, approximately 22% of total fertiliser sales volume), NPKhemichal Trading, Inc (in 2007, approximately 15% of total fertiliser sales volume), Kemira GrowHow (in 2007, approximately 4.5% of total fertiliser sales volume) and JSC Agrosol (in 2007, approximately 3% of total fertiliser sales volume) the Group believes it has a diversified customer base. In June 2008 the Group established its own international trading company in the United States to handle seaborne exports and has started to use it for such

sales. While the Group does not believe it is dependent on Agronitrogen Logistics LTD and NPKhemichal Trading, Inc for export sales, it anticipates that the proportion of export sales to such entities will decrease as it shifts such sales through its international trading company.

Sales by market

Sales in the Russian market

In 2007, approximately 23% of the Group's total fertiliser sales volume (compared to approximately 14% and 18% in 2005 and 2006, respectively) and 25.9% of its total revenue (compared to 14.2% and 22.2% in 2005 and 2006, respectively) were generated in the Russian market. In the first quarter of 2008, approximately 43% of the Group's total fertiliser sales volume (compared to approximately 38% in the first quarter of 2007) and 34.3% of its total revenue (compared to 28.5% in the first quarter of 2007) were generated in the Russian market.

The Group's Russian customers range from individual farmers and small retailers to large agricultural holding companies and wholesale distributors.

Approximately half of the Group's fertiliser products designated for the Russian market are sold through the distribution network owned by Agronova, the Group's distribution holding company. As at the date of this Prospectus, the Group's Russian distribution network consists of Agronova and its 20 regional distribution subsidiaries, 16 of which own specialised warehouses with a total capacity of approximately 169,000 tonnes, which sell the Group's products to Russia's key agricultural centres of Belgorod, Bryansk, Lipetsk, Moscow, Nizhny Novgorod, Orel, Saratov, Smolensk and the Krasnodar regions. In 2007, fertiliser sales volume through Agronova was approximately 500,000 tonnes (compared to 299,000 tonnes and 367,000 tonnes in 2005 and 2006, respectively) and in the first quarter of 2008 fertiliser sales volume through Agronova was approximately 268,000 tonnes (compared to 237,000 tonnes in the first quarter of 2007). The companies in the Agronova distribution network purchase fertiliser from the Group's Russian production facilities and re-sell them to end customers. Such re-sale prices are agreed by Agronova with the Group and allow for a margin that enables Agronova to recover distribution costs.

The remaining Russian sales volume is distributed among independent distributors and end-users of the Group's products, who off-take fertiliser products directly from Acron's and Dorogobuzh's production facilities. With a view to promoting its sales in Russian agricultural regions, the Group regularly holds local seminars for current and potential local wholesale distributors and retailers.

Sales contracts in the Russian market for straight nitrogen fertilisers, multi-nutrient fertilisers and organic synthesis products are generally entered into on CPT terms (for rail transportation) or EXW terms (for road transportation). Inorganic synthesis products are generally sold on the basis of annual sales contracts. Sales of substantially all products in the Russian market are generally made on a pre-payment basis.

The Group's single largest customer in the Russian market is JSC Agrosol, a large Russian trading company and distributor of fertilisers, which in 2007 accounted for approximately 13% of the Group's total Russian fertiliser sales volume. The Group uses JSC Agrosol to distribute its products through JSC Agrosol's network to regions in which the Group does not have its own distribution network. The Group's next largest customer in the Russian market is JSC Rosselkhozkhimiya, which in 2007 accounted for approximately 2% of the Group's total Russian sales revenue. With the exception of JSC Agrosol, the Group believes it has a diversified Russian customer base.

Sales in the Chinese market

In 2007, approximately 18% of the Group's total fertiliser sales volume (compared to approximately 18% and 17% in 2005 and 2006, respectively) and 22.0% of its total revenue (compared to 19.5% and 20.5% in 2005 and 2006, respectively), were generated in the Chinese market. In the first quarter of 2008, approximately 15% of the Group's total fertiliser sales volume (compared to approximately 18% in the first quarter of 2007) and 13.7% of its total revenue (compared to 21.1% in the first quarter of 2007) were generated in the Chinese market. This comprises the entire fertiliser sales volume of the Hongri Acron production facility. These fertiliser sales volume and sales revenue figures exclude exports to China from the Group's Russian production facilities.

In China, Hongri Acron has established a network of independent distributors covering the majority of China, comprising over 1,200 independent wholesale distributors located across 27 of China's 31 administrative units who distribute Hongri Acron's products. Sales by Hongri Acron to these independent wholesale distributors are made on EXW, CPT or FCA terms and generally on a pre-payment basis. These wholesale distributors in turn

sell products to an estimated (by management) 32,000 independent local retailers across China. These independent wholesale distributors may use Hongri Acron's logo to market the Group's products. Hongri Acron usually enters into distribution agreements with these distributors, although such agreements do not grant the distributor geographic exclusivity or prevent a distributor from selling other fertiliser products.

In addition, with a view to promoting its sales in Chinese agricultural regions, the Group regularly holds local seminars for existing and potential wholesale distributors and retailers. For such purposes Hongri Acron, together with its wholesale distributors, operates approximately 300 mobile laboratories that travel around the country performing soil analysis and demonstrating the advantages of its products.

Hongri Acron's largest fertiliser customers in the Chinese market are Henan Zhumadian Yanyangtian Fertiliser Company, Ltd, which in 2007 accounted for approximately 2% of Chinese fertiliser sales and Tianmeng Agricultural Materials Chain Co., Ltd which in 2007 accounted for approximately 1% of Chinese fertiliser sales.

Sales to other export markets

In 2007, approximately 60% of the Group's total fertiliser sales volume (compared to approximately 68% and 65% in 2005 and 2006, respectively) and 52.1% of its total revenue (compared to 66.3% and 57.3% in 2005 and 2006, respectively), were generated in other export markets. In the first quarter of 2008, approximately 42% of the Group's total fertiliser sales volume (compared to approximately 44% in the first quarter of 2007) and 52.0% of its total revenue (compared to 50.4% in the first quarter of 2007) were generated in other export markets. These fertiliser sales volume and sales revenue figures include exports to China from the Group's Russian production facilities.

Distribution of the Group's products to other export markets, including those of the FSU (excluding Russia), Western Europe, North and Latin America and South East Asia, is conducted through direct sales to large end-user customers, large local wholesalers and trading companies. The Group's key fertiliser customers in other export markets are JSC Agroconcernas, Agronitrogen Logistics LTD, NPKhemichal Trading, Inc, and Kemira GrowHow, which in 2007 accounted for, 38%, 26%, 7% and 4% of the Group's total fertiliser export sales volume respectively.

The Group's export sales by rail and sea are generally made under spot contracts or short-term framework contracts of generally up to twelve months in duration and often on a prepayment basis. In the case of the Group's export sales transported by sea they are usually made on CPT, FOB or FAS terms (through Russian ports) or DAF terms through non-Russian ports. In the case of export sales to FSU markets, they are usually transported by rail on DAF or EXW terms.

In June 2008, the Group established its own international trading company in the United States, through which it has begun to sell its products internationally, and that the Group believes will improve distribution, marketing and integration of sales of its products to end-users. The Group also exports certain fertiliser products from its Russian production facilities to China. The Group has recently been working with a Chinese partner to manage the distribution and administration of such sales. The Group, through its recently-established international trading company, has entered into share purchase agreements to purchase the Chinese entity that is currently acting as the Group's distribution partner in China in connection with export sales. The acquisition is currently under review by the relevant Chinese authorities.

COMPETITION

The international markets for fertilisers are highly competitive. The Group competes primarily on the basis of price, quality, and the ability to meet customers' product needs and delivery schedules. Specifically, fertilisers are global commodities and customers, including end-users, dealers and other crop nutrient product distributors, base their purchasing decisions principally on the price on delivery and availability of the product.

According to FERTECON data, based on 2007 production output, the Group ranked first in Russia and second worldwide in the production of NPK fertilisers and accounted for approximately 6% of the total NPK production output in China. Based on 2007 revenue, according to FERTECON the Group was the third largest nitrogen-focused fertiliser producer in Russia and the fourth largest in Europe. In addition, FERTECON estimates that the Group produces approximately 1% of the total production output of nitrogen and phosphate fertilisers globally and approximately 13% of such output in Russia.

The Group believes that its key competitors are:

- in Russia: EuroChem, PhosAgro, Minudobreniya (Rossosh) and Uralchem;

- in China: SACF Company Ltd., Sinochem Shandong Fertiliser Co., Ltd, Hubei Yangfeng Stock Holding Company Ltd, Shandong Luxi Chemical Group, Shandong Stanley Fertiliser Co., Ltd, Shandong Shikefeng Chemical Co., Ltd, Shandong Kingenta Ecological Engineering Co., Ltd, Hubei Xiangyun Group, Hanfeng Evergreen Inc., and Yara;
- worldwide: Yara, Fertiva GmbH, Eurochem and PhosAgro.

A brief description of these competitors is provided below.

EuroChem is a Russian agrochemical company. EuroChem has six enterprises engaged in the extraction of raw materials, production of fertilisers, organics and feed phosphates, and has transportation and marketing networks in Russia and internationally.

PhosAgro is a Russian phosphate fertiliser production company. It mines phosphate raw materials and primarily produces phosphate-based fertilisers, feed phosphates and phosphoric acid.

Minudobrenia (Rossosh) is a Russian producer of ammonia, ammonia nitrate, NPK, and low concentration nitric acid.

Uralchem is a mineral fertiliser company in Russia that produces ammonia, urea, ammonium nitrate and compound (NPK) fertilisers.

Yara is a Norwegian-based chemical company that supplies mineral fertilisers and agronomic solutions. Yara produces ammonia and nitrogen-based products such as urea and urea-ammonium nitrate (UAN), as well as nitrates and NPK. It also develops and sells chemical products and industrial gases to non-fertiliser market segments.

Fertiva GmbH is a German-based fertiliser distributor which represents the K+S Group's nitrogen fertiliser activities. It markets agricultural fertilisers produced by BASF and sells limited volumes purchased from other European producers.

Sino-Arab Chemical Fertilisers Company Limited, is an NPK compound fertiliser production enterprise established by China, Tunisia and Kuwait and located in Qinhuangdao City, Hebei Province, China.

Sinochem Shandong Fertiliser Co., Ltd. is a subsidiary of Sinochem Corporation that produces NPK and is located in Linyi Economic Development District.

Hubei Yangfeng Stock Holding Company Ltd. is a Chinese chemical production enterprise located north of the city of Jingmen that produces phosphate and compound fertilisers.

Shandong Luxi Chemical Group is a Chinese fertiliser group that primarily manufactures and distributes urea and NPK.

Shandong Stanley Fertiliser Co., Ltd. is a fertiliser producer in China located in Linshu County, Shandong province of China that produces "Stanley" compound fertiliser products.

Shandong Shikefeng Chemical Industrial Co., Ltd is a Chinese compound fertiliser producer that produces high-concentration and compound fertilisers, potassium sulphate fertilisers, slow-release compound fertilisers and other special fertilisers.

Shandong Kingenta Ecological Engineering Co., Ltd. manufactures compound fertilisers, including slow/controlled release fertilisers and organic fertilisers and is located in Linshu, Shandong Province of China.

Hubei Xiangyun Group Chemical Co., Ltd. is a chemical enterprise in China that generally specialises in phosphorus, sulphurous and curatorial chemicals and fine chemical products.

Hanfeng Evergreen Inc. (Hanfeng) provides slow- and controlled- release fertiliser, such as sulphur-coated urea (SCU), homogeneous NPK granules, coated NPK (sulphur, resin), and blended fertilisers (slow release blended with conventional), to the agriculture market in China.

TRANSPORTATION AND LOGISTICS

Overview

The Group's transportation costs are an important component of total costs and the Group aims to minimise these costs to achieve more competitive pricing for its products. The Group believes that its transportation and logistics infrastructure provide a more reliable means of supplying raw materials to, and delivering products from, its production facilities.

The Group's main mode of transporting its products for domestic sales in Russia and China and exports to Eastern and Central Europe, is by rail. The Group's main mode of transporting its exports to Western Europe, North and Latin America and South East Asia, as well as for exports to China from the Group's Russian production facilities is by sea. The Group uses a mix of rail and road transportation to transport its raw materials in China and mainly transports apatite and potash by rail in Russia. Gas is transported to the Group's Russian production facilities through Gazprom's pipeline network.

Both Acron and Dorogobuzh are located close to ports on the Baltic Sea, approximately 190km and 680km, respectively. They are also located in close proximity to the principal agricultural areas of Russia and Ukraine, and other countries of the former USSR where important customers of the Group are located. The Group's Chinese production facilities are located in the centre of one of the major agricultural areas and close to Chinese inbound sea ports.

Sea port transhipment facilities

The Group's Russian production facilities transport fertiliser products for export sales principally to sea port transhipment facilities on the Baltic Sea. The Group's transportation company Andrex owns and operates transhipment facilities in the Russian port of Kaliningrad, and the Group's transportation company BCT owns and operates transhipment facilities in the Estonian port of Sillamäe.

The Andrex transhipment facilities are used by the Group primarily to handle export products produced at the Dorogobuzh production facility. Andrex currently provides services primarily for the Group's shipments designated for the Canadian, UK, French, German, Spanish and Belgian markets. Andrex's spare capacity is also used for the shipment of third-party products. Andrex owns fertiliser transhipment facilities with a design capacity of approximately 350,000 tonnes per annum, which were commissioned in 1997 and acquired by the Group in 2006 for approximately US$5 million. In addition, Andrex owns and leases on a short-term basis a warehouse in Kaliningrad with a storage capacity of approximately 18,000 tonnes of dry fertilisers. Furthermore, Andrex owns a blending and packaging facility located within the Kaliningrad sea-port with a design capacity of approximately 300,000 tonnes per annum.

Construction of the BCT transhipment facility began in 2006. Construction of certain UAN facilities has been completed and the BCT transhipment facility became operational in January 2008 for certain liquid fertiliser transhipment services. Ammonia and additional UAN facilities are being constructed and the Group expects the facility to reach full capacity by 2013 for liquid fertiliser and ammonia transhipment services. BCT's shipment terminal has a designed capacity of 1 million tonnes per annum for ammonia and 700,000 tonnes per annum for UAN. BCT's warehouses have a designed storage capacity of 60,000 tonnes of ammonia and 40,000 tonnes of UAN. See "—*Investment Programme and Capital Expenditure*". BCT's transhipment facilities are, and the Group expects that they will continue to be, used by the Group primarily to handle export volumes produced at the Acron production facility. Any spare capacity is expected to be used for the shipment of third-party products.

Railway transportation

Delivery of the Group's fertilisers from the Group's Russian facilities to sea ports as well as distribution of fertilisers sold in Russia is primarily by rail, utilising the Group's railway fleet of approximately 1,700 railcars, tank cisterns, capacity containers and other railway units designed for the transportation of chemical products. The majority of these are owned by Acrontrans, as well as by Acron and Dorogobuzh, while the remainder are leased to the Group by third parties. The Group's own transportation capabilities cover approximately half of the Group's railway transportation needs in Russia, with the remainder being serviced by the Russian state railway.

The Group intends by 2011 to purchase an additional 1,300 units of rolling stock in order to satisfy internally all of its expected Russian railway transportation needs. See "—*Investment Programme and Capital Expenditure*".

Transportation of raw materials to, and distribution of products from, the Hongri Acron production facility is carried out through the Chinese state railway and by road through third party hauliers.

RAW MATERIALS

Overview

The principal raw materials that the Group uses for its production are natural gas (for its Russian production facilities) coal (for its Chinese production facilities), apatite concentrate and potash. Currently, the Group benefits from favourable pricing of key raw materials. See "*Risk Factors—Risks relating to the Group's Business—The Group benefits from favourable prices of key raw materials and increases in the Group's production costs could have a material adverse effect on the Group's business, financial condition or results of operations*" and "*Operating and Financial Review—Significant factors affecting the Group's results of operations—Cost of raw materials.*"

Natural Gas

As with most producers of straight nitrogen fertilisers and multi-nutrient fertilisers, natural gas is one of the largest components in the Group's cost structure. The Group uses natural gas as the primary raw material for ammonia production in its production facilities in Russia.

Russian natural gas prices are regulated by the Russian government. According to FERTECON, Russian gas prices are substantially lower than those in Western Europe and North America. However, the Russian government has been steadily increasing domestic gas prices, and has stated its aim of deriving the same margins from the sale of gas both domestically and internationally by 1 January 2011. Under this gas price liberalisation policy established by the Russian government, wholesale regulated gas prices are determined by FTS and are expected to grow in line with the forecasts for the social-economic development in Russia, that according to a report by the Russian Ministry of Economic Development and Trade will result in a rise of wholesale regulated gas prices by a maximum of 25% in 2008, 20% in 2009, 28% in 2010 and 40% in 2011. Russian natural gas is also supplied by Gazprom, the state-controlled natural gas production and monopoly transportation company, at commercial domestic prices. Commercial domestic gas prices are expected to rise by a maximum of 50% in 2008, 40% from 1 January 2009, 30% from 1 July 2009, 20% from 1 January 2010 and 10% from 1 July 2010. See "*Operating and Financial Review—Significant factors affecting the Group's results of operations—Cost of Raw Materials—Natural gas*". Gazprom, is the Group's primary gas supplier. Approximately 60% of natural gas input used by the Group's Russian production facilities is supplied by Gazprom subsidiaries under a five-year contract at limited volume quotas and government regulated prices. The remaining approximately 40% of natural gas demand is supplied from Gazprom subsidiaries at commercial domestic prices which, as at the date of this Prospectus, are approximately 30–40% higher than the regulated prices but lower than international natural gas prices.

According to Company data, in 2007, Acron and Dorogobuzh paid approximately US$70 per thousand cubic metres for natural gas (taking into account natural gas supplied at regulated and commercial prices), which according to FERTECON data is approximately one third of the rate charged for natural gas in Western Europe and the United States.

Supplies of natural gas to the Group's Russian production facilities are delivered through Russia's gas pipeline network, which Gazprom controls. The Group's Russian production facilities are connected to the network. Third-party access to the network may not always be on non-discriminatory terms, which limits the Group's ability to source supplies from independent sources. The Group, which is one of the largest industrial consumers of natural gas in Russia, has never had any material disputes with Gazprom nor has it experienced any significant interruptions in its natural gas supply.

Contracts for the supply of natural gas

- On 17 August 2007, Acron entered into a five-year natural gas supply agreement on a take-or-pay basis with OOO Novgorodskaya Regionalnaya Kompaniya Po Realizatsii Gaza, a Gazprom subsidiary, which will expire on 31 December 2012. Pursuant to the contract Acron is required to purchase a minimum quantity of gas each year. Annual gas supply volumes for the period 2008-2012 are set at the level of 965,800,000 m^3 at government regulated prices. In addition, OOO Novgorodskaya Regionalnaya Kompaniya Po Realizatsii Gaza has to supply from 574,200,000 cubic metres ("m^3") and up to 1,084,200,000 m^3 of natural gas at commercial domestic prices in 2008-2012. Under the contract Acron must pay for unconsumed gas that it has committed to purchase even if its actual consumption is lower than the agreed monthly volume. If Acron consumes more than its agreed daily volume it must pay for the extra consumed gas at a commercial domestic price.

- On 2 August 2007 Dorogobuzh entered into a five-year natural gas supply agreement on a take-or-pay basis with OOO Smolenskregiongaz, a Gazprom subsidiary, which will expire on 31 December 2012. Pursuant to the contract, Dorogobuzh is required to purchase a minimum quantity of gas each year. Annual gas supply volumes for the period 2008-2012 are set at the level of 458,500,000 m^3 at government regulated prices. In addition, OOO Smolenskregiongaz has to supply 223,700,000 m^3 and up to 301,800,000 m^3 of natural gas at commercial domestic prices in 2008-2012. Under the contract, Dorogobuzh must pay for unconsumed gas that it has committed to purchase even if its actual consumption is lower than the agreed monthly volume. If Dorogobuzh consumes more than its agreed daily volume it must pay for the extra consumed gas at a commercial domestic price.

Coal

Coal is one of the main components in Hongri Acron's cost structure. It is used both to produce fertiliser and to generate heat and electricity.

Hongri Acron uses approximately 400,000 tonnes of coal per annum. The three major suppliers to Hongri Acron are Shanxi Yameidaning Coal Company (a joint venture between a Chinese state-owned company and a US company), Shanxi Coal Transportation and Sale Company (a state-owned company) and Shanxi Jincheng Lanyan Anthracite Industry Company (a state-owned company). Hongri Acron has annual supply agreements with these three suppliers, which set out the supply amount and the price. These three suppliers supplied approximately 75% of Hongri Acron's demand for coal in 2007. The rest of the coal is purchased by Hongri Acron on the spot market.

Currently coal prices are based on Chinese market prices. According to the Chinese National Development and Reform Commission (the "**NDRC**"), the sale price (on EXW terms) for high-quality steam coal as at the end of February 2008 was approximately US$85 to 87 per tonne while the price for medium-quality steam coal was approximately US$76 to 78 per tonne.

Freight prices for coal transportation depend largely on the distance and volume transported, and in the case of rail transport, are regulated through set tariffs. Supplies of coal to Hongri Acron's production facility are generally delivered by suppliers through the state railway service. A small quantity of coal is carried by private road transportation companies on the basis of transportation service agreements.

Phosphates

The Group's phosphate raw material input at its Russian production facilities is apatite concentrate from the Russian Kola peninsula. The Russian production facilities' entire apatite concentrate input is currently supplied by Apatite (either directly or through trading companies which the Group believes are owned by or affiliated with Apatite), a Russian supplier that has a dominant market position of more than 65% in the Russian apatite concentrate market and currently the only supplier of apatite concentrate from the Russian Kola peninsula. Due to the composition of Kola-peninsula apatite concentrate and the technical specifications of the Group's Russian production facilities, the Russian production facilities are unable to process non-Kola peninsula apatite concentrate without significant capital expenditure.

Due to Apatite's status as a dominant supplier, the terms on which Apatite supplies apatite concentrate are regulated by the FAS and as a matter of Russian law, the Russian courts may, as they have previously done, order Apatite to supply apatite concentrate on terms the courts consider fair.

In the past several years, the Group has been involved in several price disputes with Apatite in relation to such supply terms, and in the course of such disputes there have been some short cessations in Apatite's supplies to Dorogobuzh's NPK unit, as well as a cessation in supply to Acron in August of 2007, which lasted for approximately one month. See "*—Litigation—Disputes with Apatite*".

Contracts for the supply of apatite concentrate

- On 28 December 2006 Acron entered into a five year contract with Apatite for the supply of apatite concentrate. The initial prices and volumes in this contract were set by the court. The contract will expire in December 2011. Under the contract Apatite is obliged to deliver a predetermined volume of apatite concentrate to Acron. The volume that Apatite is required to deliver to Acron is determined on the basis of an annual application by Acron and the volume is capped in accordance with the formula

and provisions set out in the contract. Between 28 December 2006 and 31 January 2008 the price per metric tonne of apatite concentrate was set at RUR 1,600, excluding VAT. Any change to the price must be agreed by both Acron and Apatite. For the period commencing from 1 February 2008 the price was agreed by the parties to be RUR 2,232 (excluding VAT) per metric tonne. Acron is required to pay in advance for deliveries and, except for force majeure, is subject to a 20% penalty if it fails to purchase any apatite concentrate that it is obliged to purchase following acceptance by Apatite of its annual application. As at the date of this Prospectus, Acron purchases its entire apatite concentrate demand directly from Apatite on the basis of this contract.

- On 27 December 2007 Dorogobuzh entered into a five year contract with Apatite for the supply of apatite concentrate. Apatite must deliver 29,944 metric tonnes of apatite concentrate to Dorogobuzh in 2008, which is approximately 10% of Dorogobuzh's demand for apatite concentrate. Dorogobuzh and Apatite may both agree to increase the deliverable volume in 2008, as well as the volume deliverable in subsequent periods and the price per metric tonne. If the parties are unable to agree a price for one metric tonne of apatite concentrate, it will be determined by reference to the average price for apatite concentrate on certain exchanges (such as the Moscow Stock Exchange or the Universal Mercantile Exchange (UMEX)) in the calendar month preceding the relevant delivery date. In the absence of commercial trading on such exchanges in the previous calendar month, the price may be determined in accordance with the Civil Code of the Russian Federation, as amended (the **"Civil Code"**). From 1 January 2008 until 29 February 2008 the price for one metric tonne of apatite concentrate was 2,485 Roubles excluding VAT. The parties have failed to agree prices for subsequent period. Currently, apatite concentrate is supplied by Apatite for the price agreed by the parties for January to February 2008. Dorogobuzh must pay for deliveries in advance and, except for force majeure, is subject to a 20% penalty if it fails to purchase any apatite concentrate that it is obliged to purchase following acceptance by Apatite of its annual application.
- In 2008 Dorogobuzh entered into a one year contract with limited liability company Trust-Broker for the delivery of approximately 130,000 metric tonnes of apatite concentrate sourced from Apatite. The price for one metric tonne of apatite concentrate is RUR 2,232 excluding VAT. Dorogobuzh must pay for deliveries in advance and is subject to a 5% penalty if it fails to purchase such volume of apatite concentrate.

The phosphate raw material input used at Hongri Acron is phosphate rock. Hongri Acron's phosphate rock input is currently approximately 350,000 tonnes per annum. Hongri Acron purchases phosphate rocks from a number of local suppliers, the principal ones being Yaozhihe and Kai Lin, which together supply approximately 60% of Hongri Acron's phosphate demand. In 2007, the average price for phosphate rock supplied to Hongri Acron was approximately US$100 to 120 per tonne (on CPT terms).

The Group has obtained licences for two apatite and nepheline ore deposits in the Murmansk region of Russia that it intends to develop. See "*—Mining Companies and Reserves*" below.

Potash

The Group's entire potash input in Russia is currently supplied under two 30-month framework potassium chloride supply agreements with Limited Liability Company "Mineral Trading" ("**Mineral Trading**"), which the Group believes to be affiliated with Silvinit.

Contracts for the supply of potash

- In December 2006 Acron entered into a 30-month framework potassium chloride supply agreement with Mineral Trading. Under this contract 300,000 tonnes of potassium chloride are to be delivered to Acron in the period from 1 June 2007 to 31 December 2007, as well as in the year ended 31 December 2008 and 150,000 tonnes in the first six months of 2009. The potassium chloride deliverable in 2008 is priced at RUR3,500 per tonne and was adjusted by reference to the average potassium chloride price in the FERTECON Weekly Potash Reports published by FERTECON (in 2007 the price was RUR2,500 per tonne). Mineral Trading may suspend deliveries if Acron fails to pay in advance for deliveries.
- In December 2006 Dorogobuzh entered into a 30-month framework potassium chloride supply agreement with Mineral Trading. Under this contract 150,000 tonnes of potassium chloride are to be delivered to Dorogobuzh in the period from 1 January 2007 to 31 December 2007, as well as in the year ended 31 December 2008 and 75,000 tonnes in the first six months of 2009. Mineral Trading may increase volumes deliverable for each period by 10%. The potassium chloride deliverable in 2008 is

priced at RUR3,500 per tonne and was adjusted by reference to the average potassium chloride price in the FERTECON Weekly Potash Reports (published by FERTECON) (in 2007 the price was RUR 2,500 per tonne). Mineral Trading may suspend deliveries if Dorogobuzh fails to pay in advance for deliveries.

The Group's potash input used at Hongri Acron is supplied by Sinochem Corporation and CNAMPGC Shanghai Corporation, who, so far as the Group is aware, are currently the only major importers of potash into China. Hongri Acron's potash requirement is currently between approximately 150,000 and 160,000 tonnes per annum. In 2007, the price for potash supplied to Hongri Acron on CIF terms ranged from US$220 per tonne at the start of 2007 to US$400 at the end of 2007.

The Group has obtained a licence for the development of a potassium-magnesium salt deposit in the Perm region of Russia. In addition, in May 2008 the Group acquired 98% of the shares in 101109718 Saskatchewan Ltd, a Canadian potash salt mining exploration company that holds licences to explore for potash deposits in the Canadian province of Saskatchewan. See "—*Mining companies and reserves*" below.

Electricity

The Group uses a significant amount of electricity and heat during the production process. Electricity is supplied to Acron and Dorogobuzh by former subsidiaries of UES, formerly the government-controlled national holding company for the Russian power sector. Acron and Dorogobuzh have entered into long-term framework electricity supply agreements with JSC Novgorod energosbytovaya kompaniya (de-emerged from Novgorodenergo) and JSC Smolenskenergosbyt, respectively.

Contracts for the supply of electricity

- In March 2007 Acron and Novgorodenergo (now JSC Novgorod energosbytovaya kompaniya) entered into an annual contract for the supply of electricity. This contract is renewable by Acron if it gives notice to renew on or before 1 September of each year. Acron must report to Novgorodenergo the volume of energy consumed by it on a monthly basis. The volume may be adjusted once in each accounting period. Prices for electricity are determined by reference to two tiers of tariffs set by the regional electricity commission of the Novgorod Region. They may be adjusted up or down every month.
- In December 2007 Dorogobuzh and Smolenskenergosbyt entered into a contract (in force until December 2010) for the supply of electricity. The contract is renewable by Dorogobuzh if it gives certain notices to Smolenskenergosbyt prior to 1 May, 1 June and 1 October. The contract provides for maximum volumes of electricity to be supplied in 2008. It also applies to the electricity to be supplied up until 31 December 2010. Electricity prices are based on the wholesale market tariffs set forth by effective Russian legislation and in accordance with the contract terms. Dorogobuzh will be subject to penalties in the event of delayed payment in the amount of 1/300th of the refinancing rate of the CBR for each day of delay. If Dorogobuzh fails to pay for the electricity supplied in two or more accounting periods, consumption of electricity may be restricted.

Hongri Acron has its own steam electricity generator facility, which uses steam power from Hongri Acron's production of ammonia, although this facility does not satisfy Hongri Acron's entire electricity requirements. Hongri Acron is dependant on supply being routed through the Chinese national electricity grid.

Sulphur

The sulphur input used at Hongri Acron is mainly supplied by Royal Dutch Shell plc, PetroChina Company Limited and Transammonia AG. Hongri Acron's sulphur requirement is currently between approximately 130,000 and 140,000 tonnes per annum. The price for sulphur has increased significantly between 2006 and 2007, and dramatically between the first quarters of 2007 and 2008.

MINING COMPANIES AND RESERVES

The Group is dependent on two key third-party suppliers for its phosphate and potash inputs at the Russian production facilities. To help ensure a stable supply of these products and reduce its dependence on such suppliers, the Group has acquired licences to develop phosphate and potash resources, important raw materials in the production of NPK.

NWPC

NWPC was established by Acronit, a closed joint stock company that is a wholly-owned subsidiary of Acron, in 2005 to participate in the tender to develop apatite-nepheline ore deposits at the Oleniy Ruchey and Partomchorr fields, in the Khibiny mountains in the Murmansk region of Russia. The deposits are located approximately 2,000 km from the Dorogobuzh production facility and approximately 1,400 km from the Acron production facility, respectively. In November 2006, NWPC obtained subsoil licences in respect of Oleniy Ruchey and Partomchorr, both of which expire in 2026, for an aggregate amount of RUR 206.5 million. The licences were issued as a result of the tender held by the Russian Federal Subsoil Resources Management Agency in Murmansk on October 12, 2006. The issuance of the licences in respect of the Oleniy Ruchey and Partomchorr fields was challenged by one of the unsuccessful tender participants, Gazoil, an affiliate of Gazprom. The claim was dropped by Gazoil.

Oleniy Ruchey deposit

The following table sets forth reserve data for the Oleniy Ruchey deposit (in thousands of tonnes) as classified pursuant to Protocol No. 9888 of the State Commission on Deposits of the USSR (now the State Commission on Deposits of Mineral Resources) dated 18 December 1985, in accordance with the FSU Classification, which differs materially from and is not comparable to, the JORC Code and other internationally-used standards.

Balance Reserves	**Open-pit**			**Underground**			**Total**
	B	**C_1**	**C_2**	**B**	**C_1**	**C_2**	
Ore, 000'tonnes	5,207	11,084	1,455	70,956	237,949	58,810	**385,461**
P_2O_5 in Ore, %	18.5	13.6	10.2	16.4	16.2	13.6	**15.8**
P_2O_5 000'tonnes	962	1,507	149	11,644	38,500	8,022	**60,784**

Source: *Oleniy Ruchey Licence agreement dated 7 November 2006*

In 2006, Giproruda, a Russian mining engineering institute, in cooperation with the Kolsky Scientific Centre of the Russian Academy of Sciences and Research and Technology Laboratory of Mineral Raw Material Enrichment Technology, carried out a feasibility study for the development of the Oleniy Ruchey deposit. In 2007, NWPC conducted testing of the industrial sample of ore and commissioned Giproruda to commence design of the mine and exploration works. Subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the licence, the Group is to commence industrial mining and processing of apatite and nepheline concentrates by 2011. The Group expects this to reduce, and potentially eliminate, the Group's dependence on Apatite. See "—*Investment Programme and Capital Expenditure*" below.

The Oleniy Ruchey licence agreement is an attachment to Licence MUR 13822 TE that grants NWPC the right to produce apatite-nepheline ore from the Oleniy Ruchey Field and sets forth the rights and obligations of NWPC with respect to such production. In particular, the agreement provides for certain milestones that NWPC is to achieve, including: (a) preparing a development plan for the licensed area and obtaining relevant governmental approvals therefore by 1 November 2008; (b) commencing infrastructure construction no later than 1 May 2009; (c) commit to operating apatite-nephelite production facilities with a capacity of at least 300,000 tonnes per year by 1 May 2012; (d) achieving production level of not less than 3,000,000 tonnes of apatite-nephelite ore by 1 November 2016; (e) commit to operating apatite concentrate production facilities with a capacity of at least 970,000 tonnes per year by 1 May 2013 and produce at least 1,940,000 tonnes of apatite concentrate by 1 May 2018; and (f) commit to operating nepheline concentrate production facilities with a capacity of at least 940,000 tonnes by 1 May 2013 and produce at least 1,890,000 tonnes of nepheline concentrate by 1 May 2018. Other obligations are imposed on NWPC with respect to the construction of operations facilities, compliance with safety and environmental regulations, reporting to government authorities and support for local social programs. The agreement comes into force after the state registration of the Oleniy Ruchey Licence and is effective during the term of such Licence, unless earlier terminated under the provisions of the Russian subsoil law.

Partomchorr deposit

According to the licence agreement, the Partomchorr deposit has an estimated 877 million tonnes of ABC_1+C_2 reserves of ore, containing 66 million tonnes of P_2O_5 at an average grade of 7.5% as classified pursuant to Protocol No. 8199 of the State Commission on Deposits of the USSR (now the State Commission on Deposits of Mineral Resources) dated 13 December 1978, in accordance with the FSU Classification, which differs

materially from, and is not comparable to, the JORC Code or other internationally-used standards. The Group is not aware of any pre-feasibility study or other studies having been done in relation to the Partomchorr deposit. The Group intends to commence a pre-feasibility study on the deposit in 2008.

The Partomchorr licence agreement is an attachment to Licence MUR 13823 TE that grants NWPC the right to produce apatite-nepheline ore from the Partomchorr Field and sets forth the rights and obligations of NWPC with respect to such production. In particular, the agreement provides for certain milestones that NWPC is to achieve, including: (a) preparing a development plan for the licensed area and obtaining relevant governmental approvals therefore by 1 November 2008; (b) commencing infrastructure construction no later than 1 May 2009; (c) commit to operating apatite-nepheline production facilities with a capacity of at least 300,000 tonnes per year by 1 May 2012; and (d) achieving production level of not less than 1,500,000 tonnes of apatite-nepheline ore by 1 November 2016. Other obligations are imposed on NWPC with respect to compliance with safety and environmental regulations, reporting to government authorities and support for local social programs. The agreement comes into force after the state registration of the Partomchorr Licence and is effective during the term of such Licence, unless earlier terminated under the provisions of the Russian subsoil law.

VPC

VPC is wholly owned by Acronit, a closed joint stock company that is a wholly-owned subsidiary of Acron, and was established in 2006 to develop a potassium-magnesium salt deposit at the Talitsky field in the Perm region of Russia, approximately 2,100 km from both the Dorogobuzh and Acron production facilities. In May 2008, VPC obtained a subsoil licence pursuant to a tender held by the Russian Federal Subsoil Resources Management Agency in Perm region on 12 March 2008 for RUR 16.8 billion. The licence expires on 15 April 2028.

The following table sets out the estimated reserves at the Talitsky potassium-magnesium salt deposit as classified pursuant to Protocol No. 1148 of the State Commission on Deposits of Mineral Resources, dated 27 January 2006 in accordance with the FSU Classification, which differs materially from, and is not compatible to, the JORC Code and other internationally-used standards.

Reserves category	Natural salts	KCl	K_2O
	thousands of tonnes		
	Potash		
A	86,930	30,071	18,999
B	163,469	58,186	36,761
C_1	431,146	150,317	94,967
$A+B+C_1$	681,545	238,574	150,727
C_2	27,315	9,875	6,238
	Combined salts		
C_1	1,868	552	349

Source: *Talitsky Licence agreement dated 30 April 2008*

The Group is in the process of arranging for a feasibility study for the development of the Talitsky potash deposit. Subject to availability of financing, mining equipment and suitably qualified personnel, in accordance with the terms of the license, the Group is to commence industrial production of potash by 2015. See "*—Investment Programme and Capital Expenditure*" below.

The Talitsky licence agreement is an attachment to Licence PEM 14465 TE that grants VPC the right to produce potassium-magnesium ore from the Talitsky Field and sets forth the rights and obligations of VPC with respect to such production. In particular, the agreement provides for certain milestones that VPC is to achieve, including: (a) preparing a plan for exploring the licensed area and obtaining relevant governmental approvals therefore by 15 February 2009; (b) commencing exploration of the field no later than 15 April 2009; (c) providing a report on exploration results by 14 April 2011; (d) preparing a development plan for the licensed area and obtaining relevant governmental approvals therefore by 15 February 2012; and (e) committing a production enterprise by 15 June 2014. Other obligations are imposed on VPC with respect to construction of operations facilities, compliance with safety and environmental regulations, reporting to government authorities as well as training and employment of the local population. The agreement comes into force after the state registration of the Talitsky Licence and is effective during the term of such Licence, unless earlier terminated under the provisions of the Russian subsoil law.

101109718 Saskatchewan Ltd.

101109718 Saskatchewan Ltd. a Canadian company in which Acron indirectly holds a 98% interest, was acquired by the Group in May 2008. 101109718 Saskatchewan Ltd. has the right to acquire, for an aggregate purchase price of CDN$61 million, licences to explore for potash salt in 36 areas in the Prairie Evaporite potash salt deposit with a total exploration area of 10,274 km² (2,537,913 acres) in the Canadian province of Saskatchewan. As at the date of this Prospectus, 101109718 Saskatchewan Ltd. has obtained licences to explore 26 of these areas. Federal State Unitary Enterprise "TSNIIgeolnerud" has performed a preliminary geological and economic review of the deposit for Acron and has so far identified nine of the areas as being the most prospective for primary development.

INVESTMENT PROGRAMME AND CAPITAL EXPENDITURE

Based on its internal business plans, the Group plans between 2007 and 2011, to invest approximately US$700 million on fertiliser production, logistics and distribution capabilities and the first stage of an open-pit mining project at the Oleniy Ruchey phosphate deposit. Between 2007 and 2018 the Group currently expects to invest in excess of US$2.5 billion on new mining developments. Below is a description of the Group's major planned capital expenditure projects.

Production Facilities

Acron

At the Acron production facility, the Group has the following investment plans:

- *Urea capacity addition:* US$78 million, in addition to the US$7 million that has already been invested, on the expansion of capacity of its existing urea production line by 515,000 tonnes per annum, which the Group expects to complete in 2013.
- *UAN production facility:* US$8 million, in addition to the US$25 million that has already been invested, on a new UAN production facility designed to have a capacity of 500,000 tonnes per annum by 2008 and to 1,000,000 tonnes per annum by 2011.
- *Methanol capacity addition:* US$26 million, in addition to the US$19 million that has already been invested, on the expansion of capacity of its existing methanol production line by 100,000 tonnes per annum, which the Group expects to complete in 2010.
- *UFR capacity addition:* US$39 million on the expansion of capacity of its existing UFR production line by 100,000 tonnes per annum, which the Group expects to commence in 2010 and complete in 2011.

Dorogobuzh

At the Dorogobuzh production facility, the Group has the following investment plans:

- *Ammonia capacity addition:* US$30 million, in addition to the US$9 million which has already been invested, on the expansion of capacity of its existing ammonia production line by 66,000 tonnes per annum, which is expected to be completed by 2011.
- *Electricity co-generation:* US$60 million on an electricity co-generation plant, which the Group intends to complete by 2009.

Hongri Acron

At the Hongri Acron production facility, the Group has the following investment plans:

- *Phospho-gypsum facility:* US$6 million on expanding its phosphogypsum processing facility with a design capacity of 200,000 tonnes of phosphogypsum per annum, which the Group expects to complete by 2009
- *Dimethyl ether facility:* US$4 million on expanding its dimethyl ether production facility with a design capacity of 100,000 tonnes per annum, which the Group expects to complete by 2011.

Raw Materials

Oleniy Ruchey

The Group's capital expenditures on the first stage of development of the Oleniy Ruchey phosphate deposit is expected to be US$340 million, of which approximately US$18 million has already been invested, on an open-pit

mining and processing project at the Oleniy Ruchey phosphate deposit. Based on its internal business plans, the Group currently intends, subject to availability of financing, mining equipment and suitably qualified personnel, to commence industrial mining and processing at Oleniy Ruchey in 2011, and expects that total additional expenditure on the development of the Oleniy Ruchey deposit will be in excess of US$600 million.

Talitsky

The Group's capital expenditures on the development of the Talitsky potash deposit is expected to be in excess of US$1.7 billion for geological and exploration works, the development of mining and processing infrastructure and the construction of a potash processing plant. Based on its internal plans, the Group currently intends, subject to availability of financing, mining equipment and suitably qualified personnel, to commence industrial mining and processing at Talitsky in 2015.

Logistics

The Group also intends to continue making significant capital investments in its logistics capabilities. The Group has the following investment plans with respect to its logistics capabilities:

- The Group intends to continue the construction of UAN and ammonia transhipment and warehouse facilities at the Estonian port of Sillämae. Certain UAN facilities became operational in 2008, and the Group expects the facilities to reach their full operational capacity by 2013. The Group intends to invest an aggregate amount of US$75 million into the project, of which it has already invested US$45 million.
- The Group plans to invest up to US$100 million in acquiring an additional 1,300 of railcar rolling stock if the Group has sufficient cash flow from its operations.

PORTFOLIO INVESTMENTS

The Group has several portfolio investments in companies engaged in the production of raw materials used in the fertiliser industry. See "*Risk Factors—Risks relating to the Group's business—The Group holds minority investments in several major Russian companies*."

Apatite

The Group holds an equity interest in Apatite. This is held indirectly through Nordic RusHolding, a Russian holding company in which Acron holds a 51% of the shares and Yara International ASA holds 49% of the shares. Nordic RusHolding owns approximately 10% of the common shares (approximately 8% of the total issued shares) in Apatite; Acron's economic interest in Apatite's total share capital is approximately 3.9%. In 2004 Yara de-merged from Norsk Hydro.

As at 31 March 2008, the Group's investment in Apatite was valued at RUR 9,064.3 million. The majority shareholder of Apatite is PhosAgro.

In December 2006, Yara commenced international arbitration proceedings against Acron under the Arbitration Rules of the Stockholm Chamber of Commerce seeking an arbitral award compelling the winding up of Nordic RusHolding and ordering the transfer to it of shares in Apatite which Norsk Hydro had contributed to Nordic RusHolding through its subsidiary Hydro Agri Russland AS. (See "*—Litigation—Dispute with Yara International ASA*").

Silvinit

The Group owns 8.1% of the common shares (6.08% of the total number of shares) in Silvinit that it acquired between 2001 and 2004. As at 31 March 2008, the Group's investment in Silvinit was valued at RUR 16,327.3 million.

Sibneftegaz

The Group owns a 21% equity interest in Sibneftegaz, which it acquired in 2002. Sibneftegaz shares are held by the Group through CJSC Firma Project, which is a wholly-owned subsidiary of Acron. Sibneftegaz is a Russian joint stock company and a natural gas producer. The majority shareholder of Sibneftegaz is Gazprombank.

INTELLECTUAL PROPERTY

Branding, logo and trademarks

The Group believes it has a well-recognised brand, particularly in Russia and China, which the Group continuously takes measures to protect. Acron has registered a number of trademarks and trade names, which it has adapted for use in its main markets, the most significant of which are "*ACRON*" (spelled in Latin and Cyrillic), trademarks and trade names bearing Acron's typical 'a'-shaped logo as in "*a-ACRON*" (spelled in Latin and Cyrillic), and the Chinese trade name "*A KANG*", which is pronounced in Chinese similarly to Acron, protected by 37 trademark certificates, 25 of which are effective in Russia, six in China, one in Lithuania and five worldwide. The '*a*' logo and "*a-ACRON*" trademarks are registered under the Madrid Agreement concerning the International Protection of Marks (as amended) and protocols thereto and are protected worldwide. Dorogobuzh has registered ten trademarks, including "*D Dorogobuzh*" (rendered in Latin and Cyrillic) with Dorogobuzh's typical 'D' logo, six of which are currently protected in Russia and four worldwide.

Hongri Acron has 23 trademarks (including 22 trademarks registered under its name and 1 trademark assigned to Hongri Acron by other registered owners). In addition, Hongri Acron has filed with the Chinese Trademark Offices more than 20 applications (including for trademark registration and trademark transfer) since 2004. Hongri Acron has not yet secured the trademark for "yanyangtian" in Chinese pinyin, which is one of the key trademarks Hongri Acron uses. The application for the trademark "yanyangtian" in Chinese pinyin is in process. See "*Risk Factors—Risks relating to the Group's business—If the Group fails to protect adequately its intellectual property rights or faces a claim of intellectual property infringement by a third party, it could lose its property rights or be liable for significant damages, which could adversely affect the Group's business*".

Acron has entered into a number of licence agreements with its subsidiaries, among which are Acron-Service and Acron-trans, for the use of its trademarks in Russia in relation to a limited number of products. In addition, Hongri Acron allows its network of wholesale distributors to use Hongri Acron's trademark to market the Group's products.

Production technologies and patents

Historically, the Group has focused on developing new and improved production technologies. Since 1999, Acron has registered 27 patents and has an additional two patent applications currently pending. Fifteen of such patents are used in the Group's day-to-day operations. The Group's issued and pending patents relate primarily to the methods of production for a wide range of mineral fertilisers, including, but not limited to, urea-melamine-formaldehyde resins, complex water-soluble fertilisers, ammonia-nitrate fertilisers, methanol, calcium carbonate, complex fertilisers based on ammonium nitrate, porous granular ammonium nitrate, granular calcium carbonate and high-analysis hydrogen nitrate. Two patents in relation to the production of potassium sulphate ternary compound fertiliser and nitrogen-phosphorus-potassium compound fertiliser with sulphur, have been developed and registered by Hongri Acron.

Dorogobuzh has not registered any patents and uses a number of inventions and technologies patented by Acron, mostly without any licence agreements.

RESEARCH AND DEVELOPMENT

The Group emphasises research and development through investment in both acquired and proprietary technologies in an effort to lower its operating costs and enhance its production capabilities. Both Acron and Dorogobuzh have their own research and development units, and Hongri Acron in 2005 established its own technical development centre for research into the fertiliser industry, analysis of NPK and agrochemical technologies. The Group's research and development costs were RUR 13.8 million in 2005, RUR 3.9 million in 2006 and RUR 6.6 million in 2007.

INSURANCE

The Group maintains insurance cover to the limited extent required by law for its production facilities and transportation facilities, including insurance in respect of: damage related to explosions, fire and other accidents caused by operating processes; third-party liability for entities operating hazardous production facilities; storage warehouses; hazardous products carriers; certain pledged property and vehicles. As is customary in Russia and China, the Group does not maintain product liability insurance or insurance for environmental liability. The insurance industry is not yet well-developed in Russia and China and many forms of insurance protection

common in more economically-developed countries are not yet available in Russia or China, either at all or on comparable terms, including coverage for business interruption, environmental damage arising from the operation of the Group's production facilities or transportation companies or third-party liability arising from accidents. See "*Risk Factors—Risks Relating to the Group's Business—The Group is not insured against all potential losses and liabilities and could be seriously harmed by the occurrence of any events for which it does not have adequate insurance*".

LITIGATION

Dispute with Yara International ASA

In December 2006, Yara commenced international arbitration proceedings against Acron under the Arbitration Rules of the Stockholm Chamber of Commerce seeking an arbitral award compelling the winding up of Nordic RusHolding, a Russian holding company in which Acron holds 51% of the shares and Yara holds 49% of the shares. Nordic RusHolding holds 11.76% of the total number of shares in Dorogobuzh and 7.73% of the total share capital in Apatite. Nordic RusHolding was established in 1997 by Acron and a Norwegian company, Hydro Agri Russland AS, a wholly-owned subsidiary of Norsk Hydro, from which Yara de-merged in 2004. At the time of the establishment of Nordic RusHolding in 1997, Acron contributed, *inter alia*, 102,961,574 ordinary shares in Dorogobuzh (approximately 11.8% of the total shares and approximately 14% of the ordinary shares) and 132,712 ordinary shares in Apatite (approximately 1.7% of the total shares and approximately 2.1% of the ordinary shares) to the share capital of Nordic RusHolding and Hydro Agri Russland AS contributed, *inter alia*, 509,718 ordinary shares it held in Apatite, comprising 8.2% of the ordinary shares in Apatite. In addition to the winding up of Nordic RusHolding, Yara seeks an arbitral award ordering the transfer to it of shares in Apatite which Hydro Agri Russland AS had contributed to Nordic RusHolding. The Group believes that the claims of Yara are without merit as, among other matters, a Russian incorporated company can only be liquidated by a qualified majority vote of its shareholders or by a judgement of a competent Russian court.

Disputes with Apatite

In August 2005, Acron commenced proceedings against Apatite and PhosAgro in the commercial court of Moscow seeking a court order compelling Apatite, which has a market share of approximately 78% of Russian apatite concentrate production, to enter into a contract with Acron for the supply of apatite concentrate on terms deemed by the court to be fair. Acron eventually prevailed in these proceedings, including on two appeals filed by Apatite, and the court ordered Apatite to enter into a supply contract with Acron primarily on the terms sought by Acron and fixed the price at RUR 1,600 per tonne. See "*—Raw Materials—Phosphates*", above. Subsequently, Apatite and certain of its shareholders filed separate actions, seeking amendment or termination of the supply contract, entered into in accordance with the judgement. In particular, in July 2007, Apatite commenced proceedings against Acron in the commercial court of Moscow seeking to amend the flat price provision of the contract. Although the lower court granted Apatite's claim, the judgement was reversed on appeal and Apatite's claim was dismissed on 12 December 2007. In February 2008, the cessation instance court supported the decision of the appeal instance court.

In January 2008, Lacerta Holdings Limited, a Cypriot-registered shareholder of Apatite, commenced proceedings in the commercial court of the Murmansk region against Apatite, Acron and PhosAgro-Marketing LLC asserting that the supply contract between Apatite and Acron is void on the grounds that Apatite's majority shareholder, PhosAgro, allegedly had a financial interest in the supply contract and for that reason the supply contract should have been, but was not, approved by the vote of disinterested shareholders. Lacerta Holdings Limited sought a declaratory judgement invalidating the contract and claims unspecified damages. On 26 May 2008, the commercial court of the Murmansk region dismissed the claim. The decision is subject to appeal by Lacerta Holdings Limited.

In July 2007, Dorogobuzh commenced proceedings against Apatite in the commercial court in Moscow seeking a court order compelling Apatite to enter into a contract with Dorogobuzh for supply of apatite concentrate on terms the court deemed fair. The claim made by Dorogobuzh was similar to the 2005 claim made by Acron against Apatite. The court granted Dorogobuzh's claim in part only. Dorogobuzh appealed against the judgement asserting, among other things, that the volume of supplies and the price calculation mechanism ordered by the court was unfair. The Ninth Commercial Appellate Court denied the appeal and, for the most part, upheld the judgement. Dorogobuzh filed a further appeal to the Moscow Federal District Court which was unsuccessful.

Tax claims

As with other large Russian companies, Acron and Dorogobuzh have been in the past, and may become in the future, the subject of back tax assessments and related penalty claims from the Russian tax authorities, sometimes for significant amounts. The Group routinely challenges such tax assessments in the Russian courts. In particular, in March 2007, Acron commenced proceedings against the Russian Federal Tax Service in the commercial court in Moscow challenging a tax assessment in the amount of RUR 1,245 million in back taxes and related penalties in respect of 2005. The court granted Acron's claim except to the amount of RUR 2.5 million. Although the limitation period for the Russian Federal Tax Service to challenge this court judgement has expired, the Russian Federal Tax Service may seek an extension of the limitation period, which is subject to the discretion of the court, and submit an appeal.

Disputes with other governmental authorities

In 2005, Acron and Dorogobuzh lodged a request with the European Commission to terminate the anti-dumping duty applicable to them pursuant to Article 11(3) of Regulation (EC) No 384/96 on imports of ammonium nitrate originating in Russia. The subsequent review by the EU began at the end of 2006 and covered the period from 1 October 2005 to 30 September 2006. The products under review were solid fertilisers with an ammonium nitrate content exceeding 80% by weight originating in Russia. The anti-dumping duty amounted to Euro 47.07 per tonne of ammonium nitrate. Acron and Dorogobuzh's request to terminate the anti-dumping duty applicable to such fertilisers was unsuccessful. However, with effect from July 2008, the EU has lifted its anti-dumping duty on imports of ammonium nitrate originating in Russia by Acron and Dorogobuzh in exchange for respecting a price floor.

Other proceedings and quantification

As at the date of this Prospectus, other than the disputes discussed in the previous four paragraphs: "*Disputes with Yara International ASA*", "*Disputes with Apatite*", "*Tax claims*" regarding tax claims against the Russian tax authorities including in particular those against the Russian Federal Tax Service and "*Disputes with other governmental authorities*" regarding the disputes of Acron and Dorogobuzh in respect of anti-dumping duties, neither the Company nor the Group is involved in any other governmental, legal or arbitration proceedings, that may have, or have had, during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Company and/or Group, nor, so far as the Company and Group are aware, are any such proceedings pending or threatened by or against the Company or Group.

Other than in respect of the dispute with Yara, it is not possible to quantify the litigation in respect of the Company and the Group. See "*—Dispute with Yara International ASA*", above.

ENVIRONMENTAL MATTERS

The Group's operations are subject to numerous environmental requirements under the laws and regulations of the countries in which the Group carries out its business, including Russia and China. Such laws and regulations govern, among other matters, air emissions, wastewater discharges, solid and hazardous waste management, product registration and composition, transportation of hazardous materials and remediation for past activities. Many of these laws, regulations and permit requirements are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time.

The Group believes the Company and its Russian subsidiaries are currently in material compliance with applicable environmental laws and regulations governing emissions, discharges, waste management, registration and transportation. Hongri Acron has not received clearance from the Linyi Environmental Protection Administration for some of its production lines; accordingly, Hongri Acron could be subject to administrative proceedings, including fines, suspension of operations and rectification under Chinese law. The Group does not carry third-party liability insurance in respect of environmental damage as it is not available on commercial terms in Russia or China. The Group does not carry out regular third-party environmental audits.

The Group did not record any material liabilities associated with environmental costs as at 31 March 2008.

The Group's environmental policy is currently focused on three main areas: (i) water protection, which includes investments in biological waste treatment facilities to reduce the amount of waste discharge into rivers near the sites of the Group's Russian production facilities; (ii) air pollution control, which includes introduction of more advanced filtration systems to reduce particles discharge into the atmosphere at the Group's Russian production facilities; and (iii) recycling, which includes introduction of more advanced recycling systems and the sale of some residual products, such as conversion chalk.

EMPLOYEES

Overview

The following table sets forth the distribution of the Group's employees among the Group's production, transportation, distribution and mining companies, as at 31 December 2005, 2006 and 2007.

	As at 31 December		
	2005	2006	2007
Production facilities:			
Acron	5,848	5,709	4,953
Dorogobuzh	3,687	3,719	3,299
Hongri Acron	3,069	2,808	2,483
Distribution:			
Agronova and its subsidiaries	560	507	490
Transportation and logistics:			
Acrontrans	25	29	31
BCT	—	3	14
Andrex	—	21	20
Mining:			
NWPC	13	19	30
VPC	—	2	2
Other	204	331	1,638
Consolidated employee numbers	13,406	13,148	12,960

Over 89% of the Group's employees were members of trade unions as at 31 December 2007. Acron, Dorogobuzh and Hongri Acron have collective bargaining agreements with their respective trade unions which expire in 2011, 2009 and 2010, respectively. For the past five years, there have been no strikes or other cases of industrial action at any of the Group's production facilities.

The Group is currently seeking to optimise its personnel structure, primarily through a controlled reduction in the number of employees, such as the outsourcing of non-production activities and the disposal of non-core assets, such as social facilities. However, the Group is a principal employer in the towns in which its production facilities are located, including Veliky Novgorod and Dorogobuzh, and any reductions in the size of the workforce may be generally constrained by applicable labour laws, as well as other social and political considerations. For these reasons, the Group intends to manage its workforce reductions gradually. The Group plans to reduce its personnel in Russia to approximately 12,000 employees by the end of 2009 mainly by enhancing efficiency of production and thereby making production less labour intensive. The Group does not expect that such reductions will trigger significant redundancy costs. However, in connection with the proposed development of the apatite concentrate and potash mining operations, the Group expects to hire an approximately 1,200 additional employees at NWPC.

Employee remuneration, benefits and pensions

The Group pays salaries and performance-related bonuses to its employees on a monthly basis.

In addition, the Group maintains several social and employee benefits programmes for its staff. The Group's Russian production facilities inherited a number of resort, sport, childcare and medical care facilities, which were typical features of most large industrial companies in the former USSR. These facilities currently remain on the balance sheet of the Group's Russian production facilities and are used to provide the Group's employees and their families with private medical care, child care, sport facilities and resort facilities on a gratuitous basis or at discounted rates. By 2011, the Group intends to transfer these facilities to newly-created subsidiaries or third parties to be managed as independent businesses, which would offer their services at market rates to the Group's employees, as well as to the wider community. The Group intends to continue to subsidise the use of the facilities by its employees and their families as part of their employee benefits programme.

The Group makes statutory contributions to state pension funds for its employees in accordance with applicable legislation. The Group is not legally obliged to pay pensions to its employees. However, to encourage employment of younger personnel at the Group's production facilities while maintaining relatively low numbers of staff, with respect to its Chinese operations, the Group instituted a voluntary early retirement scheme in China under which the Group's employees can apply for retirement prior to reaching the statutory retirement age. The Group may grant such applications in its absolute discretion, and in the case of approval of such application, the

Group would pay a pension until the employee reaches the statutory retirement age. According to management, in 2007, the Group spent approximately RMB 7 million on pension payments under this early retirement programme.

Under PRC laws and regulations, Hongri Acron must contribute to a number of employee social welfare schemes for its employees, including pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance and housing provident fund contributions. Until recently Hongri Acron has not been making full contributions for its employees under all employee social welfare schemes, which has led to several disputes with its former or current employees. As a result of not making full contributions, Hongri Acron has also had to pay certain nominal governmental fines.

Employee Share Interests

The Group believes that no more than 0.2% of shares in Acron and no more than 0.03% of shares in Dorogobuzh are held by members of the Board of Directors and Management Board of Acron and Dorogobuzh, respectively. As at 30 April 2008, 167 employees of Hongri Acron are holding 479,610 shares in Hongri Acron, which represent approximately 0.37% of the total number of existing shares.

None of the Group companies have an employee share option plan.

Health and safety

The Group believes it is currently in material compliance with applicable laws and regulations relating to health and safety. Each of the Group's production facilities has an internal department responsible for occupational health and safety. The Group has implemented a range of occupational health and safety programmes in respect of its employees. These programmes include initial and periodic occupational health and safety training and provision of free medical testing.

SOCIAL PROJECTS AND COMMITMENTS

The Group is a major employer in the localities of each of its production facilities. The Group is committed to good citizenship and social responsibility and, whilst under no legal obligation to do so, undertakes a number of social programmes in each of the localities in which it operates. These include financial assistance and other support to local charities for the handicapped, state hospitals, orphanages, youth and student organisations, religious charities and churches in the localities in which the Group operates. In addition, whilst under no legal obligation to do so, the Group's Russian production facilities provide occasional financial support for the general needs and medical expenses of its retired staff. The Group spent RUR 235.2 million on social expenditures in the year ended 31 December 2007.

In addition, NWPC and VPC are subject to a number of social-economic obligations under the subsoil licences in respect of the Oleniy Ruchey, Partomchorr and Talitsky deposits. Under each of the licences for the Oleniy Ruchey and Partomchorr deposits, the Group has an obligation, over a period of 15 years from November 2006, to invest approximately US$18 million for the development and support of the cities near which the Group has mining rights (Koashva and Apatity). Under these licences, the Group is to invest approximately US$1 million per year in respect of these obligations. In addition, under these licences and the licence for the Talitsky deposit, the Group is obliged to provide support to local social programs and training and employment of the local population.

CERTAIN REGULATORY MATTERS

Below is a brief description of several key aspects of the current Russian and Chinese regulatory regimes applicable to the Group's business.

RUSSIA

General

Russia has not enacted any specific legislation governing the operation of the chemical industry and the business of agricultural fertiliser manufacturing companies. The production, sale and distribution of chemical fertilisers in Russia is regulated by general civil legislation and special legislation relating to quality standards, industrial safety, the environment and other related matters.

Federal Law "On Technical Regulation" No. 184-FZ dated 27 December 2002, as amended (the "**Technical Regulation Law**"), introduced rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, construction, operations, storage, transportation, selling, utilisation processes and performance of work and provision of services. The Technical Regulation Law supersedes the Laws of Russia on Certification of Goods and Services of 10 June 1993 and on Standardisation of 10 June 1993 and is expected to be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. The Technical Regulation Law provides for a seven-year (2003-2010) transition period, during which Russia will carry out such revision of existing legislation and technical rules. During the development of this new system, Russia's existing certification and licensing system will generally remain in effect. Currently, the Federal Service for Environmental, Technological and Nuclear Supervision is responsible for developing and enacting new technical rules relating to the industrial safety of mining and production operations that relate to the Group's operations.

Federal, Regional and Local Regulatory Authorities Governing the Chemical Industry

At the federal level, regulatory authority over the chemical industry is divided primarily between the Ministry of Industry and Trade, the Ministry of Natural Resources and Ecology and the Ministry of Economic Development. The Ministry of Industry and Energy is responsible for the development of governmental policy for the chemical industry and related industrial standards regulation, as well as development of trade policy. The Ministry of Natural Resources and Ecology is responsible for the development of governmental policy and regulation in the sphere of exploration, use, restoration and protection of natural resources and the environment. The Ministry of Economic Development of Russia is responsible for encouraging investment and support of scientific research.

The Russian federal services and agencies responsible for compliance control or management of state property and provision of services relevant to the Group's activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision (subordinate to the Ministry of Natural Resources and Ecology), which sets procedures for, and oversees compliance with, industrial safety of chemical and chemical-making, coking and chemical facilities as well as safety rules relating to chemical products and environmental rules. It also (i) issues permits for certain industrial activities and activities relating to safety and environmental protection, such as licences for exploitation of certain types of equipment (technical devices) at hazardous industrial sites. For conduct of hydraulic engineering works, for use of industrial explosives, surveyor's works and use of dangerous wastes; (ii) registers dangerous objects; and (iii) establishes limits for waste disposal.
- The Federal Service for Consumer Rights Protection and Human Welfare (subordinate to the Ministry of Public Health and Social Development), which controls and supervises the sanitary and epidemiological welfare of the population of Russia and protects consumer rights.
- The Federal Agency for Water Resources (subordinate to the Ministry of Natural Resources and Ecology), which is responsible for supervising the use and protection of water resources.
- The Federal Service for the Supervision of the Use of Natural Resources (subordinate to the Ministry of Natural Resources and Ecology), oversees compliance with the terms and conditions of subsoil licences and certain matters of environmental legislation and controls geological exploration, use and protection of subsoil, and forms special committees to effect official ecological examination of project papers.

- The Federal Agency for Subsoil Use (subordinate to the Ministry of Natural Resources and Ecology), which organises tenders and auctions and issues licences for subsoil use and approves design documentation for subsoil production activities.
- The Federal Agency for Technical Regulation and Metrology (subordinate to the Ministry of Industry and Trade), which determines and oversees levels of compliance with obligatory general and industrial standards.
- The Federal Labour and Employment Service (subordinated to the Ministry of Public Health and Social Development) controls and supervises compliance with labour legislation.
- The Federal Customs Service (subordinated to the Russian Government), which is responsible for the development of state customs policies and regulating customs procedures.
- The FAS (subordinate to the Russian Government), which (i) supervises compliance with antimonopoly legislation; (ii) investigates violations of antimonopoly legislation; (iii) prevents monopolistic activity, unfair competition and other violations of antimonopoly legislation; and (iv) exercises state control over business concentration. FAS, *inter alia*, oversees the acquisition of controlling stakes in companies and dominant market position by business enterprises.

In addition to the above federal executive bodies, which are directly involved in regulating and supervising the chemical sector in Russia, there are a number of other federal regulators that, together with their structural subdivisions, have authority over general issues relevant to the Russian chemical industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional authorities with jurisdiction over the specific area in which a chemical-producing enterprise is located have substantial authority. Regional and local authorities usually control regional and local land-use allocations and have certain taxation powers.

Licensing

General

The Group is required to obtain licences, authorisations and permits from Russian governmental authorities to conduct its operations. The Federal Law on Licensing of Certain Types of Activities dated 8 August 2001, as amended, as well as other laws and regulations, list activities which can only be performed pursuant to licences issued by the relevant Russian authorities, and establish procedures for issuing such licences. In particular, to conduct its operations, the Group is required to obtain licences and permits to carry out certain activities, including, *inter alia*:

- use of subsoil (see *"—Subsoil licensing",* below*)*;
- use of water resources;
- discharge of pollutants into the environment;
- handling of hazardous waste;
- storage and use of explosive materials;
- operation of explosive and flammable production facilities;
- surveyor's works;
- construction and design of buildings and other structures;
- exploitation of electricity networks;
- fire prevention and fighting; and
- various transportation activities.

Licences are usually issued for a minimum period of five years. Licences for the use of natural resources may be issued for shorter or longer periods. Upon expiration, a licence may be extended upon application of the licensee, but extension is usually subject to prior compliance with regulations. Certain types of licences may be issued for the expected operational life of a deposit, and certain licences may have unlimited terms. A licence may be suspended or terminated if a licensee repeatedly makes material breaches of the terms and conditions of such licence. If a licensee fails to mitigate any breach of a licence granted to it within the period established by a

licensing authority, that authority may apply to a court for the termination of the licence. A court may also terminate the licence in certain other cases such as, for example, if the breach of the terms and conditions of a license by the licensee damaged the rights, legal interests or health of individuals. However, the licensing authorities have the authority to terminate subsoil licences by unilateral action without any court procedure. See *"Subsoil licensing"* below.

Licensing regulations and the terms of its licences and permits require the Group to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

A list of activities currently requiring licensing pursuant to the Federal Law on Licencing of Certain Types of Activities tends to reduce in virtue of issuance by the competent authorities of technical regulations (Regalements) aimed at determining rules and procedures for implementation of certain activities. Once enacted, these Regalements will set forth new rules pertaining to relevant activities, which will not be requiring the operational licences to be issued anymore in respect of these types of activities.

Subsoil licensing

In Russia, the extraction of minerals requires a subsoil licence issued by the Federal Agency for Subsoil Use with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land plot where such licensed mineral deposit is located. In addition, operating permits/licences are required for specific mining activities.

The primary law regulating subsoil licensing is the Law on Subsoil No. 2395-1 dated 21 February 1992, as amended (the "**Subsoil Law**"), and the regulations adopted thereunder, which set out the regime for granting licences for the exploration and production of mineral resources and for subsoil.

Currently, there are two major types of licenses: (1) exploration licences, which are non-exclusive licences granting the right of geological exploration and assessment within the licence area, and (2) production licences, which grant the licensee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined (exploration and production) licences, which grant the right to explore, assess and produce minerals from mining allotment within the licence area, which is defined in terms of latitude, longitude and depth.

Production licences and combined exploration and production licences are primarily awarded by tender or auction conducted by special commissions of the Federal Agency for Subsoil Use. While such auction or tender may involve a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances production licences may also be issued without holding an auction or tender, for instance, to holders of exploration licences that discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue production licences for "common" mineral resources, such as clay, sand or limestone.

Payments

Payments with respect to the exploration, evaluation and extraction of minerals include: (i) payments for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments) and (ii) the mineral extraction tax under the Tax Code of the Russian Federation. Failure to make these payments could result in the suspension or termination of the subsoil license. The mineral extraction tax is calculated as a percentage of the value of minerals extracted, and currently is set at 3.8% for potash and 4.0% for phosphate apatite.

Term of subsoil licenses

The term of a license is set forth in the license. Exploration licenses have a maximum term of five years; production licenses are generally granted for a term of the expected operational life of the field based on a

feasibility study, except under certain circumstances in which the licence may be issued for a term of one year; and combined licences can be issued for the term of the expected operational life of the field based on a feasibility study. The term of a subsoil licence runs from the date the licence is registered with the Federal Agency for Subsoil Use. The Group's three subsoil licences were each issued for a term of twenty years.

Extension of subsoil licences

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the license or to vacate the land once the use of the subsoil is complete, provided the user has complied with the terms and conditions of the licence and the relevant regulations. In order to change any condition of a subsoil licence, including extension of its term, a company must file an application with the federal authorities to amend the licence.

Transfer of subsoil licenses

Licenses are granted to a particular licensee; however, in certain circumstances that are identified in the Subsoil Law, a licence may be transferred to another party. Such circumstances include the reorganisation or merger of the licensee, transfer of the licence from a subsidiary to its parent company, from the parent company to its subsidiary (either an existing or newly established company) and from a subsidiary to another subsidiary of the same parent company, provided in each case that, *inter alia*, the transferee is incorporated under the laws of the Russian Federation and possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred license.

Licensing agreements

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil license and certain environmental, safety and production commitments, including bringing the field into production by a certain date; extracting an agreed-upon volume of natural resources each year; conducting agreed mining and other exploratory and development activities; protecting the environment in the license areas from damage; providing geological information and data to the relevant authorities; and/or submitting on a regular basis formal progress reports to regional authorities. The licence agreement may also contain commitments with respect to social and economic development of the region. When the licence expires, the licensee must return the land to a condition adequate for future use. Although most of the conditions set out in a licence are based on mandatory provisions contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties.

Subsoil license termination

If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the license may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence due to material changes in circumstances, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined or its rights can be limited, suspended or terminated for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area or upon the occurrence of certain emergency situations. The rights of a subsoil user may also be limited, suspended or terminated for violations of material licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project (as opposed to the levels set up in the licensing agreement) would also be likely to constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limitation, suspension or termination of the rights of a subsoil user.

Government authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and the Federal Service for Environmental, Technological and Nuclear Supervision, undertake periodic reviews for ensuring compliance by subsoil license users with the terms of their licences and applicable legislation.

A licensee can be fined for failing to comply with the conditions of the subsoil licence and the subsoil licence can be revoked, suspended or limited in certain circumstances, including:

- a breach or violation of material terms and conditions of the license by the licensee;
- repeated violation of the subsoil regulations by the licensee;
- the failure of licensee to commence operations within a required period of time or to produce required volumes, as specified in the license;
- the occurrence of an emergency situation such as natural disasters, war;
- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the license;
- the liquidation of the licensee; and
- the non-submission of reporting data in accordance with the legislation.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence suspension or termination or the refusal to re-issue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such three-month period, no termination or other action may be taken.

As a general rule under the Subsoil Law, the subsoil user pays expenses of conservation and liquidation of underground equipment connected with subsoil works. In addition, the Subsoil Law specifically establishes that in the event of early termination of the licence due to the user causing direct threats to human life and health, or due to material or repeated violations of the licence, or if the licence is terminated at the user's request, then the user will pay such expenses. The state pays conservation and liquidation expenses if the licence is terminated due to an emergency situation, such as natural disasters, flooding, war and other similar circumstances, or in the event of direct threat to human life and health not caused by the user.

Land use rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction on a land plot, without obtaining appropriate land use rights. Land use rights are obtained for the parts of the licence area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended, (the "**Land Code**"), companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which, through public auctions or tenders or through private negotiations, can sell, lease or grant other rights of use to the land to third parties.

As the Land Code provides that the right of perpetual use will cease to exist as of 1 January 2010, companies having a right of perpetual use of land that was obtained prior to the enactment of the Land Code were required, by 1 January 2010 and, in certain circumstances, 2013, either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority-owner of the land.

Foreign Investments Restrictions

Adopted on 29 April 2008, a new federal law, "On the Procedure for Foreign Investments in Legal Entities of Strategic Importance for State Defence and National Security" No. 57-FZ (the "**Foreign Investments Restrictions Law**", restricts access of foreign investors to certain industries in the Russian Federation. The Foreign Investments Restrictions Law treats, *inter alia*, the geological study of subsoil and the exploration and extraction of minerals from subsoil deposits of federal importance as activity of strategic importance.

The Subsoil Law sets out the criteria for classifying subsoil deposits as deposits of strategic (federal) importance based on the nature of the mineral deposit. The first criterion is based on the size of the reserves estimates of the deposit—a deposit is of strategic importance if it contains more than 70 million tonnes for crude oil, 50 billion cubic metres for gas, 50 tonnes for gold and 500 thousand tonnes for copper deposits. The second criterion is based the on the rareness of the minerals' occurrence, and generally applies to rough diamonds,

uranium, free quartz, cobalt, tantalum, nickel, beryllium, lithium, niobium and platinum group metals. The third criterion relates to the location of deposits on inland sea waters, territorial sea and continental shelf and the last criterion relates to the location of subsoil deposit on defence and security lands or lands adjacent thereto.

Foreign investors are obliged to obtain prior consent from the governmental commission headed by the Prime Minister for the acquisition of more than 5 per cent (where a foreign company with state participation is a party to the transaction) or more than 10 per cent (where a foreign company without state participation is a party to the transaction) of the shares in companies which hold subsoil licences to deposits of federal importance.

As of the date of this Prospectus, neither of the deposits to which the Group holds subsoil licenses has been given status of a deposit of federal importance.

Price Regulation for Natural Monopolies

The Group is dependent on natural monopolies in terms of gas and electricity supplies and railway transportation. See *"Risk factors—Risks relating to the Group's Business—The Group depends on a limited number of suppliers for, and limited supplies of, certain of the raw materials used in the production of its products."*

The government of the Russian Federation, the Federal Antimonopoly Service and the Federal Tariffs Service are currently the main regulatory authorities for natural monopolies. The principal means of regulating the activities of natural monopolies by the relevant authorities are:

- regulating prices; and
- requiring natural monopolies to provide certain levels of products or services to certain consumers.

The list of goods and services set out in the Russian Government Resolution No. 239 on 7 March 1995 (On "Measures to Improve State Regulation of Prices (Tariffs)") identifies products and services of natural monopolies (*i.e.*, gas, electric and heat energy, transhipment of oil through pipelines, railway services and port services), defence industry products, and various social goods (*i.e.*, certain drugs, prosthetics and orthopedic appliances), prices for which can be regulated by the Russian State.

In sectors where natural monopolies exist and, in the case of products purchased exclusively or primarily by the Russian State, such as defence products, pricing is based on production costs. Generally, the procedures and principles used for regulating the prices of goods and services regulated by the Russian State differ depending on the type of goods or services involved.

Regional governments regulate prices for products and services classified as local natural monopolies. These include gas and solid fuel sold to the population, transportation of passengers and luggage by public transport in municipal transport networks, communal services to households, water supply, and sewage services. At the regional government level, prices for electrical energy provided by regional electrical power plants are also regulated, as well as prices for communal passenger transportation (except railways) and other public utilities. The regional executive bodies and local executive authorities must comply with pricing decisions taken at the federal level by bodies authorised to regulate the activity of natural monopolies.

Natural Gas

Domestic natural gas prices are generally regulated by the Government of the Russian Federation. According to the FST Order No.338-e/1 of 5 December 2006 (currently out of force) and the FST Order No 524-e/1 of 17 November 2005 the regulated price for industrial consumers in the Novgorod Region in Russia was approximately RUR 1,382 per thousand cubic metres in 2007, an increase from RUR 1,202 per thousand cubic metres in 2006. Since 2006, the Russian government began to implement a steady increase in the regulated domestic gas prices to enable Gazprom, Russia's majority state-owned monopoly gas supplier to reach the same profitability in the markets as it derives form export sales, by 2011. The Russian Government Resolution No. 333 dated 28 May 2007 has permitted an increase in the commercial tariff natural gas prices with respect to gas volumes to be delivered after 1 July above gas volumes which have been previously agreed by a maximum of 50% in 2008, by 40% from 1 January 2009, by 30% from 1 July 2009, by 20% from 1 January 2010 and by 10% from 1 July 2010, finally reaching Western European gas price levels from January 2011. According to a report by the Russian Ministry of Economic Development and Trade wholesale regulated gas prices are expected to rise by a maximum of 25% in 2008, 20% in 2009, 28% in 2010 and 40% in 2011. Wholesale regulated gas prices determined by the FTS regarding gas volumes with respect to which long-term gas supply contracts have been already entered into are expected to be increased by the FTS basing on forecasts for social-economic development in Russia.

Railway Transportation Tariffs

JSC Russian Railways have historically been the only provider of transport services for many types of freight over large parts of the country. Tariffs have therefore been regulated in the absence of a market to establish "fair" transport prices. Currently the price for transport of all commodities is regulated, regardless of where transport takes place and regardless of whether competition exists from road, air or shipping modes.

Tariffs are calculated according to formulas set out in tariff schedules. The basic methodologies followed by current tariff schedules were formulated in Tariff Price List No.10-01 entered into force on 28 August 2003, which regulates pricing of freight traffic ("**Price List 10-01**"). Periodic revision of the tariff rates and structures are undertaken to respond to changes in economic conditions for socially important parts of the economy, including large industrial customers of the railways. Price List 10-01 has been adjusted more or less annually in recent years.

Domestic rail tariffs are currently set under the regulatory supervision of the Federal Energy Commission (FEC), which also regulates electricity and coal tariffs. Price List 10-01 identifies three broad classes of commodities and therefore introduces a three-class tariff system. The basic objective of the three class tariff system is to ensure that the transport cost is not higher than a target percentage of the delivered price of the product; very low value commodities need to pay low tariffs in order to stay within the target percentage while higher value products can pay more and still not be overly-burdened by transport costs. In addition, there are over 40 series of coefficients to differentiate tariffs within the classes according to the specific commodity and other circumstances such as particular routings. The three classes of commodities are as follows.

- Class I: coal, ore, timber, aggregates, etc. Class I commodities generally travel at a tariff level of 75% of the Class II commodity tariff at distances below 1,200 km falling in steps to a level of only 55% of Class II commodities at a distance of 5,000 km and more. The reference distances are based largely on the distance to market, especially for export commodities.
- Class II: oil, grain, fertilisers, food, semi-finished goods.
- Class III: chemicals, ferrous and non-ferrous metals, machinery, finished goods. Class 3 tariffs are generally 74% higher than tariffs for Class II commodities at all distances.

Electricity

In July 2001, Russia announced its intention to implement reforms in the electricity power sector with the Decree on Restructuring the Electric Power Industry of the Russian Federation. This was followed by several legislative initiatives, most notably Federal Law No. 35-FZ on the Electric Power Industry dated 26 March 2003. On 1 July 2008, UES, which controlled stakes in various assets throughout the system, including power plants, vertically integrated energy companies, the federal high voltage transmission grid and the energy dispatch system, was wound up. As a result of this reorganisation, the electricity power sector now consists of the following companies:

Wholesale Generation Companies ("**OGK**"): One of the cornerstone principles of the reorganisation plan is the disaggregation of generation capacity assets from the transmission and distribution assets. The plan envisions the creation of several different categories of generation companies which would be privatised and open for foreign investment, while at the same time prescribing the consolidation of transmission and grid assets into separate corporate entities which would continue to be largely controlled and regulated by the Russian State. The restructuring plan calls for the consolidation of various heat and power generation companies throughout the territory of the Russian Federation. Currently, seven OGKs have been established.

Territorial Generation Companies ("**TGC**"): 14 Territorial Generation Companies were created from regional generation companies and consolidated on a regional basis. Each TGC consists of a stand alone operating company with its ownership interest initially held by UES, and each subject to privatisation.

Federal Grid Company ("**FGC**"): The Federal Grid Company is a wholly-owned subsidiary of UES established in 2002. FGC acts as the manager of the unified national electric grid, the high voltage backbone transmission and dispatch grid of the entire power system. It is contemplated that FGC will at some point in the future become an independent company from UES, and that pursuant to the Law on the Electric Power Industry, the State's share in the company would increase to 75% plus one share (signifying complete control). The main source of revenue for the company will be through tariff revenues earned from the transmission of power through the national grid.

Systems Operation-Centralised Dispatch: The systems operator would be responsible for securing the sustainable operation of all of the technological aspects of the transmission system and would provide services, transmission and equipment to individual generation companies. It is contemplated that the systems operator would also become an independent company from UES, and that the State's stake in the company would be increased from its current level to 75% plus one share, signifying complete control by the State.

Since 1 September 2006, new rules of operation of wholesale and retail electricity markets have come into force. As a consequence, the wholesale electricity (capacity) market saw a transition to regulated contracts to be concluded between buyers and generation companies. In accordance with Russian Federation Government Resolution of 7 April 2007 there are plans to replace regulated contracts by free (unregulated) ones by 2011. The rules of operation of retail markets suggest that gradual liberalisation of retail markets should go in parallel with wholesale market liberalization.

Environmental

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air, water and soil, processing, management and disposal of hazardous substances and waste, the cleanup of contaminated sites and flora and fauna protection. Environmental protection issues in Russia are regulated primarily by the Federal Law "On Environmental Protection" of 10 January 2002, as amended (the "**Russian Environmental Protection Law**"), as well as by a number of other federal and local legal acts.

Pay-to-pollute

The Russian Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has issued standards relating to the permissible impact of certain activities on the environment whilst the Federal Service for Environmental Technological and Nuclear Supervision has set limits for emissions and the disposal of substances as well as for waste disposal. A company whose activities are subject to the Russian Environmental Protection Law may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of the additional environmental impact. As a condition to such approval, a plan for the reduction of emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in Regulation of the Russian government No. 344 of 12 June 2003 "On Rates of Payments for Pollutant Emissions Into the Air by Stationary and Mobile Sources, Pollutants Disposals into Surface and Underground Waters, Disposal of Production and Consumption Waste", are assessed on a sliding scale for both the statutory or individually approved limits on emissions and other pollution in excess of these limits. The lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payment of such fees does not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Environmental approval

The impact of certain activities that may affect the environment must be evaluated (and approved) by environmental experts of the relevant federal authorities in accordance with the Federal Law "On Ecological Experts Examination" of 23 November 1995, as amended (the "**Law on Ecological Experts Examination"**) and the Environment Protection Law. The Environment Protection Law envisages that an assessment of effects on the environment shall be conducted in respect of a planned economic or another activity capable of exerting a direct or indirect effect on the environment. A list of such activities requiring the mandatory state ecological expert review is set forth in the Law on Ecological Expert Examination. Conducting operations that may cause damage to the environment without the mandatory state ecological expert review may result in civil or criminal liability as described in "*Environmental liability*" below, as well as in revocation of licenses, including subsoil licenses. However, under the Russian Environmental Protection Law positive state ecological expert review does not exclude the obligation to compensate for any damage caused to the environment at any time.

Under the Russian Environmental Protection Law and the Law on Ecological Experts Examination certain project documentation was subject to state environmental impact assessment. In 2007, several critical amendments in respect of the environment impact assessment were adopted to relevant laws. Due to uncertainty of new rules and absence of relevant court practice it can not be definitely concluded, whether technological project documentation, including a technological plan of subsoil deposit development, is subject to state ecological expert review or not.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydro-metrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are each involved in the environmental control, implementation and enforcement of relevant laws and regulations. The federal government and Ministry of Natural Resources and Ecology and the Ministry of Agriculture are responsible for coordinating the activities of these regulatory authorities. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations also have the right to initiate lawsuits to recover damages caused to the environment. The limitations statute for such lawsuits is twenty years from the date when the relevant supervising authority became aware or should have become aware of the damage caused.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend such operations or a court action may be brought, which if successful may result in the prohibition or suspension of such operations and may require the Group to remedy the effects of the violation. Any company or employees that fail to comply with environmental requirements and regulations may be subject to administrative and/or civil liability and individuals (including employees of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. A court may impose an obligation to finance and conduct reclamation measures pursuant to an expert report approved by a court.

As a general rule under the Russian Environmental Protection Law, a legal entity or individual that causes harm to the environment by its pollution, depletion, contamination or by irrational use of natural resources, degradation or destruction of environmental systems, natural complexes or physical landscape must compensate such damage in full. Under applicable Russian law, damages are generally payable if the fault of the person who caused the harm is proven; however, in certain cases a person causing harm may be strictly liable without fault. In particular, if a company's activity is connected with increased risk (such as performance of construction works, use of mechanical devices or high voltage electricity, explosive substances or in any other circumstances based on court findings), the company must compensate harm caused by its activity, unless the harm is proven to be the result of force majeure.

Compensation for harm to the environment is calculated pursuant to rates or estimating procedures approved by environmental authorities. If the relevant rates or estimating procedures do not exist, courts calculate an amount of damages based on the principle of full compensation of all costs for recovery of losses, including any lost profit.

The Russian Environmental Protection Law provides that mandatory environmental insurance can be introduced in Russia. Currently, it is not mandatory under Russian law but voluntary environmental insurance is available. The Ministry of Natural Resources (predecessor of the Ministry of Natural Resources and Ecology) recommended in its Sample Regulation on Procedure for Voluntary Environmental Insurance in Russia approved on 3 December 1992, under No. 04-04/72-6132, that a voluntary environmental insurance policy should cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low, but failure to comply with the clean-up requirements may lead to suspension of mining works.

Health and Safety

Much of the Group's business activity is conducted at industrial sites by large numbers of workers. The principal law regulating industrial safety is the Federal Law on Industrial Safety of Dangerous Industrial Facilities of July 21, 1997, as amended, (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used and where certain types of mining are carried out. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Safety Law further address safety rules for mining and production operations conducted by the Group.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision or other relevant regulatory authority.

Companies that operate such regulated industrial facilities and sites have a wide range of obligations under Russian law, in particular under the Safety Law and the Labour Code of the Russian Federation No. 197-FZ of 30 December 2001, as amended (the "**Labour Code**"). For example, industrial facilities must limit access to such regulated industrial sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies (or create their own wrecking services in certain cases), conduct personnel training programmes, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for loss of earnings, as well as for health-related damages and, in certain cases, activity of the company may be suspended until the violation is resolved.

Trade Barriers

The Group's products are subject to various trade barriers, such as anti-dumping duties, tariffs and quotas, in its principal export markets, which include markets in Europe and Asia. These trade barriers affect the demand for the Group's products by effectively increasing the prices for those products compared to domestically available products. Some markets are effectively closed for import of the Group's products due to considerably high anti-dumping duties.

Russian export and import duties

Exports of fertilisers from Russia are primarily regulated by the Customs Code Law of Russia and Federal Law No. 5003-1 "On Customs Tariff" of 21 May 1993 and relevant treaties between Russia and its trading partners.

Regulations of the Government of the Russian Federation No. 159 dated 11 March 2008 introduced new export duties on certain chemicals with effect from 19 April 2008 and until 30 April 2009. The following export duties are applicable to certain of the Company's products:

- potash mineral or chemical fertilisers—5% of the relevant customs value; and
- mineral or chemical fertilisers containing two or three of the following minerals: nitrogen, phosphorus or potash—8.5% of the relevant customs value.

Some of the Group's products are subject to import duties in accordance with the Customs Tariffs adopted by the Government of the Russian Federation on 21 November 2006 (as amended): urea, ammonia nitrate and NPK are subject to a 10% import duty.

EU and United States fertiliser duties and Anti-dumping regulations

A 68.26% import duty is applicable to imports of urea to the USA. Imports of urea ammonium blends and ammonia nitrate into the EU are subject to a 6.5% import duty.

By Regulation (EC) No 1995/2000, the Council imposed a definitive anti-dumping duty on imports of solutions originating, *inter alia*, in Russia. Following an expiry review initiated in September 2005, the Council on 19 December 2006, by Regulation (EC) No 1911/2006, imposed a definitive anti-dumping duty on imports of mixtures of urea and ammonium nitrate in aqueous or ammoniacal solution falling within CN code 31028000 and originating in Russia in the amount of EUR20.11 per tonne.

By Regulation (EC) 945/2005 of 21 June 2005, (which amended Regulation No 658/2002), the duty on imports of solid fertilisers with an ammonium nitrate content exceeding 80% be weight and originating in Russia varies between EUR 41.42 per tonne and EUR 47.07 per tonne and depends on the specific product type. With effect from July 2008, the EU has lifted its anti-dumping duties on imports of ammonium nitrate originating in Russia by Acron and Dorogobuzh, in exchange for respecting a price floor.

In May 2001, Australia introduced an anti-dumping duty on ammonium nitrate originating from Russia at a level of 32 Australian Dollars per tonne. Brazil applied a 13.8% antidumping duty to ammonium nitrate originating from Russia during the period of investigation.

In June 2008, Ukraine introduced a 11.91% antidumping duty on imports of Russian ammonium nitrate (imports of Dorogobuzh are subject to a 9.76% antidumping duty and imports of EuroChem are subject to a 10.78% antidumping duty). The duty will be effective from the end of June 2008 and will remain valid for a period of five years.

Employment and Labour

Labour matters in the Russian Federation are primarily governed by the Labour Code.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation imposes express restrictions on the execution of term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract; and
- grounds specified in the employment agreement with the head of the company or members of the management board.

An employee dismissed from an enterprise due to redundancy or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time and Salary

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform work in harmful and/or dangerous conditions may be entitled to additional paid vacation ranging from 6 to 36 calendar days. The minimum salary in Russia, as established by federal law, is RUR 2,300 per month, as from 1 September 2007.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. The activities of trade unions are generally governed by the Federal Law "On Trade Unions, Their Rights and Guarantees of Their Activity" No. 10-FZ of 12 January 1996, as amended and the Labour Code of the Russian Federation. Trade unions enjoy certain rights in negotiating collective bargaining agreements, representing their members and other employees in individual and collective labour disputes with the employers.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws.

PEOPLE'S REPUBLIC OF CHINA

Chemical Industry Regulations

Supervising and Competent Authorities

The PRC gas chemicals industry is regulated by the Chinese State Council and a number of different state authorities and departments including the NDRC, the General Administration of Quality Supervision, Inspection and Quarantine ("**AQSIQ**") the State Administration of Work Safety ("**SAWS**") and the Ministry of Commerce ("**MOFCOM**"). These administrative bodies promulgate rules and regulations on a national level in relation to the production, operation, storage, transportation and handling of chemical products, especially dangerous chemicals, and in relation to the enterprises authorised to produce such chemical products. These rules and regulations are then implemented and enforced at a local level by the counterparts of these relevant local authorities. Among these authorities, the Industrial Department of the NDRC and its local counterparts are the main authority responsible for planning and implementing industry development strategy as well as reviewing and approving the investment plans of large-scale enterprises.

General Legal framework regarding Dangerous Chemicals

In January 2002, the Chinese State Council issued the Regulations on the Safety Administration of Dangerous Chemicals ("**Dangerous Chemicals Regulations**"), which became effective on 15 March 2002. The Dangerous Chemicals Regulations apply to the production, sales, storage, transportation and usage of dangerous chemicals, as well as disposal of dangerous chemical waste and is the primary regulation in the PRC dealing with such issues. Pursuant to the Dangerous Chemical Regulations and to the catalogue of dangerous chemicals issued and updated by SAWS, the definition of dangerous chemicals include methanol, ammonia (liquefied and gas), phosphoric acid and sulphuric acid. The Dangerous Chemicals Regulations are completed by a specific set of rules detailing the provisions applicable for the production, storage and road transport of dangerous chemicals.

As regards the production of dangerous chemicals, every entity engaged in the production of dangerous chemicals must obtain a production permit from AQSIQ before it can begin production. This principle has been specified in July and September of 2005 by the Chinese State Council in the Regulations on the Administration of Production Permits for Industrial Products (the "**Regulations on the Administration of Production Permits for Industrial Products**") and its implementation rules respectively, which are applicable to the production of industrial products, including dangerous chemicals. Production permits for industrial products are granted following the "one product, one permit" rule implying that each product shall obtain a relevant permit before it can begin production. Production permits for industrial products are valid for 5 years. Enterprises engaged in the production of dangerous chemicals must also obtain a safety production permit ("**Safety Production Permit**") from the local SAWS according to the Regulations on the Administration of Safety Production Permits issued by the Chinese State Council in January 2004 (such Safety Production Permits are valid for 3 years) and must register dangerous chemicals under the supervision of SAWS at a national level pursuant to the Administrative Measures of Registration of Dangerous Chemicals issued by the National Economic and Trade Commission in November 2002 ("**Registration Measures**"). The Registration Measures are applicable also to enterprises that store or use dangerous chemicals. Additionally, for the storage of dangerous chemicals, a safety review opinion from SAWS at a local level is required for establishing a production enterprise for dangerous chemicals and for the existing dangerous chemicals production enterprises that plan to restructure or enlarge their production projects according to the Measures for the Safety Review of Dangerous Chemicals Production and Storage Construction Projects (entry into force as of 1 January 2005) issued by SAWS in December 2004.

Finally, a legal entity has to obtain a road transportation permit from the local transportation authority before it is authorised to transport dangerous chemicals as described in the Administration Measures on the Dangerous Chemicals Business Licence promulgated in October 2002 by the National Economic and Trade Commission (the National Economic and Trade Commission was abolished in 2003 and its responsibilities are now being assumed by the MOFCOM and the NDRC).

Fertiliser Industry Regulations

Supervising and Competent Authorities

The PRC fertiliser industry is regulated by the Ministry of Agriculture (the "**MOA**") which requires registration of all fertiliser products. Price-related issues are regulated by the relevant department of the NDRC.

Registration of Fertiliser Products

The Regulations on Registration of Fertilisers (the "**Registration Regulations**") promulgated by the MOA on 23 June 2000 apply to all enterprises that are involved in the import, production, sales and use of fertiliser products in China. According to the Registration Regulations, details of all fertiliser products must be registered with the MOA before being imported, produced, sold or used by any enterprises. However, exemptions from registration requirements are given to fertiliser products that meet the relevant standards set by the Chinese State or other recognised standards within the industry and have been commercially used for a long period of time.

Fertiliser Pricing Rules

Under PRC laws and regulations, there are two kinds of pricing system for fertilisers: (i) the state guidance price system and (ii) the registration system. Under the state guidance price system, the NDRC and/or local price control bureaus prescribe a base price and a ceiling price for fertilisers whereas under the registration system, the NDRC and/or local price control bureaus approve prices of fertilisers and have a discretionary power to modify the price of fertilisers produced by domestic enterprises.

In November 1998, the Chinese State Council issued the Notice on Deepening the Reform of the Fertiliser Distribution System ("**Notice**"). According to the Notice, the ex-factory price of fertilisers may fall under the state guidance price system. Accordingly enterprises could, within the limits of the guidance price system and taking into account market conditions, make their own decisions on fertiliser prices. For example, at present, all fertiliser producers operating ammonia production facilities with production capacities of over 300,000 tonnes per annum fall under the state guidance price system and are subject to a 15% upward ceiling above a base price prescribed by the NDRC or the relevant local price control bureaus. In addition, price control bureaus at provincial levels have the authority to set price ceilings for selected fertilisers under limited circumstances.

The ex-factory prices for phosphate-based fertilisers, potash fertilisers and compound fertilisers are subject to the price range set by the regional price control bureaus. As regards wholesale prices of fertilisers produced by domestic producers, upon request made by NDRC, the local price control bureaus of each province, autonomous region and municipality may intervene to set the wholesale and retail prices of a particular kind of fertiliser product in accordance with the actual situation within the province, autonomous region or the municipality.

The NDRC is planning additional reforms to gradually move away from state guidance pricing towards market-determined pricing and is gradually reducing preferential treatment of domestic producers and establishing a subsidy system under which farmers will obtain subsidies if fertiliser prices rise.

Environmental Regulations

Environmental protection issues in China are regulated primarily by the law on "Environmental Protection" adopted on 26 December 1989 by the National People's Congress (the "**Chinese Environmental Protection Law**"). Manufacturers in China are required to comply with general requirements under the Chinese Environmental Protection Law and other specific laws and regulations under the Noise Pollution Prevention Law, Air Pollution Prevention Law, Water Pollution Prevention Law and Solid Waste Pollution Prevention Law, which govern noise, air, water and solid waste pollution, respectively. In November 2001, the Chinese State Environment Protection Agency ("**SEPA**") modified the statutory wastewater discharge standards of ammonia manufacturers. According to these laws and regulations, an enterprise emitting and discharging pollutants must pay pollutant discharge fees, while an enterprise emitting and discharging pollutants in excess of permitted levels must pay an additional effluent fee and may be liable for rectifying any pollution. An enterprise causing serious environmental pollution is given a limited time to rectify the matter. Penalties for non-compliance include fines, administrative sanctions and suspension or termination of production or business. Pursuant to relevant laws and regulations, the disposal and discharge of dangerous chemicals are subject to strict regulations. Enterprises contemplating the disposal of dangerous chemicals must obtain a permit from SEPA before proceeding. If they do not have such a permit, they must hire the services of enterprises duly qualified for the disposal of dangerous chemicals. Disposals and plans of disposals of dangerous chemicals must be filed with SEPA before disposal.

MANAGEMENT OF ACRON

Overview

The Company's governing bodies are its general meeting of shareholders ("**General Meeting of Shareholders**"), board of directors (the "**Board of Directors**"), management board (the "**Management Board**") and the president (general director) (the "**President (General Director**"). The structure and authority of the Company's governing bodies are set out in the Charter, which was adopted by a General Meeting of Shareholders on 27 May 2005 and subsequently amended several times. The Charter was amended again at the General Meeting of Shareholders held on 30 July 2008.

Board of Directors

The Board of Directors is responsible for the general management of the Company, with the exception of matters that are reserved, either by law or by the Charter, for the General Meeting of Shareholders, the Management Board or the President (General Director). Directors are elected at the annual General Meeting of Shareholders by cumulative voting and serve until the following annual General Meeting of Shareholders (unless their term of office has been terminated early), and may be re-elected an unlimited number of times. The Company's Board of Directors currently has seven members, three of whom are independent in accordance with Russian statutory independence criteria set out in Regulation No. 421/R of the Federal Commission for Securities Market (predecessor of the FSFM) dated 4 April 2002 "On Recommendations for Applying the Corporate Governance Code". These criteria differ from those set out in, for example, the UK Combined Code on Corporate Governance.

The Company's Board of Directors currently consists of the seven members listed below.

Name	Date of birth	Position	Since
Mr. Alexander Popov	27/06/1969	Chairman of the Board of Directors of Acron, member of the Management Board and Senior Vice President of Acron and Dorogobuzh and Deputy Chairman of the Management Board of Acron	2008
Mr. Nikolay Arutyunov	16/04/1964	Non-executive member of the Board of Directors of Acron and Chairman of the Audit Committee of Acron	2008
Mr. Igor Belikov	01/10/1956	Non-executive member of the Board of Directors of Acron and Chairman of the Strategic Planning and Corporate Governance Committee of Acron	2008
Mr. Alexander Dynkin	30/07/1948	Non-executive member of the Board of Directors of Acron and Chairman of Nominations and Compensation Committee of Acron	2008
Mr. Vladimir Gavrikov	17/03/1960	Executive manager and member of the Board of Directors of Acron	2006
Mr. Viktor Kochubey	24/05/1952	First Deputy Executive Manager and member of the Board of Directors of Acron	2007
Mr. Oleg Kornyshev	23/03/1962	Head of Legal and Corporate Practice Departments of Acron and Dorogobuzh and member of the Board of Directors of Acron	2008

With the exception of the independent directors Mr. Arutyunov, Mr. Belikov and Mr. Dynkin, all of the individual members of the Board of Directors are employees of the Company. The business address for all the Board of Directors members is Veliky Novgorod, 173012, Russian Federation.

Brief biographical details of each of the Directors are set out below:

Mr. Alexander Popov was elected Chairman in May 2008 and appointed as the Company's Senior Vice President in 2007. Mr. Popov is also currently Deputy Chairman of the Company's Management Board and the Senior Vice President of Dorogobuzh. Since 1996, Mr. Popov has served in various management positions in the Company, including the Head of the Auditing and Legal Department, Vice President for Corporate Governance and Financial Control. Prior to joining the Company in 1996, Mr. Popov worked as auditor with, and later headed Baker Tilly Russaudit (previously known as Russaudit, Dornhof, Evseev and partners), the Russian member firm

of an international firm of auditors. In 2004, Mr. Popov headed a not-for-profit organisation, the National Institute of Corporate Reforms. Mr. Popov holds a degree in economics from the Financial Academy under the Government of the Russian Federation.

Mr. Nikolay Arutyunov is a non-executive Director and has been a member of the Board of Directors since May 2008. From 2001 to 2005, he was a Senior Equity Strategist with Rye, Man & Gor Securities, a Russian brokerage firm. In 2006, Mr. Arutyunov served as Investor Relations Manager with Evraz Group, a Russian steel producer. Since 2006, Mr. Arutyunov has been the Research Manager with NCH Advisors, Inc., an international investment fund, and a member of the board of directors of Central Telecom, a Russian telecommunications company. Since 2007, Mr. Arutyunov has also been a member of the board of directors of IRKUT Corporation, a Russian aerospace company. Mr. Arutyunov received a degree in economics from Moscow State University in 1986.

Mr. Igor Belikov is a non-executive Director and has been a member of the Board of Directors since 2008. Mr. Belikov served as manager of the World Bank project "Development of Collective Investment Institutions" and as the President of the Russian Privatisation and Management Institute in 1996-1997. From 1997 to 2002, Mr. Belikov served as the CEO of the Capital Markets and Management Institute in Moscow. Mr. Belikov has been a member of the board of directors of several major Russian companies including two Russian energy companies, Astrakhanenergo and Volgogradenergosbyt, Myasoprom, a Russian food producer, and Uralsvyaznform, a Russian telecommunications company. Since 2001, he has been the Managing Director of the Russian Institute of Directors. Since 2002, Mr. Belikov has been acting as a corporate governance advisor to the Federal Securities Market Commission of the Russian Federation (predecessor of the FSFM). Since 2002, Mr. Belikov has been a Deputy Chairman of the National Bar Association of Corporate Directors. Since 2006, Mr. Belikov has also served as a member of the board of directors of the Institute of Internal Auditors and the Chairman of the Investment and Corporate Governance Committee of the Russian Managers' Association. Mr. Belikov is currently a member of the corporate governance committees of the board of directors of Joint Stock Financial Corporation Sistema and JSC Uralsvyazinform, Russian telecommunication companies.

Mr. Alexander Dynkin is a non-executive Director and has been a member of the Board of Directors since 2008. From 1991 to 2006, Mr. Dynkin served as the First Deputy Director of the Russian Academy of Sciences Institute for World Economy and International Relations. Mr. Dynkin is currently the Chair of the Economics Department at the Institute of World Economy and International Relations, member of the Entrepreneurship and Competition Council of the Russian Government and the Director of the Russian Academy of Sciences Institute for World Economy and International Relations. Mr. Dynkin received a degree in economics in 1976 from Institute of World Economy and International Relations and a Ph.D. in economics in 1986.

Mr. Vladimir Gavrikov has been a member of the Board of Directors since 2007. In 2005, Mr. Gavrikov was appointed Executive Manager of the Company. From 1988 to 2004, Mr. Gavrikov served in a number of management positions in the Company, including Deputy General Director, responsible for personnel and social policy of the Company. Mr. Gavrikov received a degree in engineering from the Mendeleev Chemical and Technology Institute in 1983.

Mr. Viktor Kochubey has been a member of the Board of Directors since 2007. In 2008, Mr. Kochubey was appointed First Deputy Executive Manager of the Company. From 1993 to 2002, Mr. Kochubey served in a number of management positions in the Company including Head of the NPK Department, Senior Vice President for Production, Senior Deputy Director General for Production and Development and Senior Engineer. Mr. Kochubey received a degree in cryogenics from Omsk Politechnical Institute in 1978.

Mr. Oleg Kornyshev has been a member of the Board of Directors since May 2008. He was appointed Head of Legal and Corporate Practice of the Company in 2005. Before joining the Company in 2004, he worked in Baker Tilly Russaudit (previously known as Russaudit, Dornhof, Evseev and partners) from 1995 to 2003 and from 2003-2004 was the Head of Tax and Legal Department in Baker Tilly Russaudit. In 2005 and 2006, Mr. Kornyshev was elected to the Company's and Dorogobuzh's board of directors. Currently, Mr. Kornyshev is the general director of LLC Randek and a member of the board of directors of OJSC Acronit, both of which are under the common control of the Principal Shareholder. Mr. Kornyshev received a law degree from All-Union Correspondence Judicial Institute in 1989.

Management Board

The Management Board is a collective executive body of the Company and, together with President (General Director), is responsible for the day-to-day management of the Company, with the exception of those

functions reserved for the General Meeting of Shareholders, the Board of Directors and the President (General Director). It is accountable to the General Meeting of Shareholders and to the Board of Directors. Regulations on the Management Board were adopted at the General Meeting of Shareholders on 30 July 2008.

The Company's Management Board currently consists of the five members listed below.

Name	Date of birth	Position	Since
Mr. Ivan Antonov	20/09/1950	Chairman of the Management Board, President (General Director) of Acron and Dorogobuzh	2005
Mr. Vladimir Kunitsky	12/06/1948	Senior Vice President of Acron and Dorogobuzh, member of the Board of Directors of Dorogobuzh	2007
Mrs. Svetlana Nemova	23/12/1975	Vice President for Non-Core Assets of Acron and Dorogobuzh	2005
Mr. Alexander Popov	27/06/1969	Senior Vice President of Acron and Dorogobuzh, Chairman of the Board of Directors of Acron, Deputy Chairman of the Management Board of Acron and Dorogobuzh	2007
Mr. Oscar Valters	06/11/1963	Vice President for Finance of Acron and Dorogobuzh	2005

All of the members of the Management Board are employees of the Company. The business address for all of the Management Board members is Veliky Novgorod, 173012, Russian Federation.

Mr. Ivan Antonov has been a member of the Management Board since 2005 and Chairman of the Management Board since 2005. He was appointed to the position of the President (General Director) of the Company in 2005. From 2003 to 2005, he served as the Chairman of the Board of Directors and the head of the Company's Export Markets Department. Since 2005, Mr. Antonov has also served as President (General Director) of Dorogobuzh and since 2002 a member of the board of directors of Hongri Acron. Mr. Antonov received a degree in engineering from Leningrad Technology Institute in 1973. Mr. Antonov was awarded, by the Russian President, the title of Honorable Chemist of the Russian Federation in 1998.

Mr. Vladimir Kunitsky has been a member of the Management Board since 2006 and has been employed by the various companies of the Group for more than 25 years. From 1984 to 1989, Mr. Kunitsky served as the head of the NPK Department of, and from 1989 to 1996 as the General Director of Dorogobuzh. Mr. Kunitsky is currently Senior Vice President of the Company, and of Dorogobuzh. Mr. Kunitsky graduated from Ural State University with a degree in chemistry and was awarded, by the Russian President, the title of Honorable Chemist of the Russian Federation in 2003.

Mrs. Svetlana Nemova has been a member of the Management Board since 2005 and was appointed Vice President for Non-Core Assets in 2005. Prior to joining the Company in 2002 as the Deputy Head of the Internal Audit Department, Mrs. Nemova worked as an auditor with Baker Tilly Russaudit from 1998 to 2002. Mrs. Nemova received a law degree from Moscow State University in 1997.

Mr. Oscar Valters has been a member of the Management Board since 2005 and was appointed Vice President for Finance in 2005. He also serves as the Vice President for Finance of Dorogobuzh. From 1995 to 2005, Mr. Valters served in various management positions in the Company, including as the Chairman of the Company's Board of Directors. Prior to joining the Company in 1995, Mr. Valters occupied management positions at NGS Bank, a Russian bank. Mr. Valters received a degree in economics from the Financial Academy at the Government of the Russian Federation in 1992.

Committees of the Board of Directors

On 29 May 2008, the Company established the Audit Committee, the Nominations and Compensation Committee and the Strategic Planning and Corporate Governance Committee of the Board of Directors.

Audit Committee

The Audit Committee consists of three members, Mr. Arutyunov (a non-executive director), Mr. Kornyshev and Mr. Kochubey. The committee is headed by Mr. Arutyunov. The purpose of the Audit Committee is to assist the Board of Directors with its oversight responsibility regarding the quality and integrity of the Company's financial statements, compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and performance of the Company's internal audit function.

At the meeting of the Board of Directors held on 16 July 2008 the Regulations on the Audit Committee (the "**Audit Committee Regulations**") were approved.

According to the Audit Committee Regulations, the Audit Committee shall convene as necessary, but not fewer than three times a year, and shall be authorised to carry out the following key functions relating to the control of the Company's financial and business operations:

- coordinate with the Company's independent auditors and prepare recommendations for the General Meeting of Shareholders in connection with the election and removal of independent auditors and on the fees and scope of services to be provided by auditors;
- coordinate with the internal audit commission and examine its conclusions on the verification of the Company's financial activities and annual accounts;
- review the Company's standards and internal control procedures and make appropriate reports and recommendations; and
- assess the Company's financial reports.

Nominations and Compensation Committee

The Nominations and Compensation Committee consists of three members, Mr. Dynkin, Mr. Gavrikov and Mr. Kornyshev and is headed by Mr. Dynkin, who is a non-executive director. The Nominations and Compensation Committee overviews and provides recommendation to the Board of Directors on matters relating to the Company's employment policy, the guidelines and standards for nomination and appointment of members of the Board of Directors and of the Management Board and remuneration matters.

At the meeting of the Board of Directors held on 16 July 2008 the Regulations on the Nominations and Compensation Committee (the "**Nominations and Compensation Committee Regulations**") were approved.

According to the Nominations and Compensation Committee Regulations, the Nominations and Compensation Committee shall convene as necessary, but not fewer than three times in a year, and shall be authorised to carry out the following key functions:

- recommend to the Board of Directors for determination, the amount of remuneration and compensation to be paid to members of the Board of Directors, of the Internal Audit Commission and of the Management Board (including the General Director (President));
- preparation of recommendations on the development of key elements of the Company's human resources and remuneration and compensation policies;
- preparation of recommendations on the development of key standards for nomination and appointment of members of the Board of Directors, of the Internal Audit Commission and of the Management Board (including the General Director (President));
- monitor the compensation paid by other comparable companies to their executive officers, as well as the performance of the Company;
- review the performance of the General Director (President) and Members of the Management Board and report to the Board of Directors.

Strategic Planning and Corporate Governance Committee

The Strategic Planning and Corporate Governance Committee consists of three members, Mr. Belikov, Mr. Gavrikov and Mr. Popov, and is headed by Mr. Belikov, who is a non-executive director. The Strategic Planning and Corporate Governance Committee is responsible for strategic planning, corporate governance, resolution of corporate conflicts, economics, finance, credit and dividend policy of the Company.

At the meeting of the Board of Directors held on 16 July 2008 the Regulations on the Strategic Planning and Corporate Governance Committee (the "**Strategic Planning and Corporate Governance Committee Regulations**") were approved.

According to the Strategic Planning and Corporate Governance Committee Regulations, the Strategic Planning and Corporate Governance Committee shall convene as necessary, but not fewer than three times in a year, and shall be authorised to carry out the following key functions:

- preparation of recommendations to the Board of Directors on strategic targets and strategic risks associated with the Company's activities, investment, credit, finance and dividend policy, management of the treasury securities and property of the Company;

- prepare recommendations on the prevention and settlement of corporate conflicts in the Company;
- preliminary review and recommendations on the risk management policy;
- preliminary review and recommendations on the Company's annual report;
- preliminary review and recommendations on the strategic risks, their assessment and management; and
- other issues at the request of the Chairman of the Board of Directors.

Internal Audit Commission

The Internal Audit Commission oversees and coordinates the audit of the Company's financial and economic activity. It was established to comply with the requirements of the Joint Stock Companies Law and its activities are governed by that law, the Charter and internal regulations approved in accordance therewith. The principal duties of the Internal Audit Commission are to ensure that the Company's operations comply with applicable laws and the Company's accounting under RAS does not contain any material misstatements. The ultimate responsibility for reviewing and approving the interim and annual financial statements of the Company remains with the General Meeting of Shareholders. Members of the Internal Audit Commission are elected by the General Meeting of Shareholders until the following annual General Meeting of Shareholders. Pursuant to the Joint Stock Companies Law, members of the Board of Directors and the Management Board cannot be appointed to the Internal Audit Commission of the Company.

The Company's Internal Audit Commission currently has five members.

Name	Date of birth	Position
Mrs. Valentina Alexandrova	20/09/1960	Chief Economist for Managing Personnel
Mrs. Irina Klassen	06/04/1965	Secretary of the Board of Directors, Secretary of the Management Board, Chief of Protocol
Mrs. Nadezhda Preobrazhenskaya	21/11/1958	Leading expert of the internal audit department
Mrs. Nadezhda Satina	02/08/1952	Deputy head of financial department
Mrs. Tatiana Strigaleva	16/09/1954	Head of planning department

Loans to Directors and Officers

In January 2008, the Company entered into loan agreements with certain members of management, three of which remain outstanding as at the date of this Prospectus. Each loan was originally drawn down for the principal amount of RUR 12,500,000, has a maturity date of 31 December 2009, and can be repaid in full or in part at any time prior to the stated maturity. The principal outstanding amount of each loan accrues interest at the annual rate of 8%. The loans were granted to certain members of management to enable them to purchase shares in the Company as the Company did not and does not have a share option or other equity-based compensation plan. Repayment of the loans is secured by a pledge of the Company's shares acquired by the members of the Company's management with the borrowed funds. Set out below is information relating to the loans.

Name	Positions held in the Group	Outstanding amount (RUR) as of 30 June 2008 or date repaid
Mr. Ivan Antonov	President (General Director) of Acron and Dorogobuzh; Chairman and Member of the Management Board of Acron and Dorogobuzh	Repaid on 18 February 2008
Mr. Sergey Fedorov	Vice President, Mining and Chemical Production Development, Acron and Dorogobuzh, General Director of NWPC	Repaid on 25 March 2008
Mr. Dmitry Golubkov	Vice President for Overseas Operations of Acron and Dorogobuzh, Member of the Board of Directors of Dorogobuzh, Chairman of the Board of Directors of Hongri Acron	2,168,932.50

Name	Positions held in the Group	Outstanding amount (RUR) as of 30 June 2008 or date repaid
Mr. Vladimir Kunitsky	Senior Vice President of Acron and Dorogobuzh, member of the Management Board of Acron and Dorogobuzh, member of the Board of Directors of Dorogobuzh	6,981,557.38
Mrs. Svetlana Nemova	Vice President for Non-Core Assets of Acron and Dorogobuzh, member of the Management Board of Acron and Dorogobuzh	8,481,557.38
Mr. Alexander Popov	Chairman of the Board of Directors of Acron; Senior Vice President of Acron and Dorogobuzh, Deputy Chairman of the Management Board of Acron and Dorogobuzh	Repaid on 18 February 2008
Mr. Oscar Valters	Vice President for Finance of Acron and Dorogobuzh, member of the Management Board of Acron and Dorogobuzh	Repaid on 28 May 2008

Mr. Sergey Fedorov (Vice President, Mining and Chemical Production Development) was appointed to his current position in 2005. He also serves as the Vice President, Mining and Chemical Production Development of Dorogobuzh and General Director of NWPC. Before joining the Group in 2005, from 1996 to 1997, Mr. Fedorov served as Senior Deputy Director General of Apatite and from 1997 to 2001 as the General Director of Apatite. From 2002 to 2004, Mr. Fedorov was the General Director of PhosAgro. Mr. Fedorov received a degree in railway engineering and design engineering from Novosibirsk Institute of Railway Engineers in 1976. Mr. Fedorov also holds a Ph.D. in economics. In 2003, Mr. Fedorov was awarded, by the Russian President, with the titles of Honorable Chemist of the Russian Federation and Honorable Miner of the Russian Federation.

Mr. Dmitry Golubkov (Vice President for Overseas Operations) was appointed to his current position in 2006. He also serves as the Vice President for Overseas Operations of Dorogobuzh, Mr. Golubkov is also a member of the Board of Directors of Dorogobuzh and since 2004 he has acted as the Chairman of the Board of Directors of Hongri Acron. Mr. Golubkov received a degree in aircraft testing from Moscow Aviation Institute in 1995. In 2002, Mr. Golubkov received a degree in management from the State University of Management in Moscow.

Interests of Directors and Officers

The following table shows the beneficial ownership of the Company's shares as of the date of this Prospectus by the current members of the Board of Directors and Management Board and other senior managers of the Company.

Name	Positions held in the Group	Number of shares held	Percentage of the Company's issued shares
Mr. Ivan Antonov	President (General Director) of Acron and Dorogobuzh; Chairman of the Management Board of Acron and Dorogobuzh	20,018	0.044%
Mr. Sergey Fedorov	Vice President, Mining and Chemical Production Development, Acron and Dorogobuzh; General Director of NWPC	10,927	0.023%
Mr. Dmitry Golubkov	Vice President for Overseas Operations of Acron and Dorogobuzh; Member of the Board of Directors of Dorogobuzh; Chairman of the Board of Directors of Hongri Acron	10,927	0.023%
Mr. Vladimir Kunitsky	Senior Vice President of Acron and Dorogobuzh, member of the Management Board of Acron and Dorogobuzh	10,927	0.023%
Mrs. Svetlana Nemova	Vice President for Non-Core Assets of Acron and Dorogobuzh, member of the Management Board of Acron and Dorogobuzh	10,927	0.023%

Name	Positions held in the Group	Number of shares held	Percentage of the Company's issued shares
Mr. Alexander Popov	Chairman of the Board of Directors of Acron; Senior Vice President of Acron and Dorogobuzh, Deputy Chairman of the Management Board of Acron and Dorogobuzh	13,021	0.027%
Mr. Oscar Valters	Vice President for Finance of Acron and Dorogobuzh, member of the Management Board of Acron and Dorogobuzh	4,630	0.009%

Mr. Sergey Fedorov, the Company's Vice President, Mining and Chemical Production Development, holds 5,000 preferred shares (5%) in NWPC, Acron's phosphate mining subsidiary. Mr. Vladimir Kunitsky owns 95,910 preferred shares (0.01%) and 10,420 ordinary shares (0.001%) in Dorogobuzh. See *"Related Party Transactions."* As a result, potential conflicts of interests between their duties to the Company and private interests could arise. Other than these potential conflicts of interest in respect of Mr Federov and Mr Kunitsky in relation to their minority shareholdings in NWPC and Dorogobuzh, respectively, there are no other conflicts or potential conflicts of interest between the Director's duties to the Company and their private interests or other duties.

The Company does not, and does not intend to, maintain share option or other equity-based compensation schemes for members of its management or employees.

The companies and partnerships of which the Directors have been a member of the administrative, management or supervisory bodies or partners at any time in the previous five years (excluding the Company and its subsidiaries) are as follows:

Name	Current	Former
Mr. Alexander Popov	JSC Sibneftegaz	LLC Russaudit, Dornhof, Evseev and Partners
	Nordic RusHolding	LLC Baker Tilly Russaudit
	JSC DBT	
Mr. Nikolay Arutyunov	NCH Advisors, Inc.	Rye, Man & Gor Securities
	JSC CenterTelecom	Evraz Group
	Irkut Corporation	
Mr. Igor Belikov	JSC Southern Telecommunication Company	JSC Astrakhanenergy
	JSC Sibirtelecom	JSC Volgogradenergosbyt
	JSC Oil Company Lukoil	JSC Uralsvyazinform
Mr. Vladimir Gavrikov	JSC Firma Project	
	LLC Nikulinskoye	
Mr. Victor Kochubey	LLC MSZ Acron	
Mr. Oleg Kornyshev	LLC Randek	
	JSC Management Company National Cavalry Park	
Mr. Vladimir Kunitsky	JSC Rosselkhoskhimiya	JSC Acronagroservice
	JSC Zvyaginki	JSC Black Earth Firld (Niva Chernozemya)
	Nordic RusHolding	JSC Acronagrosbyt
		JSC Krasnoarmeyskagropromkhimiya
		JSC Rosplodgaz
		JSC Rosplodenergy
		JSC Lebedyanagrokhimservice
		JSC Glinischevoagropromkhimiya
		JSC Firma Project
		JSC Sibneftegaz
Mrs. Svetlana Nemova	JSC Moscow Stud Farm No. 1	JSC Management Company National Cavalry Park
		LLC Randek

Name	Current	Former
Mr. Oscar Valters	JSC Firma Project	JSC Rosplodenergy JSC Novpromgaz JSC Rosplodgaz JSC Moscow Stud Farm No. 1 JSC Management Company National Cavalry Park JSC Holding Company National Cavalry Park JSC Sibneftegaz AS BFT Eesti

Litigation Statement about Directors and Officers

As of the date of this Prospectus, no member of the Management Board or the Board of Directors for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Remuneration and Benefits

The aggregate compensation for the senior management and directors of the Company was RUR 90.8 million, RUR 130.1 million and RUR 164.0 million for the years ended 31 December 2005, 2006 and 2007 respectively and RUR 89.4 million and RUR 86.8 million for the three months ended 31 March 2007 and 2008, respectively.

As of 31 March 2008, no remuneration was paid to the members of the Board of Directors or the Management Board for their services. At the General Meeting of Shareholders held on 30 July 2008, the Company approved the payment of an annual remuneration of RUR 1,250,000 to each of its independent directors (Mr. Nikolay Arutyunov, Mr. Igor Belikov and Mr. Alexander Dynkin), to be paid in equal monthly installments. Under an employment agreement with Mr. Ivan Antonov of 28 May 2007 the Company undertakes to pay to Mr. Antonov in addition to monthly salary of RUR 251,500 a monthly bonus of equal amount. In the event of termination of the employment agreement at the Company's initiative, the Company must make a severance payment equal to Mr. Antonov's three-month salary. An agreement of 13 March 2006 provides for lifetime pension payments to Mr. Antonov upon retirement from the Company after 1 June 2008 in the amount of US$5,750 per month (US$/RUR exchange rate being not less than 27 Roubles per 1 US$). No other service contracts of members of the Board of Directors or the Management Board provide for benefits upon termination of employment.

MANAGEMENT OF DOROGOBUZH AND HONGRI ACRON

As with the Company's management structure, Dorogobuzh's management bodies comprise the General Meeting of Shareholders, the Board of Directors and the Management Board. As the controlling shareholder in Dorogobuzh, Acron is able to appoint the entire management of Dorogobuzh. As at the date of this Prospectus, the General Directors and members of the Management Board of the Dorogobuzh are the same as the General Directors and members of the Management Board of Acron.

Hongri Acron's management bodies comprise the General Meeting of Shareholders and the Board of Directors consisting of nine members. Under the constitutional documents of Hongri Acron, as the majority shareholder in Hongri Acron, Acron is entitled to appoint five of the nine members of the board of directors, including the chairman of the board. Hongri Acron also has one general manager, nine deputy general managers and one supervisory board with five members.

In the ordinary course of its business, the Company has engaged, and continues to engage, in transactions with parties that are under common control with the Company or that are otherwise related parties to the Company, including parties that are members of the Company's Board of Directors or the Management Board. Transactions with entities under common control with the Company are transactions with parties that have the same beneficial owners as the Company. See *"Directors and Senior Management—Management of Acron—Board of Directors"* and *"Principal and Selling Shareholder."* See also Note 8 to the Audited Consolidated Financial Statements and Note 4 to the Interim Financial Information included elsewhere in this Prospectus.

Russian law requires a company that enters into certain so-called "interested party transactions" to obtain specific approvals. See *"Description of Share Capital and Certain Requirements of Russian Legislation—Certain Requirements of Russian Legislation—Interested party transactions"* for a discussion of the relevant procedures.

In the years 2005, 2006 and 2007 and the first three months of 2007 and 2008 the aggregate revenues from related party transactions comprised 4.8%, 4.9%, 0.9%, 1.4% and 3.2%, respectively, of the Company's total consolidated revenues for those periods. The Company believes that the terms of these transactions were determined by reference to market terms and prices.

Share Purchases

In July 2006, the Company acquired 47,720,394 shares in Dorogobuzh, which represent 5.45% of Dorogobuzh's total share capital (and 6.60% of voting shares), from Refco Holdings Limited for cash consideration of RUR 592.2 million. Refco Holdings Limited is ultimately controlled by the Principal Shareholder.

In October 2006, the Company acquired 93% of the share capital of JSC Granit from Granadilla Holdings Limited, a company ultimately controlled by the Principal Shareholder, for cash consideration of RUR 929.6 million, and 7% of the share capital of JSC Granit from JSC Acronagroservice, a company ultimately controlled by the Principal Shareholder, for cash consideration of RUR 70.0 million. JSC Granit is a holding company, which owned 78,528,800 ordinary shares and 17,892,595 preferred shares in Dorogobuzh (10.89% of ordinary shares or 11.01% of total share capital) as of the date of this Prospectus.

Cross Shareholding

As at 31 March 2008, Dorogobuzh owned 4,071,600 of the shares in Acron, which represent 8.54% of Acron's Share capital, Shares owned by Dorogobuzh are accounted for as treasury shares under IFRS but retain voting rights and the right to receive dividends.

Financing

LLC Randek

In 2007 and in the first three months of 2008, the Company provided six short-term loans to LLC Randek, a company under common control of the Principal Shareholder, for the total amount of RUR 172.0 million at an interest rate of 10% per annum. Since 31 March 2008 the Company provided one more short-term loan for the total amount of RUR 27.4 million at an interest rate of 10% per annum. According to management, as of 30 June 2008, the outstanding principal amount under these loan facilities was approximately RUR 199.4 million.

CJSC VIAM-AGRO

In the first three months of 2008, the Company provided four short-term interest-bearing loans to VIAM-AGRO, a closed joint stock company registered and existing under the laws of Russia and under common control of the Principal Shareholder, for an aggregate amount of RUR 25.8 million at an interest rate of 9% per annum with the purpose of financing acquisition of agricultural land plots in the Kaliningrad region of the Russian Federation. Since 31 March 2008 the Company provided four more short-term loans for an aggregate amount of RUR 107.0 million at interest rates between 9% and 11.3% per annum. According to management, as of 30 June 2008, the outstanding principal amount under these loan facilities was approximately RUR 132.8 million.

OJSC Moskovsky konny zavod No. 1

From 2006 to 31 March 2008, the Company made available to Moskovsky konny zavod No. 1, an open joint stock company registered and existing under the laws of Russia and under common control of the Principal Shareholder, nine short-term loan facilities for an aggregate amount of RUR 553 million at an interest rate of 10.5% per annum. Since 31 March 2008, the Company made available to Moskovsky konny zavod No. 1 a short-term loan facility for RUR 112 million at an interest rate of 10.5% per annum.

Relationships with the Board of the Company and members of the Company's senior management

Transactions with members of the Board

Mr. Sergey Fedorov, the Company's Vice President, Mining and Chemical Production Development, holds 5,000 preferred shares (5%) in NWPC, Acron's phosphate mining subsidiary. Mr. Vladimir Kunitsky owns 95,910 preferred shares (0.01%) and 10,420 ordinary shares (0.001%) in Dorogobuzh.

For information about the terms of Mr. Ivan Antonov's employment contract, see "*Directors and Senior Management—Management of Acron—Remuneration and Benefits*".

Loans to the Company's senior management

In January 2008, the Company entered into loan agreements with certain members of senior management, three of which remain outstanding as at the date of this Prospectus. For more details on loans granted to the Group's senior management see "*Directors and Senior Management—Management of Acron—Loans to Directors and Officers*."

Other Related Party Transactions

Purchases of goods and services from related parties were RUR 310.7 million, RUR 429.5 million and RUR 214.0 million for the years ended 31 December 2005, 2006 and 2007, respectively, and RUR 43.8 million and RUR 69.6 million for the three months ended 31 March 2007 and 2008, respectively.

Trade payables to and advances from related parties were RUR 10.0 million, RUR 45.8 million and RUR 20.9 million as at 31 December 2005, 2006 and 2007, respectively, and RUR 39.0 million as at 31 March 2008.

Trade receivables without provision for impairment, prepayments and other receivables from related parties were RUR 253.6 million, RUR 250.2 million and RUR 81.5 million as at 31 December 2005, 2006 and 2007, respectively, and RUR 72.1 million as at 31 March 2008.

MARKET INFORMATION

The Company's shares are traded on MICEX and RTS and on 29 December 2007 were included in quotation list "B" of RTS and MICEX.

The following tables set forth, for the years and periods indicated, the reported high and low quoted closing prices for the Company's ordinary shares traded on MICEX and the RTS, together with their respective average daily trading volumes.

	MICEX			RTS		
	High	Low[1]	Average Daily Trading Volume	High	Low	Average Daily Trading Volume
	Price per share RUR			Price per Share US$		
2008						
January	1,750	1,083	15,347,301	65	50.7	75,924
February	2,120	1,033	22,610,808	87	62.15	3,175,161
March	2,099	1,186	22,506,353	87	69	361,859
April	2,276	1,343	26,814,141	98	79	3,492,450
May	2,650	1,626	36,212,058	110	96.25	242,141
June	2,992	1,827	47,741,173	121	111	295,686
July	3,036	1,900	73,736,017	127.5	90	833,011
August (1 to 5)	2,289	2,080	37,199,438	93	87	124,593

Note: Trading in Quotation List "B" began on 10 January 2008.

(1) Adjusted for REPO-type deals.

On 5 August 2008, the closing price of the Company's shares on MICEX was RUR 2,111.97 and on RTS, it was US$ 90 and RUR 2,150. There have been no significant trading suspensions of the Company's shares on either MICEX or RTS since their initial trading began.

The table below sets out the major shareholders of Acron immediately prior to this Offering, including the Selling Shareholder and other shareholders who own 2% or more of the outstanding share capital of Acron, and the expected ownership of the shares by such shareholders immediately after this Offering. Each percentage of direct shareholdings is based on an aggregate of 47,687,600 shares outstanding as at the date of this Prospectus, each such Share with a nominal value of RUR 5.

	Prior to Offering		As adjusted for the Offering	
	Number	%	Number	%
Entities under ultimate ownership/control of the Principal Shareholder				
Closed Joint Stock Company Acronagroservice[(2), (3)]	9,430,800	19.8%	9,430,800	19.8%
Granadilla Holdings Limited[(3), (4)]	6,322,000	13.3%	6,322,000	13.3%
Questar Holdings Limited[(3), (5)]	9,036,400	18.9%	9,036,400	18.9%
Refco Holdings Limited[(3), (6)]	9,285,800	19.5%	9,285,800	19.5%
Dorogobuzh[(1), (7)]	4,071,600	8.5%	4,041,600	8.5%
Subtotal	38,146,600	80%	38,116,600	79.9%
Free float				
Phosint Limited	1,878,500	3.9%	1,878,500	3.9%
Other minority shareholders[(8)]	7,662,500	16.1%	7,692,500	16.1%
Subtotal	9,540,000	20%	9,570,000[(9)]	20.1%
Total	**47,687,600**	**100%**	**47,687,600**	**100%**

Notes:

(1) Dorogobuzh is the Selling Shareholder in the Offering.

(2) Closed Joint Stock Company Acronagroservice is a closed joint stock company established in the Russian Federation.

(3) The Principal Shareholder ultimately indirectly owns and controls Closed Joint Stock Company Acronagroservice, Granadilla Holdings Limited, Questar Holdings Limited and Refco Holdings Limited. As a result of his ultimate control of these companies, the Principal Shareholder controls the Group. The shares indirectly owned and controlled by the Principal Shareholder do not have any different voting rights to those held by other shareholders of Acron.

(4) Granadilla Holdings Limited is a limited liability company established in the Republic of Cyprus.

(5) Questar Holdings Limited is a limited liability company established in the Republic of Cyprus.

(6) Refco Holdings Limited is a limited liability company established in the Republic of Cyprus.

(7) Dorogobuzh is a subsidiary of Acron.

(8) Prior to the Offering, consists of more than 1,000 minority shareholders including the aggregate of approximately 0.2% of shares held by members of the Board of Directors and Management Board. See "*Directors and Senior Management—Management of Acron—Interests of Directors and Officers*".

(9) Includes shares held by the Depositary.

Immediately prior to the Offering, approximately 80% of Acron's shares were controlled by and beneficially owned by the Principal Shareholder. Immediately upon completion of the Offering, the Principal Shareholder is expected to control approximately 79.9% of Acron's outstanding shares. See "*Risk Factors—Risks Relating to the Group's Business—The Group is controlled by the Principal Shareholder, whose interests may conflict with those of other holders and beneficial owners of the Securities" and "Description of Business—Overview*". As of the date of this Prospectus, none of Acron's major shareholders has voting rights different from any other holders of shares in the Company. See "*Risk Factors—Risks relating to the Group's Business—Transactions by the Company and other members of the Group could be challenged on the basis of non-compliance with applicable legal requirements and the remedies in the event of any successful challenge could include the invalidation of such transactions and/or the imposition of liability on the Company and its subsidiaries*".

The Group is not aware of any arrangements by the Principal Shareholder or entities controlled by him that may at a subsequent date result in a change in control of the Group.

Other than minority shareholder rights under Russian law (See "*Description of Share Capital and Certain Requirements of Russian Legislation*") there are no specific measures in place to ensure that control of the Group is not abused by the Principal Shareholder.

Changes in Shareholders' Equity

On 24 November 2005, 8,222 shares, each with a nominal value of RUR 29,000, were converted by way of a share split into 47,687,600 shares, each with a nominal value of RUR 5.

The following describes the Company's shares, the material provisions of the Charter and certain requirements of Russian legislation. This description does not purport to be complete and is qualified in its entirety by reference to the Charter and applicable Russian laws.

Corporate purpose

Article 3.1 of the Charter provides that the Company's purpose is to earn profit.

Description of share capital

General matters

Pursuant to the Joint Stock Companies Law, the Company has the right to issue registered shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Under Russian law, share capital refers to the aggregate nominal value of the issued and outstanding shares.

Immediately prior to the Offering, the Company's total share capital of RUR 238,438,000 consists of 47,687,600 shares, each with a nominal value of RUR 5. The Company also has 32,190,000 authorised but unissued shares, each with a nominal value of RUR 5.

The Charter currently does not permit the issuance of preferred shares.

The Joint Stock Companies Law requires the Company to dispose of any of its shares that the Company acquires within one year of their acquisition or, failing that, reduce the Company's share capital. Such shares are referred to as treasury shares. Russian legislation does not allow voting rights in relation to such treasury shares. Any shares that are owned by the Company's subsidiaries are not considered treasury shares under Russian law (*i.e.*, they are considered outstanding shares), and such subsidiaries are able to exercise voting rights relating to such shares and dispose of such shares without the need for any further corporate actions by the Company's shareholders or the Board of Directors. Currently the Company has 105,646 of its own shares held as treasury shares (as referred to herein) and recorded on its balance sheet.

Prior to the Offering, Dorogobuzh, a subsidiary of the Company, owned 4,071,600 of the shares, which represented 8.54% of the Company's share capital and following the offering, it will hold 4,041,600 of the shares, which represent 8.48% of the Company's share capital. The shares held by Dorogobuzh may be voted at any General Meeting of Shareholders and are entitled to dividends paid by the Company.

History

Privatisation

On 19 November 1992, when the Company was privatised, the share capital of the Company was RUR 539,690 consisting of 383,180 ordinary shares, each with a nominal value of RUR 1 and 156,510 registered preferred shares type B, each with a nominal value of RUR 1. The Company's employees acquired 264,888 shares, representing approximately 49.08% of the share capital of the Company, pursuant to a closed subscription. In addition, 18,394 shares, representing approximately 3.41% of the share capital of the Company were held in an employees' shareholding fund, all of which were subsequently distributed free of charge among the Company's employees. 256,408 shares of the Company, representing approximately 47.51% of the share capital of the Company, were sold through a voucher auction. All preferred shares type B were automatically converted into ordinary shares upon their sale by the Property Fund of Novgorod Oblast under the voucher auction.

Additional share issues

On 16 December 1994, an additional issue of 216,247,906 ordinary shares, each with a nominal value of RUR 1, was registered, as a result of which the Company's charter capital increased to RUR 216,787,506.

The Company's charter capital was subsequently increased in 1995 by the issue of 21,678,760 ordinary shares, each with a nominal value of one Rouble.

Share Consolidation

In 1996, the Company consolidated its shares by converting existing shares into a smaller number of shares with greater nominal value. As a pre-condition to the conversion, the Company's charter capital was decreased by RUR 28,355,000 and subsequently, 238,438,000 ordinary shares were converted into 8,222 ordinary shares with a nominal value of RUR 29,000 each, with the conversion rate being 29,000 to 1.

Share Split

On 24 November 2005, 8,222 shares, each with a nominal value of RUR 29,000 were converted by way of a share split into 47,687,600 shares, each with a nominal value of RUR 5.

Rights of Shareholders

As required by the Joint Stock Companies Law and the Charter, all shares in the Company have the same nominal value and grant identical rights to their holders. Each fully paid share in the Company gives its holder the right to:

- freely transfer the shares without the consent of other shareholders;
- receive dividends;
- participate in General Meetings of Shareholders with the right to vote on all shareholder matters;
- upon the Company's liquidation, receive part of the Company's assets after the Company's obligations to creditors have been fulfilled;
- challenge in court any resolution passed by a General Meeting of Shareholders that is in violation of applicable law or the Charter if the holder did not participate in that General Meeting of Shareholders or voted against the relevant resolution, and if that resolution was in breach of the holder's rights or legitimate interests;
- demand that the Company repurchase the shares owned by such holder if the holder voted against, or did not participate in the voting on, any resolution passed by a General Meeting of Shareholders approving the reorganisation of the Company, the conclusion of a major transaction subject to provisions of Joint Stock Companies Law, or any amendment of the Charter or approval of a new edition of the Charter that restricts the holder's rights;
- participate in the General Meeting of Shareholders in person or through such holder's representative;
- receive information relating to the Company and have access, among other things, to the Company's constitutional documents; documents confirming title to the Company's assets; the Company's internal regulations; minutes of the Company's General Meeting of Shareholders and Board of Directors' meeting; independent appraisers' reports; lists of the Company's affiliates; reports of the internal auditor, external auditor, and state and municipal financial control bodies; and annual reports, and receive copies of such documents for a reasonable fee;
- if holding 25% or more of the Company's voting shares, have an opportunity to access accounting documents and minutes of the Management Board meetings in accordance with Russian law and the Charter;
- if holding, alone or with other Shareholders, 2% or more of the shares, submit proposals for the agenda of the annual General Meeting of Shareholders and nominate candidates to the audit commission and to the Board of Directors within a period set forth by the Joint Stock Companies Law;
- challenge in court major and interested party transactions if entered into in violation of the applicable statutory procedures;
- if holding, alone or with other Shareholders, 10% or more of the Company's shares, demand to call an extraordinary General Meeting of Shareholders or an unscheduled audit by the internal auditor;
- exercise pre-emption rights to acquire the shares in cases provided for by Russian law; and
- exercise other rights of a shareholder provided for in the Charter.

Pre-emptive rights

Under the Joint Stock Companies Law, shareholders have a pre-emptive right to purchase shares or convertible securities in the course of an open subscription in the amount proportionate to their existing

shareholdings. In addition, the law provides shareholders with a pre-emptive right to purchase shares or convertible securities during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that each such shareholder may acquire a whole number of shares or convertible securities being placed in an amount proportionate to their existing shareholdings. Shareholders may exercise their pre-emptive rights through closed subscription within the period of not less than 45 days from the date of the notice of their pre-emptive right, unless the price for new shares is set following the expiration of the pre-emptive rights period, in which case such period shall be not less than 20 days.

Anti-Takeover Protection and Minority Security Holder Redemption

Since the entry into force of new legislation on 1 July 2006, new rules apply to the acquisition of shares in open joint stock companies. A summary of the relevant provisions of Joint Stock Companies Law is set forth below. The new legislation has not yet been extensively interpreted by the courts and it is not clear how certain provisions will be applied.

Voluntary public offer

A person intending to acquire more than 30% of the total number of shares and/or preferred shares (provided that such shares carry voting rights) ("**voting shares**") in an open joint stock company (taking into account the shares already held by it and its affiliates), has the right to make a public offer to other holders of such shares or securities convertible into such shares (a "**voluntary public offer**").

Mandatory public offer

Within 35 days of acquiring more than 30% of a company's voting shares, the acquirer must make a public offer to purchase the remaining voting shares, and securities convertible into such voting shares from the holders of such securities (a "**mandatory public offer**"). The requirement to make a mandatory public offer also applies to a shareholder that has acquired a sufficient number of voting shares, on its own or with its affiliates, to pass the 50% or 75% threshold of the company's voting shares.

Competing public offer

At any time after a company receives a voluntary or a mandatory public offer and up to 25 days prior to the expiration period for accepting such offer by the company's shareholders (such acceptance period cannot be less than 70 days or more than 90 days (in the case of a voluntary public offer) or more than 80 days (in the case of a mandatory public offer) from the date on which the public offer was received by the company), any person is entitled to make a competing public offer (that satisfies the requirements for a voluntary or mandatory public offer, as the case may be) to purchase the shares at a price that is greater than or equal to the price offered in the first voluntary or mandatory public offer. Any shareholder may revoke its previous acceptance of an earlier public offer and accept the competing public offer. A copy of the competing public offer must be sent to the person who made the earlier voluntary or mandatory public offer so that person may amend its offer by increasing the purchase price and/or shortening the settlement period.

Public offer requirements

Voluntary and mandatory public offers to the holders of the securities to be acquired must contain information provided by the Joint Stock Companies Law and, although addressed to the company's shareholders, be sent through the company. A public offer is deemed to have been made to all holders of the securities to be acquired as at the time at which the public offer is received by the company. According to the Joint Stock Companies Law, a public offer sent to the company must have a bank guarantee enclosed with it that sets out the guarantor's obligations to meet the acquirer's payment obligations. The guarantor's details and the conditions of the bank guarantee must be specified in the public offer sent to the company. The bank guarantee must be effective for at least six months after the expiry of the relevant acceptance period.

According to the Joint Stock Companies Law, a person intending to make an offer must send its offer to FSFM which has the power to issue an order to bring the offer into compliance with the requirements set forth in the Joint Stock Companies Law. If the offeror proposes to acquire securities that are traded on a stock exchange, the offer must be sent to FSFM fifteen days prior to its delivery to the company. If the securities to be acquired are not traded on a stock exchange, the offer must be sent to FSFM on or before the date of its delivery to the company.

The Board of Directors of a company that receives a public offer must make a recommendation with respect to the offer within 15 days after receipt of the public offer. The company must send its recommendation, together with the public offer in respect of which it is made, to all holders of the securities to be acquired.

The Joint Stock Companies Law provides that, during the acceptance period, an offeror may not acquire securities subject to its public offer on terms other than those specified in its offer. The acceptance period is determined by the offeror, subject to certain limitations set forth in the Joint Stock Companies Law and it may be no less than 70 days and no more than 90 days (in the case of voluntary public offers) or 80 days (in the case of mandatory public offers) from the date on which the public offer was received by the company. The holders of the securities to be acquired may accept the public offer by sending the offeror an application to sell their securities either by mail, or by any other means provided for in the offer.

From the moment that a voluntary or mandatory public offer is made and for 20 days after the expiration of the acceptance period for the public offer, or until the new board of directors that would include the representatives of the person who acquired more than 30% of voting shares is elected (whichever occurs earlier), decisions on certain important corporate issues (such as the placement of additional securities; the approval of a transaction or a series of related transactions whose value exceeds 10% of the company's balance sheet assets as at the date of the company's last accounts; the approval of interested party transactions; and other issues specified in the Joint Stock Companies Law) must be adopted only by a general meeting of the company's shareholders. In effect, the receipt of a public offer extends the competence of the General Meeting of Shareholders.

Under the Joint Stock Companies Law, pending receipt of the mandatory offer by the company, a person that has acquired more than 30% of voting shares (and its affiliates) will have voting rights attaching to 30% of the shares only. Similarly, pending receipt of the mandatory offer by the company, a person that has acquired more than 50% or 75% of voting shares (and its affiliates) will have voting rights attaching to 50% or 75% of the shares, accordingly. Other shares owned by such person (and its affiliates) will not be counted for purposes of the quorum at a general shareholders' meeting. Thus, a person acquiring more than 30% of voting shares in a company in cases where he has had a zero or less than 30% of voting shares will vote only 30% of shares before the mandatory offer is submitted to the company notwithstanding the number of shares he has just acquired. Where an acquirer purchases more than 50% or 75% of voting shares (subject to his already existing shareholding of more than 30%) he will have 50% or 75% of votes, respectively. However, since the relevant provisions of the Joint Stock Companies Law with regard to limitation of voting rights in case of acquisition of more than 50% or 75% of voting shares have been recently adopted and remain untested, there is a risk that these provisions might be interpreted as limiting the voting rights of the person that acquired more than 50% or 75% of voting shares still at the 30% level.

There are rules allowing for the "squeeze-out" of minority shareholders by persons that acquire more than 95% of the voting shares in a voluntary or a mandatory offer. Under transitional legislative provisions, majority shareholders that as of 1 July 2006 owned more than (i) 95% of the voting shares or (ii) 85% of such shares but acquired more than 95% of the same through a voluntary offer made after 1 July 2006 can also take advantage of the "squeeze-out" rules until 1 August 2008. However, whenever a "squeeze-out" is used both a report of an independent appraiser and an expert opinion of a self-regulatory organisation of appraisers is required for determining the purchase price. The above rules are supplemented by additional FSFM regulations.

Minority security holder redemptions/squeeze-out

If as a result of either a voluntary or mandatory public offer an acquirer, together with its affiliates, purchases more than 95% of the voting shares, it has an obligation to (i) notify all the other shareholders (within 35 days after the acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer, (provided that he has acquired at least 10% of the voting shares in the course of the public offer) has the right to deliver, within 6 months following expiration of the relevant acceptance period for an offer (as the case may be), a squeeze-out demand, binding upon the minority shareholders, that they sell their shares.

Dividends

The Joint Stock Companies Law and the Charter set forth the procedure for determining the dividends that the Company distributes to its shareholders. Under the Charter, the Company may declare dividends based on its

first-quarter, six-month, nine-month or annual results. According to the Charter, dividends are recommended to a General Meeting of Shareholders by a majority vote of the Board of Directors, and approved by the General Meeting of Shareholders by a majority vote. The dividend approved at the General Meeting of Shareholders may not exceed the amount recommended by the Board of Directors. The list of shareholders entitled to receive dividends is made as of the date of drawing up a list of shareholders qualified for participation in the General Meeting of Shareholders approving payment of the respective dividends. A decision on three-month, six-month and nine-month dividends must be taken within three months of the end of the respective quarter at a General Meeting of Shareholders; a decision on annual dividends must be taken at the annual General Meeting of Shareholders. Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of net profits as calculated under Russian accounting standards and provided that the following conditions have been met:

- the share capital of the company has been paid in full;
- the value of the company's net assets (calculated under Russian accounting standards), is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase;
- the company is not, and would not become as the result of the proposed dividend payment, insolvent; and
- in other cases provided for by Russian legislation.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared):

- if the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- if the value of the company's net assets (calculated under Russian accounting standards), on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- in other cases provided for by Russian legislation.

Distribution to Shareholders on Liquidation

Under Russian law, liquidation of a company results in its termination without the transfer of its rights and obligations to other persons as legal successors. The Joint Stock Companies Law and the Charter allow the Company to be liquidated:

- by the voluntary decision of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate the Company, the right to manage the Company's affairs would pass to the liquidation commission which, in the case of a voluntary liquidation, is appointed by a shareholders' meeting and, in a compulsory liquidation, is appointed by the court. The Company's creditors may file claims within a period to be determined by the liquidation commission, but which may not be less than two months from the date of publication of notice on liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

First priority—to individuals owed compensation for injuries or deaths or moral damages;

Second priority—to employees and copyright claims;

Third priority—to federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and

Fourth priority—to other creditors in accordance with Russian legislation.

The remaining assets of a company are distributed among shareholders in the following order of priority:

First priority—payments to repurchase shares from shareholders having the right to demand repurchase;

Second priority—payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and

Third priority—distribution of the remaining assets of a company to holders of common and preferred shares on a pro rata basis.

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investment. This may not be the case, however, where one person or entity is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is called an "effective parent." The person or entity whose decisions are capable of being so determined is called an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. In addition, an effective parent may be vicariously liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent.

This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

In addition, an effective parent may be held vicariously liable for the debts of an effective subsidiary if the latter becomes insolvent or bankrupt resulting from the action or inaction of the former. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, then the effective parent will have vicariously liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily liable if the effective subsidiary's insolvency is caused by the wilful misconduct or negligence of such effective parent.

Alteration of share capital

Increase of share capital

The Company may increase its share capital by:

- issuing new shares, or
- increasing the nominal value of already issued shares using the Company's net income.

According to the Joint Stock Companies Law, a decision to increase the share capital by increasing the nominal value of issued shares requires a majority vote at a general shareholders' meeting. A decision on the issue of shares or securities convertible into shares by closed subscription, or on the issue by open subscription of shares or securities convertible into shares constituting more than 25% of the number of issued shares requires a three-quarters majority vote by a general shareholders' meeting.

Under the Joint Stock Companies Law and the Charter, a decision to increase the share capital within the number of declared shares by way of issue of additional shares or securities convertible into shares constituting less than 25% of the number of issued shares requires the unanimous decision of the Board of Directors.

In addition, an issue of shares by the Company, whether of shares or of preferred shares, above the number of authorised shares specified in the Charter requires the Charter to be first amended, which requires a three-quarters majority vote of the General Meeting of Shareholders.

The Joint Stock Companies Law requires that the placement price for newly issued shares be determined by the board of directors based on their market value although that may not be less than their nominal value, except in limited circumstances where (1) existing shareholders exercise a pre-emptive right to purchase shares at not less than 90% of the price paid by third parties, or (2) fees of up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The board of directors and an independent appraiser should determine the value of any payment for new shares made by way of an in-kind contribution.

Russian securities regulations set out detailed procedures for the issue and registration of shares of a joint stock company. These procedures require:

- the adoption of a resolution to increase the share capital by placing additional shares;
- the adoption of a resolution on the share issue;
- the registration of the share issue (and a securities prospectus, if required) with the FSFM;
- the placing of the shares;
- the registration of a report on the placing or the filing of a written notice of the placing with the FSFM; and
- that public announcements be made at certain prescribed points during the share issue.

Decrease of share capital; Share repurchases

The Company has the right to, and in certain circumstances, must according to statute, reduce its share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which is RUR 100,000 for an open joint stock company. The Charter and Joint Stock Companies Law requires that any decision to reduce its share capital, whether through a repurchase and cancellation of shares or a reduction of the nominal value of the shares, be made by the General Meeting of Shareholders. The resolution on reduction of the nominal value of shares must be passed by a three-quarters majority of the shareholders present at the meeting and on the motion of the Board of Directors. Additionally, within 30 days of a decision to reduce its share capital, the Company must give written notice to its creditors and publish this decision. The creditors then have the right to demand, within 30 days of publication or receipt of the Company's notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law and the Charter allow the Board of Directors to authorise the purchase of up to 10% of the Company' shares for cash.

The purchased shares must be resold at market price within one year of their purchase or the shareholders must decide to cancel such shares and reduce the share capital.

The Joint Stock Companies Law allows a company to purchase its shares only if, at the time of purchase:

- its share capital is fully paid-up;
- it is not and would not become, as a result of the purchase, insolvent;
- the value of its net assets is not lower (and would not become lower, as a result of the proposed purchase) than the sum of its share capital, the reserve fund and the difference between the liquidation value and nominal value of its issued and outstanding preferred shares; and
- it has purchased all shares from shareholders having the right to demand purchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation provides that a shareholder may demand the purchase of all or some of its shares if such shareholder voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganisation;
- conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the company; or
- amendment of a company's charter in a manner which results in restrictions of the shareholder's rights.

The Company is allowed to spend up to 10% of its net assets calculated under Russian accounting standards for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand purchase exceeds 10% of the Company's net assets, the Company must purchase shares from each such shareholder on a pro-rata basis.

Registration and Transfer of shares

All shares of the Company are in registered form. Russian legislation requires that a joint stock company or an independent registrar maintain a register of the company's shareholders. Ownership of the Company's registered shares is evidenced solely by entries made in such register or on the books of a Russian licensed depositary.

The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be held by a specialised registrar.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depositary if shares are recorded by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, may be challenged in court.

Any of the Company's shareholders (but not GDR holders) may obtain an extract from the register certifying the number of shares that such shareholder holds. The Branch "MR-center" of CJSC "St. Petersburg Central Registration Company", located at 3a Meretskova-Volosova Str., Veliky Novgorod, Russia, maintains the Company's shareholder register (the "**Registrar**").

Reserve fund

Under Russian legislation, a joint stock company must establish a reserve fund which may only be used, and if so only when other funds are not available, to cover the company's losses, redeem the company's bonds and purchase the company's shares. The Charter provides for a reserve fund of 15% of the Company's share capital, funded through mandatory annual transfers of at least 5% of net profits of the Company until the reserve fund has reached the 15% requirement. The reserve fund may be used to cover the Company's losses, to cancel the Company's bonds or to pay for the Company's shares being redeemed by the Company.

Disclosure of Information

Russian securities regulations require the Company to make the following public announcements, disclosures and filings on a periodical basis:

- publishing on the Company's website and filing with the FSFM quarterly reports containing information about the Company, its shareholders, management bodies, members of the Board of Directors, branches and representative offices, the Company's shares, working capital, bank accounts and auditors, important developments during the reporting quarter, and other information about the Company's financial and business activity as required by applicable securities regulations;
- publishing on the Company's website, filing with the FSFM and publishing in its periodical print publication, as well as in other public media, any information concerning material facts and changes in the Company's financial and business activity, including, *inter alia*, its reorganisation, certain changes in the amount of its assets, decisions on share issues, certain changes in ownership and shareholding as well as resolutions of the General Meeting of Shareholders;
- publishing the Charter and internal regulations;
- disclosing information on various stages of share offerings, issues and registration by publishing certain data in accordance with applicable securities regulations;
- publishing the Company's annual report and annual financial statements prepared in accordance with the RAS;
- filing with the FSFM on a quarterly basis a list of the Company's affiliates and publishing this list on its website;
- publishing on the Company's website, filing with the FSFM and announcing through other public news media information that may have a significant effect on the price of the Company's securities; and

- other information as required by applicable securities legislation.

The Company must also announce news of material events and certain other information through prescribed Russian newswire services (currently Interfax and AK&M) before announcing such information through any other means.

Governance bodies

The Company's management structure consists of a General Meeting of Shareholders, a Board of Directors, a Management Board and a General Director, the latter two of which are responsible for the day-to-day management of the Company. See *"Directors and Senior Management"*.

General Meeting of Shareholders

Competence

The powers of a General Meeting of Shareholders are set forth in the Joint Stock Companies Law and in the Charter. A General Meeting of Shareholders does not have the competence to make decisions on matters that are not on the list of its powers as set out in the Joint Stock Companies Law and the Charter. Among others, the shareholders have the power to decide on the following matters:

- introduction of amendments to the Charter or approval of a restated charter;
- reorganisation of the Company;
- liquidation of the Company, appointment of a liquidation commission, approval of interim and final liquidation balance sheets;
- election and dismissal of members of the Board of Directors;
- determination of the number, nominal value, category (type) of declared shares and rights attaching thereto;
- increasing the Company's charter capital by increasing the nominal value of its shares;
- reducing the Company's charter capital by reducing the nominal value of its shares, by acquiring some of the shares by the Company for the purpose of reducing their total number as well as by cancelling shares acquired or redeemed by the Company;
- election and dismissal of members of the Company's internal audit commission;
- approval of the Company's auditor;
- payment (declaration) of dividends based on the results of the first three, six and nine months of a fiscal year;
- approval of annual reports and annual accounting statements, including profit and loss statements (profit and loss accounts) of the Company, as well as the profit distribution (including payment (declaration) of dividends, except for profit distributed as dividends based on the results of the first three, six or nine months of the fiscal year) and losses of the Company based on the results of a fiscal year;
- determination of the procedure for holding a General Meeting of Shareholders;
- election of members of the Company's accounting commission and early termination of their powers;
- division and consolidation of shares;
- adoption of resolutions on approval of interested party transactions in cases provided for by the Joint Stock Companies Law;
- adoption of resolutions on approval of major transactions in cases provided for by the Joint Stock Companies Law;
- adoption of a resolution on participation in financial and industrial groups, associations and other unions of commercial organisations;
- approval of internal documents regulating the activity of the Company's bodies;
- placement of shares and securities convertible into shares by closed subscription;
- placement by open subscription of ordinary shares and securities convertible into ordinary shares comprising more than 25% of the number of previously placed ordinary shares; and

- other issues provided for by the Joint Stock Companies Law.

The following issues can be adopted by a General Meeting of Shareholders only upon the proposal of the Board of Directors:

- the reorganisation of the Company;
- increase of the Company's charter capital by increasing the nominal value of shares;
- placement of shares and securities convertible into shares by closed subscription;
- placement by open subscription of ordinary shares and securities convertible into ordinary shares comprising more than 25% of the number of previously placed ordinary shares;
- split and consolidation of shares;
- adoption of resolutions on approval of interested party transactions in cases provided for by the Joint Stock Companies Law;
- adoption of resolutions on approval of major transactions in cases provided for by the Joint Stock Companies Law;
- adoption of a resolution on participation in financial and industrial groups, associations and other unions of commercial organisations;
- approval of internal documents regulating the activity of the Company's bodies; and
- reducing the Company's share capital by acquiring some of the Company's shares for the purposes of reducing their total number.

Procedure

A General Meeting of Shareholders is valid (has a quorum) if shareholders holding in aggregate more than half of the votes of the Company's placed voting shares have taken part in the meeting in person or by proxy. If by the time of the meeting there is no quorum for any items on the meeting's agenda, the general meeting shall be adjourned for another date with the same agenda. The quorum at any rescheduled meeting shall be present if shareholders holding in aggregate more than 30% of the votes of the Company's placed voting shares are in attendance.

The annual General Meeting of Shareholders should be held not earlier than two months and not later than six months after the financial year-end. The annual General Meeting of Shareholders considers the following matters:

- election of the Board of Directors;
- approval of the Company's annual reports and annual accounting statements, including income statements (accounts of profit and loss) and distribution of profits (including payment (announcement) of dividends) and losses based on the results of a financial year in accordance with RAS;
- approval of the auditor; and
- election of the Internal Audit Commission.

A shareholder(s) owning in aggregate at least 2% of the voting shares in the Company may propose items to the agenda of the annual General Meeting of Shareholders and nominate candidates to the Board of Directors, the Internal Audit Commission and the candidate for the position of the sole executive body. Such proposals must be submitted to the Company no later than 30 days following the end of the relevant financial year.

Notice and Participation

Shareholders entitled to participate in a General Meeting of Shareholders must be notified of the General Meeting of Shareholders by registered mail not later than 30 days prior to the date of such meeting. The Company may additionally notify the shareholders of a General Meeting of Shareholders through other mass media (television, radio), including publications in the *Novgorod*, *Novgorodskie vedomosti* and *Khimik* newspapers and on its web site. If the agenda of an extraordinary General Meeting of Shareholders contains a proposal to elect the Board of Directors or to approve any reorganisation in the form of a merger, spin-off or separation, if the board of directors of the new entity established as a result of such reorganisation is elected, shareholders must be notified thereof at least 70 days prior to the date of the meeting. Only the matters specified in the official notice to the shareholders may be discussed at a General Meeting of Shareholders.

The list of persons entitled to participate in a General Meeting of Shareholders is to be compiled on the basis of data in the shareholders' register of the Company on the date determined by the Board of Directors, which date shall neither be earlier than the date of adoption of the resolution to hold a General Meeting of Shareholders nor more than 50 days before the date of the meeting (or, in the case of an extraordinary General Meeting of Shareholders to elect the Board of Directors, not more than 85 days before the date of such General Meeting of Shareholders).

Shareholders may exercise their right to participate in a General Meeting of Shareholders by:

- personally participating in the discussion of agenda items and voting thereon;
- sending an authorised representative to participate in the discussion of agenda items and to vote thereon;
- absentee ballot; or
- delegating the right to fill out the absentee ballot to an authorised representative.

Board of Directors

According to the Joint Stock Companies Law, the Charter and Regulations on the Board of Directors, the Board of Directors is responsible for the general management of the Company and its operations, except for matters that fall within the competence of the General Meeting of Shareholders, and also exercises control over the Company's executive bodies implementation of resolutions of the General Meeting of Shareholders or the Board of Directors.

The Joint Stock Companies Law requires all joint stock companies to have not less than a five-member Board of Directors, not less seven members where the joint stock company has more than 1,000 holders of voting shares, and not less than nine members where the joint stock company has more than 10,000 holders of voting shares. The actual number of directors is determined by a company's charter or a resolution of the general meeting of shareholders. Because the total number of the Company's shareholders is more than 1,000, the Charter provides that the Board of Directors shall consist of seven members. Only natural persons (as opposed to legal entities) are entitled to sit on the Board of Directors. Members of the Board of Directors are not required to be shareholders of the Company. Pursuant to the Joint Stock Companies Law, no more than 25% of the members of the Management Board may be members of the Board of Directors.

The Board of Directors is elected at the General Meeting of Shareholders for the period until the following annual Meeting of Shareholders. If the annual Meeting of Shareholders does not take place in the time provided by the Joint Stock Companies Law, the Board of Directors' powers shall terminate save for the powers on preparation, convening and holding of the annual General Meeting of Shareholders. Members of the Board of Directors are elected by cumulative voting. Under cumulative voting, the number of shares of each shareholder is multiplied by the number of persons to be elected to the Board of Directors and the shareholder may give all votes for one candidate or spread them between two or more candidates. The candidates who receive the maximum number of votes are deemed to be elected to the Board of Directors. A majority vote of a General Meeting of Shareholders may at any time remove the directors as a group without cause before the expiration of their term. Persons elected to the Board of Directors may be re-elected an unlimited number of times.

Members of the Board of Directors may not pass their voting rights at the Board of Directors' meeting to any third party including other members of the Board of Directors.

The Board of Directors elects the chairman of the Board of Directors from its members and has the right to remove its chairman at any time. However, the President (General Director) may not be elected as the chairman of the Board of Directors. The chairman of the Board of Directors organises its work, calls and presides over meetings of the Board of Directors and performs other functions provided by Russian law, the Charter and Company's internal documents.

The Joint Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive competence of a meeting of shareholders. In accordance with the Joint Stock Companies Law and the Charter, the Board of Directors' competence includes, *inter alia*, the following matters:

- determining the Company's priority activities;
- convening an annual and extraordinary General Meeting of Shareholders of the Company, except for cases stipulated by the current legislation of the Russian Federation;
- approving the agenda of General Meetings of Shareholders;
- determining the date for compiling the list of persons entitled to participate in a General Meeting of Shareholders and other matters falling within the competence of the Board of Directors of the Company by the current legislation of the Russian Federation and related to the preparation and holding of General Meetings of Shareholders;
- increase of the Company's charter capital by placing additional shares within the range and categories (types) of the Company's declared shares;
- placing bonds and other securities by the Company in cases stipulated by the current legislation of the Russian Federation;
- determining the price (monetary value) of property and the offering and redemption price of securities in cases stipulated by the current legislation of the Russian Federation;
- acquiring shares (except for acquiring a portion of shares by the Company for the purpose of reducing their total number and decrease of the Company's charter capital), bonds and other securities placed by the Company in cases stipulated by the Joint Stock Companies Law;
- forming executive bodies of the Company and early termination of their powers as well as approval of terms and conditions of employment contracts with the General Director and members of the Management Board;
- providing recommendations on the amount of remuneration and compensation paid to members of the Internal Audit Commission and determining the amount of the auditor's fee;
- providing recommendations on the amount of a dividend on shares and the procedure for its payment;
- using the reserve fund and other funds of the Company;
- approving internal documents of the Company, except for internal documents that must be approved by the General Meeting of Shareholders according to the Joint Stock Companies Law as well as other internal documents of the Company which fall within the competence of the Company's executive bodies pursuant to the Charter;
- establishing branches and opening the Company's representative offices;
- approving major transactions in cases stipulated by the current legislation of the Russian Federation;
- approving interested party transactions in cases stipulated by the current legislation of the Russian Federation;
- approving the Company's Registrar and the terms and conditions of the agreement therewith, as well as the termination of that agreement;
- adopting a resolution on participation in other organisations (except in the cases expressly set forth in the Charter);
- issuing proposals to a General Meeting of Shareholders in the cases stipulated by the Joint Stock Companies Law and the Charter; and
- adoption of internal financial control procedures of the Company;
- control over the risks management system;
- election of the Chairman of the Board of Directors and his deputy;
- appointment of the secretary of the Board of Directors;
- approval of the decision on issue (additional issue) of securities, securities prospectus and of the report on the results of the securities issue (additional issue);
- establishment of committees of the Board of Directors, approval of regulations on committees of the Board of Directors and amendments thereto, appointment of chairmen of committees of the Board of Directors;

- proposals to the agenda of the General Meeting of Shareholders relating to approval, introduction of amendments and additions to the Regulations on the General Meeting of Shareholders, Board of Directors, Management Board or the Internal Audit Commission; and
- other matters stipulated by the current legislation of the Russian Federation.

Meetings of the Board of Directors are called by its chairman at his or her sole discretion, or at the request of a member of the Board of Directors or a member of the Internal Audit Commission, the Management Board, auditor or General Director of the Company.

A meeting of the Board of Directors has a quorum if at least half of its elected members are present. Decisions on certain matters falling within the Board of Directors' competence (such as an increase in the share capital and approvals of major transactions) must be approved by the Board of Directors unanimously. In the case of a tied vote, the Chairman of the Board of Directors has a casting vote.

Management Board

The Management Board is a collective executive body of the Company, responsible for the day-to-day management of the Company. The Management Board consists of five persons (the Chairman and members of the Management Board). The Management Board is headed by the Chairman, whose functions are exercised by the President (General Director) appointed and dismissed by the Board of Directors. Only individuals can be members of the Management Board. Members of the Management Board are elected by the Board of Directors out of the candidates proposed by the President (General Director). The Board of Directors may at any time terminate the powers of any member of the Management Board.

The following matters, *inter alia*, fall within the competence of the Management Board:

- issuing recommendations on major matters affecting the Company's day-to-day activities;
- coordinating implementation of resolutions of the General Meeting of Shareholders and the Board of Directors of the Company;
- preparing information, data and proposals on the matters to be considered by the Board Directors and the General Meeting of Shareholders;
- approving the Company's future plans, including its business plans;
- adopting the Company's production programme and determining production volumes;
- issuing recommendations on new businesses, reconstructions and technical re-equipment of the Company;
- issuing recommendations on implementation of the Company's social development program;
- ensuring continuous improvement of labour conditions, living conditions, leisure facilities, medical services for the Company's employees and their families and improvement of the Company's social development;
- coordinating work of the Company's departments and units;
- product quality control and its improvement;
- recruitment; and
- other matters falling within its competence and proposed for consideration by the President (General Director) or other members of the Management Board.

Meetings of the Management Board are convened and conducted by the President (General Director) or acting General Director when necessary, who signs on behalf of the Company all documents and minutes of meetings of the Management Board and acts without a power of attorney on behalf of the Company in accordance with decisions of the Management Board adopted within its competence.

Meetings of the Management Board are called by its Chairman on his or her own initiative. A meeting of the Management Board is quorate if at least half of its members are in attendance. Resolutions are adopted by majority vote of the members of the Management Board present at a meeting thereof. In the case of a tied vote, the Chairman of the Management Board has a casting vote. Members of the Management Board may not pass their voting rights at the Management Board's meeting to any third party, including other members of the Management Board.

President (General Director)

The President (General Director) is the Company's chief executive officer and is in charge of the Company's day-to-day activities. The President (General Director) exercises executive authority over all activities of the Company, except for matters assigned to the exclusive competence of the General Meeting of Shareholders, the Board of Directors and the Management Board. Under the Charter, the Board of Directors elects the President (General Director) for an unlimited period of time and may at any time resolve to terminate his or her powers. The term of office of the President (General Director) is not defined in the Charter.

The President (General Director) chairs the Management Board. The President (General Director) acts on behalf of the Company without a power of attorney; he/she may also be held liable for losses caused to the Company.

Upon a decision taken by the General Meeting of Shareholders, the functions of the President (General Director) may be transferred to a management company.

Corporate governance

In 2002, the Russian Federation introduced its first corporate governance code. Although not of a binding nature, the corporate governance code is recommended for use by companies listed on Russian stock exchanges.

On 29 December 2007, the Company's shares were listed on quotation list "B" on the RTS and MICEX. The Company's shares are traded on the RTS under the symbols "AKRN" (US$) and "AKRNG" (RUR) and on MICEX under the symbol "AKRN". These rules set, *inter alia*, the following requirements:

- at least one independent director on the board of directors at all times;
- establishment of an audit committee of the board of directors chaired by an independent non-executive director;
- adoption of a bylaw on insider trading;
- establishment of internal control procedures;
- a provision in the company's bylaws obligating the company's general director, members of the board of directors, the management board and its officers to disclose information concerning their ownership, sale and purchase of securities issued by the company; And
- a provision in a company's charter that notification of each annual general shareholders' meeting is made not less than 30 days before the date on which such meeting is held.

Whilst it is not yet in full compliance, the Company is currently working towards compliance with the Russian corporate governance code for listed companies. Under Russian law, the Company has one year to bring its corporate governance structure into compliance with the RTS and MICEX listing rules from the date of listing of the shares (i.e. by 28 December 2008) and intends to continue to implement good corporate governance practices in line with international standards. The Company's Board of Directors includes three independent non-executive directors, with three board committees established to address audit, staff and remuneration, strategic planning and corporate governance, each committee being chaired by an independent director. The Company intends to continue implementation of an internal control system consistent with international best practices, having established an internal audit department to help the Company to monitor and assess the robustness of its internal controls. The Company intends to adopt a by-law on insider trading by the end of 2008.

Internal Audit Commission

The principal duties of the Internal Audit Commission are ensuring that the Company's operations comply with applicable laws and the Company's accounting under RAS does not contain any material misstatements.

The Internal Audit Commission's role is mainly limited to reporting to the Board of Directors and the Company's shareholders with respect to the RAS annual financial statements of the Company. In particular, opinions of the Internal Audit Commission are provided to the Company's shareholders before and during each annual General Meeting of Shareholders. In exercising its control functions, the Internal Audit Commission is entitled to request that the Board of Directors convene an extraordinary General Meeting of Shareholders and propose an agenda for such meeting. If the Board of Directors fails to convene an extraordinary General Meeting of Shareholders upon the Internal Audit Commission's request, the Internal Audit Commission is entitled to convene such meeting independently. The Internal Audit Commission does not actively participate in the implementation of internal control procedures of the Company.

At the General Meeting of Shareholders members of the Internal Audit Commission are elected until the following annual General Meeting of Shareholders. Members of the Board of Directors and the General Director may not serve on the Internal Audit Commission.

Certain Requirements of Russian Legislation

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by directors who are not interested in the transaction concerned or shareholders of the company. Interested party transactions include transactions involving a member of the board of directors or member of any

executive body of the company, any person that owns, together with any affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person, or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- in other cases provided by Russian legislation.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. An "independent director" is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company. Additionally, such person's spouse, parents, children, adoptive parents or children, brothers or sisters may not occupy positions in the executive bodies of the company.

For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of those directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the issue, by subscription, of voting shares or securities convertible into voting shares, or secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of the issued shares;
- the company is merging with another company, when the latter owns more than three-fourths of the voting capital stock of the company; or
- the company is required by federal legislation to enter into the transaction, and settlements under such transactions are made pursuant to fixed tariffs and prices established by appropriate state authorities.

Any interested party transaction shall be approved prior to its execution. Upon a claim by a company or any of its shareholders, a court may invalidate any interested party transaction entered into in breach of the above requirements.

Major Transactions

The Joint Stock Companies Law defines a major transaction as a transaction, or a series of transactions, involving the acquisition or disposal, or a possibility of disposal, of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions completed in the ordinary course of business or transactions involving the placement of shares or securities convertible into ordinary shares.

Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to the claim of the company or any of its shareholders.

Anti-monopoly Approvals of Acquisitions

As of 26 October 2006, the new Competition Law came into effect. A summary of the relevant provisions of the Competition Law is set out below, although investors should note that it is currently not entirely clear how such provisions will be applied in practice.

Under the Competition Law, an investor or several entities constituting "a group of entities and/or individuals" should obtain a prior clearance from the FAS in the following cases in particular:

- for the initial acquisition of more than 25% of the voting shares in a joint stock company, or 33.3% of the participation interest in a limited liability company, provided that the acquirer did not have any shares (participation interest) in such company or had less than the above threshold before the acquisition. This rule does not apply to the founders acquiring shares or participation interests during the incorporation of such company, provided that such founders make cash contributions;
- for the subsequent acquisition of the voting shares in a joint stock company or participation interests in a limited liability company such that the level of their holding of the company's shares (participation interest) passes the threshold of 50% or 75% of the voting shares in a joint stock company or 50% or 66.6% of the participation interests in a limited liability company;
- for the acquisition of production or intangible assets if the book value of such assets exceeds 20% of the aggregate book value of the production and intangible assets of the seller (transferor); or
- for the acquisition of rights to determine the conditions of the business of another entity.

Prior FAS clearance is required in the above cases if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUR 3 billion and, simultaneously, the aggregate value of assets of the target and the companies of its group exceeds RUR 150 million, or (ii) the aggregate value of revenues of the same entities in the last calendar year exceeds RUR 6 billion and, simultaneously, the aggregate value of assets of the target and the companies of its group exceeds RUR 150 million or (iii) alternatively, one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35%.

Post-completion notification, instead of prior clearance, is required in the above cases if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUR 200 million and, simultaneously, the aggregate value of assets of the target and the companies of its group exceeds RUR 30 million, or (ii) the aggregate value of revenues of the same entities in the last calendar year exceeds the same amount and, simultaneously, the aggregate value of assets of the target and the companies of its group exceeds RUR 30 million or (iii) alternatively, one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35%. Such notification must be made by the acquirer no later than 45 days after the date of such execution. Intra-group transfers are no longer subject to prior approval by the FAS. However, intra-group transfers may be subject to post-completion notifications. For the purposes of a notification, one of the parties should file a "list of its group members" with the FAS not later than one month prior to completion. The list should specify the reasons for including each of the group members in the group.

The Competition Law also provides for other merger control rules applicable in case of merger, establishment of entities and in certain other cases.

The Competition Law expressly provides for its extraterritorial application to transactions which are made outside of Russia but lead, or may lead, to the restriction of competition in Russia and relate to assets located on the territory of Russia or to the shares (participation interests) in Russian companies or rights in relation to such companies.

Exchange Controls

Federal Law No. 173-FZ, "On Currency Regulation and Currency Control" (the "**Currency Law**"), which entered into force on 18 June 2004 empowers the Russian government and the CBR to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities, including GDRs, and domestic securities, including the Shares, as well as certain types of settlements between residents and non-residents of Russia. However, as of 1 January 2007, most of the restrictions that were in place before were abolished.

Capital Import and Export Restrictions

Under the Currency Law, currency operations in respect of GDRs and shares between residents and non-residents may be conducted without limitation in both Roubles and in foreign currencies. Under the Currency Law, currency operations in respect of shares between non-residents may be conducted either in Roubles or in foreign currencies without limitation, subject to compliance with Russian securities and antimonopoly laws and regulations.

However, certain currency control restrictions were not repealed from 1 January 2007 and these include a general prohibition of foreign currency operations between Russian residents (except for the operations specifically listed in the Currency Law and operations between those authorised banks specifically listed in the CBR regulations) and the requirement for Russian companies to repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions covering, in particular, certain types of secured financing).

Restrictions on the Remittance of Dividends, Interest or Other Payments to Non-residents

Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated 9 July 1999, as amended, specifically guarantees foreign investors the right to repatriate their earnings from investments in the Russian Federation.

In its Information Letter No. 31 of 31 March 2005, the CBR stated that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are non-Russian residents. There can be no assurance that the guidance in this letter will not be reversed in future.

The ability of investors to convert Roubles into US dollars (in cases where dividends are paid in Roubles) is subject to the availability of US dollars on Russian currency markets. Although foreign exchange markets exist in Russia, including the inter-bank currency exchange and the over-the-counter and currency futures markets, the further development of these markets is uncertain. At present, there is no market for the conversion of Roubles into foreign currencies outside Russia, and no viable market in which to hedge Roubles and Rouble-denominated investments.

Notification of Foreign Ownership

Pursuant to the Securities Market Law, a foreign person or company acquiring shares in a Russian joint stock company in relation to which legislative foreign-ownership restrictions exist must notify the FSFM of the acquisition no later than five days after the acquisition and in the form and substance required by Russian securities legislation. The Company believes that, as at the date of this Prospectus, no such restrictions have been triggered with respect to the Shares.

Organisations that are taxpayers and individuals registered as individual entrepreneurs in the Russian Federation who acquire shares in a Russian joint stock company must notify the Russian tax authorities thereof at their place of residence within one month after such acquisition. Accordingly, foreign persons registered as individual entrepreneurs in the Russian Federation and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month after such acquisition if they are already registered with the Russian tax authorities as taxpayers at the time of the acquisition.

If any of the Group companies becomes subject to the Foreign Investments Restrictions Law, foreign investors must notify the competent Russian authorities of acquisitions (whether direct or indirect) of 5% or more in the share capital of relevant Group companies. No member of the Group is currently subject to this Law.

Pursuant to the Foreign Investments Restrictions Law and recent amendments to the Russian Federal law "On Foreign Investments in the Russian Federation" No. 160-FZ, the acquisition by a foreign state, an international organization or an entity controlled by any of rights to control, directly or indirectly, more than 25% (or, in respect of a company holding a subsoil license in respect of a "deposits of strategic (federal) importance", 5%) of voting shares in (or of ability to block the management decisions of) any Russian company requires an advance approval of competent Russian authorities.

Notification of ownership in natural monopolies

Since the Company is a "natural monopoly", it is subject to additional governmental control of any transaction resulting in its ownership. In particular, if a person or a group of persons acquires more than 10% of the total amount of voting interest in a natural monopoly on the market or as the result of other transaction (including, but not limited to, agency, pledge, trust management), it must notify the anti-monopoly authorities of such acquisition and any resulting changes in the number of votes held by it within 30 days of the date of such acquisition. See "*Risk Factors—Risks Relating to the Group's Business—The Group may be at risk of administrative sanctions, be required to divest certain assets or be subject to limitations on its operating flexibility as a result of failing to comply with the Natural Monopoly Law or if FAS determines that the Group should be added to the list of entities with a dominant market position*".

Offering Outside the Russian Federation

The Regulations on the Procedure for Issuing by the Federal Financial Markets Service a Permit to Place and (or) Circulate Equity Securities of Russian Issuers Outside the Russian Federation, adopted by Order of the Federal Financial Markets Service No. 06-5/pz-n of 12 January 2006 require that a permit from the FSFM must be received prior to the offering of a Russian issuer's shares outside Russia, including offerings of equity securities through either sponsored or unsponsored depository receipt programmes offering GDRs representing interests in the Russian issuer's shares.

On 1 July 2008, the FSFM approved the circulation of up to 13,775,580 shares of the Company, representing approximately 28.9% of the shares, outside Russia, including in the form of GDRs. See *"Risk Factors—Risks Relating to the Securities and the Trading Market—The number of shares that may be deposited into the GDR programme is limited, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside the Russia in the form of GDRs or otherwise may negatively affect the market for the Securities"*.

Notification of the FSFM

Pursuant to Russian securities legislation, a holder of shares must notify the company concerned and the FSFM if it acquires 5% or more of the shares and any subsequent change in the number of the shares above or below 5%, 10%, 15%, 20%, 25%, 30%, 50% or the 75% threshold. The notification should contain the name of the shareholder, the name of the company, the state registration number of the shares issued and the number of the shares acquired. As a general rule, the notification must be made within five days after the shares are transferred to the shareholder's securities account (or a depositary account). Upon receipt of the notification from the shareholder, the company concerned is required to make a public announcement of the acquisition.

Deutsche Bank Trust Company Americas has agreed to act as the depositary for the GDRs (the "**Depositary**"). The Depositary's principal New York offices are located at 60 Wall Street, New York, New York 10005, United States and its principal London offices are located at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom. In this summary the term "**GDRs**" is used to refer to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are ordinarily known as "**Global Depositary Receipt Certificates**" or "**GDR Certificates**." The GDRs being sold in the United States are referred to and will be issued as Rule 144A GDRs and the GDRs being sold outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary. The Depositary has appointed Deutsche Bank Ltd. as the custodian (the "**Custodian**") for the safekeeping of the Deposited Securities (the "**Deposited Securities**"), cash or other property on deposit. The Custodian's principal office is at 82 Sadovnicheskaya Street, Building 2, Moscow 115035, Russian Federation.

Acron has appointed the Depositary pursuant to two separate deposit agreements, one for the Rule 144A GDRs (the "**Rule 144A Deposit Agreement**") and one for the Regulation S GDRs (the "**Regulation S Deposit Agreement**") and together with the Rule 144A Deposit Agreement, the "**Deposit Agreements**"), each of which is governed by New York law, and the rights of holders of shares and GDRs shall be governed by the laws of Russia (or if applicable, such other laws as may govern the Deposited Securities). Copies of the Deposit Agreements are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours. This is a summary description of the material terms of the GDRs and of the material rights of owners of the GDRs.

Prospective investors should note that the following summary is provided for informational purposes only, is not exhaustive, and is qualified in its entirety by reference to the terms of the Deposit Agreements, which determine rights and obligations of holders and beneficial owners of the GDRs.

One GDR represents the right to receive 0.1 (one tenth) of a Share on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs because of legal restrictions or practical considerations. On becoming an owner of GDRs, a GDR owner will become a party to the applicable Deposit Agreement and therefore will be bound by its terms and by the terms of the GDR Certificate that represents the relevant GDRs. The applicable Deposit Agreement and GDR Certificate specifies Acron's rights and obligations as well as the rights and obligations of the owner of the GDRs and those of the Depositary. An owner of GDRs is deemed to appoint the Depositary as its attorney-in-fact, with full power to delegate, to act on its behalf and to take any and all actions contemplated in the applicable Deposit Agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the Depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable Deposit Agreement. Presently, owners of GDRs may hold GDRs only through a brokerage or safekeeping account. As such, owners of GDRs must rely on the procedures of their broker or bank to exercise or be entitled to any rights attributable to such GDRs. GDR owners are advised to consult with their broker or bank to determine what those procedures are. References to a "**holder**" assume the person owns GDRs and such person's agent (*i.e.*, broker, custodian, bank or trust company) is the holder of the applicable GDR.

No temporary Master GDR Certificates or other temporary documents of title have been or will be issued in connection with this offering.

Distinctions Between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are similar in many ways but are different primarily on account of the requirements of the US securities laws. The Rule 144A GDRs are "restricted securities" under the US securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not *per se* "restricted securities" under the US securities laws, but certain limitations are imposed on the issuance of Regulation S GDRs in an effort to prevent the transfer of Regulation S GDRs in violation of the US securities laws.

The differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs include the following:

- The restrictions on the transfers, deposits and withdrawals of the shares represented by the GDRs. See *"Transfer Restrictions."*

- The eligibility for book-entry transfer. See *"Settlement and Safekeeping"* below.
- Special restrictions on deposits and withdrawals apply to Acron's affiliates. See *"Ownership of GDRs by Acron Affiliates"* below.

These distinctions and the requirements of the US securities laws may require Acron and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and Safekeeping

Rule 144A GDRs

The Depositary will make arrangements with Euroclear and Clearstream to act as securities depositories for the Rule 144A GDRs. All Rule 144A GDRs issued in the Offering will be registered in the name of a nominee of BT Globenet Nominees Limited, the common depositary for Euroclear and Clearstream. One Master Rule 144A GDR Certificate will represent all Rule 144A GDRs that will be issued to and registered in the name of that nominee. Euroclear and Clearstream will hold the Regulation 144A GDRs on behalf of their participants (any such participant of Euroclear or Clearstream, a "**Participant"**) and transfers will be permitted only within Euroclear and Clearstream in accordance with the rules and operating procedures of the relevant system. Transfers of ownership interest in Rule 144A GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of Participants in Euroclear and Clearstream, acting in each case on behalf of Regulation 144A GDR owners.

If at any time Euroclear and Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation 144A GDRs, Acron and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available separate Regulation 144A GDR Certificates in physical certificated form. Owners of Regulation 144A GDRs will not otherwise receive physical certificates representing their ownership interest in the Regulation 144A GDRs.

Regulation S GDRs

The Depositary will make arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the Offering will be registered in the name of a nominee of BT Globenet Nominees Limited, the common depositary for Euroclear and Clearstream. One Master Regulation S GDR Certificate will represent all Regulation S GDRs issued to and registered in the name of that nominee. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their Participants and transfers will be permitted only within Euroclear and Clearstream in accordance with the rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of Participants in Euroclear and Clearstream, acting in each case on behalf of Regulation S GDR owners.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, Acron and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available separate Regulation S GDR Certificates in physical certificated form. Owners of Regulation S GDRs will not otherwise receive physical certificates representing their ownership interest in the Regulation S GDRs.

Transfer Restrictions

See "*Transfer Restrictions*."

Dividends and Distributions

As a holder, GDR owners generally have the right to receive the distributions Acron makes on the securities deposited with the Custodian. GDR owners' receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDRs held as of a specified GDR record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by Acron for the shares underlying the GDRs.

Cash Distributions

Whenever Acron makes a cash distribution in respect of securities on deposit with the Custodian, Acron will deposit the funds with the Custodian. Upon receipt of confirmation from the Custodian of the deposit of any cash dividend or other cash distribution, the Depositary will arrange for the funds to be converted into US dollars and for the distribution of the US dollars to the holders, if in the reasonable judgment of the Depositary it is practicable and lawful. See *"Foreign Currency Conversion"* below for actions the Depositary is entitled to take if conversion, transfer and distribution cannot be so made by the Depositary.

The amounts distributed to holders will be net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Distributions of shares

Whenever Acron makes a distribution upon any Deposited Securities consisting of a dividend in, or free distribution of shares in respect of the shares on deposit with the Custodian, Acron will deposit the applicable number of shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDRs representing the shares deposited or modify, to the extent permissible by law in proportion to the number of GDRs held by such holders as of the record date, the GDR-to-shares ratio, in which case each GDR held will represent rights and interests in the additional shares so deposited. Only whole new GDRs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-shares ratio upon a distribution of shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDRs will be made if it would violate applicable laws (including the US securities laws). If the Depositary does not distribute new GDRs as described above, it may sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distribution of Rights

Whenever Acron intends to distribute to the holders of shares rights to subscribe for additional shares, Acron will give timely prior notice to the Depositary and state whether or not Acron wishes such rights to be made available to GDR holders.

If Acron wishes such rights to be made available to GDR holders, Acron will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to GDR holders.

The Depositary will establish procedures to distribute rights to purchase additional GDRs to holders and to enable such holders to exercise such rights only if (1) the Depositary has received Acron's request to make such distribution in a timely manner, (2) Acron has provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction) and (3) the Depositary has determined that it is lawful and reasonably practicable to make the rights available to holders of GDRs. GDR holders will have to pay fees, charges, expenses, and any taxes and other governmental charges to subscribe for the new GDRs upon the exercise of GDR holders' rights. Provided that all these conditions are satisfied, the Depositary shall (i) establish a record date, (ii) establish procedures to distribute such rights (by means of warrants or otherwise) and to enable the GDR holders to exercise the rights (after payment, netting or deduction of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes and other governmental charges), and (iii) issue and deliver Regulation S GDRs or Rule 144A GDRs, as the case may be, upon the valid exercise of such rights. The Depositary is not obligated to make available to the GDR holders a method to exercise such rights to subscribe for shares (rather than GDRs).

If (1) Acron does not request that the rights be distributed to GDR holders in a timely manner or Acron requests that the rights not be distributed to GDR holders, (2) Acron fails to deliver satisfactory documentation to

the Depositary, such as opinions of counsel as to compliance with applicable law, or (3) any rights made available are not exercised and appear to be about to lapse, the Depositary will determine whether it is lawful and reasonably practicable to sell the rights, in a riskless principal capacity, at such place and upon terms (including public and private sale) as it may deem practicable. The proceeds of such sale will be converted into US dollars and distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (1) any failure to determine whether it may be lawful or practicable to make such rights available to GDR holders in general or to a particular GDR holder, (2) any foreign exchange exposure or loss incurred in connection with any sale or exercise or (3) the content of any materials forwarded to the holders on behalf of the Company in connection with the rights distribution. There can be no assurance that GDR holders in general or any particular GDR holder will be given the opportunity to exercise rights on the same terms and conditions as the holders of shares or to exercise such rights at all.

Elective Distributions

Whenever Acron intends to distribute a dividend payable at the election of shareholders either in cash or in additional shares, Acron will give timely prior notice thereof to the Depositary and will indicate whether Acron wishes the elective distribution to be made available to GDR holders. In such case, Acron will assist the Depositary in determining whether such distribution is lawful and reasonably practicable. The Depositary will make the election available only if it has received timely prior notice from Acron, if it is reasonably practicable and if Acron has provided all of the documentation contemplated in the applicable Deposit Agreement (such as legal opinions of counsel as to compliance with applicable law). In such case, the Depositary will establish procedures to enable GDR holders to elect to receive either cash or additional GDRs, in each case as described in the Deposit Agreements.

If the election is not made available to GDR holders, GDR holders will, to the extent permitted by law, receive either cash or additional GDRs, depending on what a shareholder in Russia would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

The Depositary is not obligated to make available to holders a method to receive the elective dividend in the form of shares rather than in the form of GDRs. There can be no assurance that holders of GDRs or beneficial interests therein generally, or a particular GDR holder, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Deposited Securities.

Other Distributions

Whenever Acron intends to distribute property other than cash, shares or rights to purchase additional shares, Acron will timely notify the Depositary in advance and will indicate whether Acron wishes such distribution to be made to GDR holders. If so, Acron will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable. If the Depositary has received timely prior notice from us, it is reasonably practicable to distribute such property to GDR holders and if Acron has provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions of counsel as to compliance with applicable law), the Depositary will distribute the property to the holders in proportion to the number of GDRs held by such holder and in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges incurred by the Depositary under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received. If (1) Acron does not request that the property be distributed to GDR holders in a timely manner, or requests that the property not be distributed to GDR holders, (2) Acron fails to deliver satisfactory documentation (such as legal opinions of counsel as to compliance with applicable law) to the Depositary, or (3) the Depositary determines that all or a portion of the distribution is not reasonably practicable, the Depositary will sell such property in a public or private sale, at such place and upon terms as it may deem practicable.

The proceeds of any such sale will be converted into US dollars and distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

Redemption

Whenever Acron decides to redeem any of the securities on deposit with the Custodian, Acron will give timely prior notice to the Depositary setting out the particulars of the proposed redemption. If the Depositary has received timely prior notice from Acron, determined that such redemption is practicable and received from Acron all of the documentation contemplated in the Deposit Agreements (such as legal opinions of counsel as to compliance with applicable law), the Depositary will send notice of the redemption to the holders.

The Depositary will instruct the Custodian to surrender the Deposited Securities being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into US dollars upon the terms of the Deposit Agreements and will retire the Regulation S GDRs or Rule 144A GDRs, as the case may be, and cancel the Regulation S GDR Certificates and Rule 144A GDR Certificates, as the case may be, upon delivery of such Regulation S GDR or Rule 144A GDRs by holders thereof. See *"Foreign Currency Conversion"* below for actions the Depositary is entitled to take if conversion, transfer and distribution of funds by the Depositary is not practicable or lawful. GDR holders will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the redemption of GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a *pro rata* basis, as the Depositary may determine.

Changes Affecting Deposited Securities

The shares held on deposit for GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets affecting Acron. If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such shares shall, to the extent permitted by law, be treated as new shares under the Deposit Agreements, and the GDR Certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The Depositary in such circumstances may with Acron's approval, and shall if Acron so requests subject to the terms of the Deposit Agreements and receipt by the Depositary at Acron's expense of a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR Certificates to GDR holders or make appropriate adjustments in its records, or call for the exchange of the existing GDRs for new GDRs. If the Depositary may not lawfully distribute such securities to GDR holders, the Depositary may with Acron's approval sell such securities and distribute the net proceeds to GDR holders as in the case of a cash distribution, and shall do so if Acron so requests and subject to the terms of the Deposit Agreements provide to the Depositary at Acron's expense of a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. GDR holders will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the sale of such securities.

The Depositary shall not be responsible for (1) any failure to determine that it is lawful or practicable to make such securities available to holders of GDRs in general or to a particular GDR holder, (2) any foreign exchange exposure or loss incurred in connection with such sale or (3) any liability to the purchaser of such securities.

Issuance of GDRs Upon Deposit of shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depositary may create GDRs on GDR holders' behalf if holders, or holders' brokers, deposit shares with the Custodian. The Depositary will deliver these GDRs to the person a GDR holder indicates only after a GDR holder pays any applicable issuance fees and any charges and taxes payable for the transfer of the shares to the Custodian and provides the applicable deposit certification. A GDR holder ability to deposit shares and receive GDRs may be limited by US and Russian legal considerations applicable at the time of deposit.

It may also not be able to deposit shares and receive GDRs where to do so would require Acron to produce a further prospectus or a supplemental prospectus. See *"Risk Factors—Risks Relating to the GDRs and the Trading Market."*

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the shares have been duly transferred to the Custodian. The Depositary will only deliver GDRs in whole numbers.

When a deposit of shares is made, the person depositing will be responsible for transferring good and valid title to the deposited shares to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, the person depositing will be deemed to represent and warrant that:

- the shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emptive (and similar) rights, if any, with respect to such shares have been validly waived or exercised;
- he is duly authorized to deposit the shares and has fulfilled all requirements of applicable law or regulation with respect to the shares or the deposit thereof against the issuance of GDRs;
- the shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of shares under the Regulation S Deposit Agreement, the shares are not, and the Regulation S GDRs issuable upon such deposit will not be, "Restricted Securities" (as defined in the Regulation S Deposit Agreement), except in the case of deposits of a kind described in "*—Ownership of GDRs by Acron Affiliates"* below;
- the shares presented for deposit have not been stripped of any rights or entitlements;
- the shares are not subject to any unfulfilled requirements of applicable law or regulation;
- except as provided in the Deposit Agreements and summarized under "—Ownership of GDRs by Acron Affiliates" below, the person depositing is not, and shall not become while holding GDRs, one of Acron's affiliates; and
- the deposit of the shares complies with the restrictions in transfer set forth in the legend on the GDRs.

If any of the representations or warranties are incorrect in any way, Acron and the Depositary may, at the depositing person's cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When a person deposits shares to receive Regulation S GDRs, he will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- it acknowledges that the shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- it is not an affiliate of Acron and he is not acting on behalf of Acron or one of its affiliates;
- it is, or at the time the shares are deposited and Regulation S GDRs are issued, will be, the beneficial owner of the shares and the Regulation S GDRs to be issued upon deposit of such shares;
- it is a person (other than a US person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the shares to be deposited outside the United States; and
- it is not in the business of buying and selling securities or, if he is in such business, he did not acquire the shares presented for deposit from Acron or any of Acron's affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

After the initial deposit of Shares in connection with the Offering, any subsequent deposit of Shares against the issuance of Rule 144A GDRs can only be made by the Company or its Affiliates and provided that such deposit is made in accordance with the terms of the Deposit Agreement and any requisite certifications have been delivered to the Depositary.

For more information concerning deposit certifications to be made by Acron's affiliates, see *"Ownership of GDRs by Acron Affiliates"* below.

Withdrawal of Deposited Securities Upon Cancellation of GDRs

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, a holder will be entitled to present his GDRs to the Depositary for

cancellation and then receive the corresponding number of underlying shares at the Custodian's offices. The ability to withdraw the shares may be limited by US and Russian law considerations applicable at the time of withdrawal.

In order to withdraw the shares represented by GDRs, a holder will be required to pay to the Depositary all the fees and charges for the making of withdrawals of Deposited Securities and cancellation of GDRs and any taxes and governmental charges payable upon the transfer of the shares being withdrawn and will be required to provide to the Depositary a written order containing delivery instructions together with the applicable withdrawal certification and agreement. The holder assumes the risk for delivery of all funds and securities upon withdrawal.

Once cancelled, the GDRs will not have any rights under the corresponding Deposit Agreement. The Depositary may require proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel GDRs. The withdrawal of the shares represented by GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations.

If any GDRs surrendered and GDR Certificates cancelled represent fractional entitlements in the Deposited Securities, the Depositary shall cause the appropriate whole number of Deposited Securities to be withdrawn and delivered in accordance with the relevant Deposit Agreement and shall, at its own discretion, either (1) issue and deliver to the person surrendering such GDR Certificate a new GDR Certificate evidencing GDRs representing any remaining fractional share or (2) sell or cause to be sold the fractional share represented by the GDR Certificate surrendered and remit proceeds of such sale (net of (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes withheld) to the person surrendering the GDR Certificate. When a holder requests the withdrawal of the shares represented by the Rule 144A GDRs, he will be required to represent and warrant that the withdrawal of the shares complies with the restrictions on transfer set forth in the legend on the GDRs and provide the Depositary with a withdrawal certification stating, *inter alia*, that: (A) it acknowledges that the shares represented by the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and (B) it certifies that:

(1) it is both a QIB and a QP, acting for its own account or for the account of one or more other persons, each of whom is both a QIB and a QP, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either:

- it is surrendering the Rule 144A GDRs through Euroclear or Clearstream pursuant to the Rule 144A Deposit Agreement for purposes of (i) withdrawing the Shares represented by such Rule 144A GDRs and (ii) depositing such Shares in accordance with the Regulation S Deposit Agreement for issuance of Regulation S GDRs to a transferee in accordance with the Rule 144A Deposit Agreement and in a transaction satisfying all of the requirements of Regulation S; or
- it will be the beneficial owner of the shares upon withdrawal and:
- it will sell the shares only to a person (other than a US person, as defined in Regulation S) outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; and
- it will not deposit the shares in any depositary receipts facility that is not a "restricted" depositary receipts facility, so long as the shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement, except in the case of sale of Regulation S GDRs by one of Acron's affiliates. See *"Ownership of GDRs by Acron Affiliates"* below.

Proofs, Certificates and Other Information

A holder may be required (1) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs, compliance with all applicable laws and the terms of the Deposit Agreements and the provisions of, or governing, the Deposited Securities and (2) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as Acron may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary and the Registrar (as defined in the Deposit Agreements) may withhold the execution or delivery or

registration of transfer of all or part of any GDR Certificate, or the distribution or sale of any dividend or distribution of rights or of the net proceeds of such sale or the delivery of any shares / Deposited Securities, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary's, the Registrar's and Acron's reasonable satisfaction.

Holders and beneficial owners of GDRs shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in Russia, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of Russia.

The Depositary shall be entitled to provide to the Russian authorities of competent jurisdiction, to the extent reasonably necessary to satisfy the requirements of Russian law, information or documents (in the form of copies or originals) concerning holders and beneficial owners, it being understood that the Depositary accepts no responsibility for or liability arising out of or in connection with any inaccuracies or misstatements in or misleading omissions from any information or documents furnished to it directly or indirectly by or on behalf of the holders and beneficial owners.

Ownership of GDRs by Acron Affiliates

Acron permits its affiliates to deposit shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the Depositary, as required by the Rule 144A Deposit Agreement. Acron also permits Acron's affiliates to exchange their Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting the requirements of Regulation S, so long as each exchanging affiliate delivers the requisite certifications to the Depositary and otherwise satisfies the requirements of the Deposit Agreements. Acron does not otherwise permit Acron's affiliates to deposit shares against the issuance of Regulation S GDRs unless they certify to the Depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the Depositary.

The requirements for such deposits and exchanges of GDRs by Acron's affiliates are more fully described in the Deposit Agreements.

Voting Rights

A holder generally has the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the shares represented by his GDRs. The voting rights of holders of shares are described in "*Description of Share Capital and Certain Requirements of Russian Legislation*."

Upon Acron's timely written request, at Acron's expense and provided no US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of the RTS and MICEX) exist, the Depositary will distribute to holders any notice of shareholders' meetings or solicitation of consents or proxies from holders of shares received from Acron together with information explaining their entitlement to instruct the Depositary to exercise the voting rights of the shares represented by the GDRs and the manner in which to do so.

If the Depositary timely receives voting instructions from a holder of GDRs in the manner specified by the Depositary, the Depositary will endeavour, insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, Acron's Charter and the provisions of the Deposited Securities, to vote or cause the Custodian to vote the shares and/or other Deposited Securities represented by the holder's GDRs in accordance with such voting instructions. Russian securities regulations expressly permit a depositary to split the vote of shares registered in its name in accordance with the instructions from GDR holders.

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of shares other than an integral number thereof or vote shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, or attempt to exercise the right to vote, the shares or other Deposited Securities represented by GDRs except pursuant to and in accordance with instructions from holders of the GDRs. If the Depositary timely receives voting instructions from a holder of GDRs which fail to specify the manner in which the Depositary is to vote the shares represented

by such holder's GDRs, the Depositary will deem the holder to have instructed the Depositary not to vote the shares with respect to the items for which no instruction was given. The shares represented by GDRs for which no specific voting instructions are received by the Depositary from the GDR holder will not be voted. Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the shares if the taking of such action would violate US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the shares are listed). Acron has agreed in the Deposit Agreements that Acron shall not, other than to the extent necessary to comply with Russian law, establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreements which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. Acron cannot assure holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See "Risk Factors—Risks Relating to the GDRs and the Trading Market—Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law."

Fees and Charges

Under the Deposit Agreements, the Depositary shall be entitled to charge the following fees to GDR holders, beneficial owners of GDR and persons depositing shares or surrendering GDRs for cancellation in respect of its services under the Deposit Agreements:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Securities (as defined in the relevant Deposit Agreement): up to U.S$0.05 per GDR issued or cancelled (except for issuances and cancellations covered by clause (ix) below);

(ii) for issuing GDR Certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR Certificates: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR Certificates in definitive registered form (other than pursuant to clause (ii) above): a sum per GDR Certificates which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Securities: a fee of up to US$0.02 per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash), or distribution pursuant to a merger, exchange of securities, or any other transaction affecting the GDRs or shares: up to US$0.05 per GDR for each such issue of rights, dividend or distribution;

(vi) for the operation and maintenance costs associated with the administration of the GDRs and for the expenses incurred by the Depositary, the Custodian or their respective agents in connection with inspections of the relevant share register maintained by the local registrar and/or performing due diligence on the central securities depository for the Russian Federation (if and when it comes into effect): an annual fee of up to US$0.03 per GDR (such fee to be assessed against GDR holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such GDR holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions); provided, however, that if the Depositary imposes a fee under this clause (vi), then the total fees assessed under this clause (vi) combined with the total fees assessed under clause (iv) shall not exceed in the aggregate US$0.03 per GDR in any calendar year;

(vii) for the issue of GDRs pursuant to a change for any reason in the number of shares represented by each GDR, regardless of whether or not there has been a deposit of shares to the Custodian or the Depositary for such issuance: a fee of up to US$0.05 per GDR (or portion thereof); and

(viii) for transferring interests from and between the Regulation S GDRs and the Rule 144A GDRs: a fee of up to US$0.05 per GDR.

In addition, the GDR holders, beneficial owners of GDRs, persons depositing shares for deposit and persons surrendering GDRs for cancellation and for the purpose of withdrawing Deposited Securities shall be responsible for the following charges:

(i) taxes (including applicable interest and penalties) and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of shares or other Deposited Securities on the share register and applicable to transfers of shares or other Deposited Securities to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;

(iii) such facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreements to be at the expense of the person depositing or withdrawing shares or holders and beneficial owners of GDRs;

(iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency; and

(v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations applicable to shares, Deposited Securities, GDRs and GDR Certificates.

Any other charges and expenses of the Depositary under the Deposit Agreements will be paid by Acron upon agreement between the Depositary and Acron. All fees and charges so payable may, at any time and from time to time, be changed by agreement between the Depositary and Acron but, in the case of fees and charges payable by GDR holders or beneficial owners of GDRs, only in the manner contemplated by paragraph (25) of the relevant GDR Certificate. The Depositary will provide, without charge, a copy of its latest fee schedule to anyone upon request. The charges and expenses of the Custodian are for the sole account of the Depositary.

Acron agrees to promptly pay to the Depositary such other fees and charges and to reimburse the Depositary for such out-of-pocket expenses as the Depositary and Acron may agree to in writing from time to time. Responsibility for payment of such charges may at any time and from time to time be changed by agreement between Acron and the Depositary. Unless otherwise agreed, the Depositary shall present its statement for such expenses and fees or charges to Acron once every three (3) months. The charges and expenses of the Custodian are for the sole account of the Depositary.

Amendments and Termination

Acron may by prior written agreement, agree with the Depositary to modify the Deposit Agreements and the form of GDR certificates at any time without holders and beneficial owners' prior consent in any respect they may deem necessary or desirable. Acron undertakes to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial existing rights under the Deposit Agreements or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). Acron will not consider as being materially prejudicial to holders' substantial rights, among other things, any amendments or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges holders are required to pay. In addition, Acron may not be able to provide holders with prior notice of any amendments or supplements that are required to accommodate compliance with applicable provisions of law.

If Acron provides the Depositary with an acceptable legal opinion opining that Acron has ceased to be an "investment company" (as that term is defined under the U.S. Investment Company Act of 1940, as amended (the "U.S. Investment Company Act")), then the provisions of the Rule 144A Deposit Agreement will be deemed to be amended as may be, and to the extent, necessary, to remove each reference to the transfer restrictions implemented to comply with the exception to the definition of "investment company" provided in Section 3(c)(7) of the U.S. Investment Company Act and the Depositary may amend the form of the Securities Act Legend to be endorsed on Rule 144A GDR certificates accordingly. Further, as soon as practicable thereafter, Acron must provide written instructions to the Depositary under which it will notify each holder or beneficial owner of Rule 144A GDRs or Rule 144A Deposited Securities of the removal of each reference to the transfer restrictions implemented to comply with the exception to the definition of "investment company" provided in Section 3(c)(7) of the U.S. Investment Company Act.

Holders will be bound by the modifications to the Deposit Agreements if they continue to hold GDRs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended or supplemented to prevent the surrender of GDR certificates and the withdrawal of the shares represented by the GDRs. Notwithstanding any such restriction on amendments

or supplements to the Deposit Agreements, Acron and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

Acron has the right to direct the Depositary in writing to terminate the Deposit Agreements. Upon termination, the following will occur under the Deposit Agreements:

- GDR holders will, upon surrender of its GDR certificates to the Depositary and payment of the charges of the Depositary for the surrender of GDR certificates and any applicable taxes or governmental charges, be entitled to delivery of the Deposited Securities represented by such GDR Certificates.
- If any GDR Certificate shall remain outstanding after the date of termination of the Deposit Agreement, the Registrar thereafter shall discontinue the registration of transfers of the GDR certificates, and the Depositary shall suspend the distribution of dividends and the making of any other distributions to GDR holders and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary will continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in the Deposit Agreement, and will continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for GDR certificates surrendered to the Depositary (after deducting or charging the charges of the Depositary for the surrender of GDR certificates and the withdrawal of Deposited Securities, any expenses for the account of the GDR holder in accordance with the terms and conditions of the Deposit Agreement and any applicable taxes or governmental charges or assessments).
- after the expiration of such six-month period, the Depositary may sell the Deposited Securities held on deposit.

The Depositary will hold uninvested the net proceeds from such sale and any other funds then held by it for the pro rata benefit of the holders of GDRs whose GDR certificates have not yet been surrendered in an unsegregated account, without liability for interest. After making such sale, the Depositary will have no further obligations under the Deposit Agreements other than to account for the funds then held for the pro rata benefit of the holders of GDRs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Books of Depositary

The Depositary will maintain GDR books at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well. Such records may be inspected at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDR certificates and the Deposit Agreements.

The Depositary will maintain facilities in New York and London for the execution and delivery, registration, registration of transfers and surrender of GDR certificates in accordance with the provisions of the Deposit Agreements, provided that the transfer of the GDRs shall only be effected by the registrar (as that term is defined in the Deposit Agreements), including the Depositary in its capacity as registrar. These facilities may be closed at any time from time to time, when deemed necessary or advisable by the Depositary, or at the reasonable request of Acron.

Transmission of Notices to Shareholders

Acron will promptly transmit to the Depositary those communications that Acron makes generally available to its shareholders. If those communications were not originally in English, Acron will translate them prior to transmitting. Upon Acron's request and at Acron's expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection during business hours at its principal offices in New York and London.

Limitations on Obligations and Liabilities

The Deposit Agreements limit Acron's obligations and the Depositary's obligations to holders. Please note the following:

- Acron and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements or the applicable GDR Certificates without negligence or bad faith.

- Neither Acron nor the Depositary, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the GDR Certificates, which in their respective opinion may involve them, in expense or liability, unless an indemnity satisfactory to them against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).
- The Depositary and its agents shall not be liable for any failure to carry out any instructions to vote any Deposited Securities, or for any manner in which a vote is cast or for the effect of any vote, provided any such act or omission is without negligence and in good faith and in accordance with the terms of the Deposit Agreements.
- The Depositary will not incur any liability for any failure to determine the lawfulness or reasonable practicality of any action, for the content of any information submitted by Acron to it for distribution to holders or for the accuracy of any translation thereof for any investment risks associated with acquiring an interest in the Deposited Securities, for the validity or worth of the Deposited Securities, for any tax consequences that result from the ownership of the Deposited Securities or the GDRs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the failure or timeliness of any of Acron's notices.
- The Depositary and the Custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the Deposited Securities (or any distribution in respect thereof).
- The Depositary disclaims any liability for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations while it acted as Depositary without negligence or bad faith.
- Acron, the Depositary and Acron's or the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing will not be obligated to do or perform any act that is inconsistent with the provisions of the Deposit Agreements.
- Acron, the Depositary and Acron's and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability if Acron or the Depositary are prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any present or future law or regulation of any applicable jurisdiction, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or any present or future provision of Acron's charter, any provision of or governing any Deposited Securities or by reason of any act of God or war or other circumstances beyond Acron's control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure).
- Acron, the Depositary and Acron's and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in Acron's charter or in any provisions of or governing the Deposited Securities.
- Acron, the Depositary and Acron's and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing further disclaim any liability for any action or inaction in reliance in good faith on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of GDRs, any beneficial owner or authorized representative thereof or any other person believed in good faith to be competent to give such advice or information.
- Acron, the Depositary and Acron's and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim liability for the inability by a holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of shares but is not, under the terms of the Deposit Agreements, made available to holders of the GDRs.
- Acron, the Depositary and Acron's respective controlling persons and agents and the Custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

- Acron, the Depositary and Acron's and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim any liability for indirect, special, consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement.
- The Depositary disclaims liability for any actions taken in accordance with Acron's instructions to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the shares under applicable law or Acron's Charter.

Indemnification

The Depositary has agreed to indemnify Acron and Acron's directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, which may arise out of acts performed or omitted by the Depositary or the Custodian or, if the Custodian is a branch or subsidiary of Deutsche Bank AG at the time of such act or omission, by the Custodian under the Deposit Agreements due to the negligence or bad faith of the Depositary or the Custodian.

Acron has agreed to indemnify the Depositary, the Custodian and any of their respective directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, that may arise, among other things, (1) out of any issuance, offer or sale of the GDRs, the GDR Certificates or the shares or other securities on deposit, (2) out of any offering document in respect thereof, except to the extent contained under the caption "Information Relating to the Depositary" in this Prospectus, (3) out of acts performed or omitted in accordance with the provisions of the Deposit Agreements, in any such case (i) by the Depositary, the Custodian or any of their respective directors, officers, employees, agents and affiliates, except to the extent such loss, liability, tax, charge or expense is due to the negligence or bad faith of any of them, or (ii) by Acron or any of Acron's directors, officers, employees, agents and affiliates or (4) out of the unavailability of Deposited Securities or the failure to make any distribution with respect thereto in the case of certain situations.

Pre-Release Transactions

The Depositary may, in certain circumstances, issue GDRs before receiving evidence of a deposit of shares or deliver shares before receiving and cancelling GDRs. These transactions are ordinarily referred to as "pre-release transactions." The Deposit Agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

The GDR holders and beneficial owners will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. Acron, the Depositary and the Custodian may withhold or deduct from any distribution any withholding taxes and any other taxes and governmental charges payable by holders and may sell any and all of the Deposited Securities to pay any such taxes and governmental charges.

The GDR holders and beneficial owners will be liable for any deficiency if the sale proceeds do not cover such taxes and charges that are due. The Custodian may refuse the deposit of shares and the Depositary may refuse to issue GDRs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder.

Neither the Depositary, the Custodian nor Acron or its agents have any obligation to take any action to file any reports to reduce or eliminate applicable taxes on dividends or other distributions in respect of the Deposited Securities under applicable tax treaties or laws for the holders and beneficial owners of GDRs. However, a holder may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfil legal obligations.

The Depositary is under no obligation to provide holders with any information about Acron's tax status. The Depositary shall not incur any liability for any tax consequences that may be incurred by holders on account of ownership of the GDRs, including without limitation by virtue of Acron's tax status. By purchasing GDRs, holders agree to indemnify the Depositary, Acron, the Custodian and any of their or Acron's agents, officers, employees and affiliates for, and to hold each of them and Acron harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained as a GDR holder and/or beneficial owner.

Disclosure of Beneficial Interests and Compliance

By purchasing GDRs, a holder agrees to comply with requests from Acron or the Depositary pursuant to Russian law, the rules and requirements of the Russian Stock Exchange or any other stock exchange on which the shares are, or may be, registered, traded or listed, or Acron's Charter, to provide information, *inter alia*, as to name, state registration details, the capacity in which the beneficial interest in the GDRs is held or owned (and the shares, as the case may be) and the identity of any other person interested in such GDRs, the nature of such interest and various related matters, and whether or not they are holders or owners of a beneficial interest in the GDRs at the time of such request.

The Depositary shall be entitled to provide to the Russian Federal Service or other relevant Russian state authorities of competent jurisdiction, to the extent reasonably necessary to satisfy the requirements of Russian law, information or documents (in the form of copies or originals) concerning holders and beneficial owners (including information concerning the identity and domicile of holders and beneficial owners). However, the Depositary has no responsibility for or liability arising out of or in connection with any inaccuracies or misstatements in or misleading omissions from any information or documents furnished to it directly or indirectly by or on behalf of the holders and beneficial owners or by Acron's failure to timely provide to Russian state authorities any information submitted indirectly through Acron by the Depositary.

Foreign Currency Conversion

The Depositary will arrange for the conversion into US dollars of all foreign currency received if such conversion is in the reasonable judgment of the Depositary practicable, and it will distribute the US dollars in accordance with the terms of the Deposit Agreements. The GDR holder will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not obliged to, make any filing with any governmental authority required to obtain an approval or licence necessary for any conversion of any foreign currency into or distribution of US dollar funds. If in the Depositary's reasonable judgment, the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or, in the reasonable judgment of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the US dollars to the holders for whom the conversion, transfer and distribution is lawful and practicable.
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.
- Hold the foreign currency (without liability for interest) for the accounts of the applicable holders.

Governing Law and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, the rights of holders of the shares and other Deposited Securities and Acron's obligations and duties in respect of such holders shall be governed by the laws of Russia (or such other jurisdiction's laws as may govern the Deposited Securities).

Under the terms of the Deposit Agreements owners of GDRs agree that any dispute, controversy or cause of action against Acron and/or the Depositary arising out of or relating to the GDRs, the Deposit Agreements or any transaction contemplated therein, the shares or other Deposited Securities will be referred to and finally resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreements provided that in the event of any third party litigation to which Acron or the Depositary is party and to which Acron or the Depositary, respectively, may be properly joined, they may be so joined in any court in which such litigation is pending.

EACH PARTY TO THE DEPOSIT AGREEMENTS (INCLUDING, FOR AVOIDANCE OF DOUBT, EACH HOLDER AND BENEFICIAL OWNER) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED THEREIN (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

Russian Share Register

The Russian share register of the Company shall be maintained by the Russian Share Registrar.

US Securities Act and Other Legends

Legends for Rule 144A GDRs

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY, HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM IS THE RECORD OWNER OF THE NUMBER OF RULE 144A GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES, OF JOINT STOCK COMPANY ACRON, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION. AT THE DATE HEREOF, EACH RULE 144A GDR SHALL REPRESENT 0.1 (ONE TENTH) OF SUCH SHARES DEPOSITED UNDER THE RULE 144A DEPOSIT AGREEMENT WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE RULE 144A DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD.

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND HAVE BEEN INITIALLY PLACED PURSUANT TO EXEMPTIONS FROM THE SECURITIES ACT AND THE US INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "US INVESTMENT COMPANY ACT"). ANY OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT, THE US INVESTMENT COMPANY ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT TO A PERSON OUTSIDE THE UNITED STATES AND NOT KNOWN BY THE TRANSFEROR TO BE A US PERSON OR (2) IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE APPLICABLE US PURCHASER'S LETTER INCLUDED IN THE PROSPECTUS THE HOLDER WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (1) AND (2) ABOVE. THE COMPANY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US INVESTMENT COMPANY ACT.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

[**INSERT IF THE COMPANY OFFERS AND PLACES NEWLY ISSUED SHARES IN THE INITIAL OFFERING**: THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE RULE 144A DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM

BE SUBJECT TO ANY LIABILITY UNDER THE RULE 144A DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES NEWLY ISSUED AND PLACED BY THE COMPANY OR SOLD BY ANY SELLING SHAREHOLDERS IN THE INITIAL OFFERING.

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE RULE 144A GDRs EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS RULE 144A GDR CERTIFICATE OR THE RULE 144A DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS CERTIFICATE OR SECTION 2.7 OF THE RULE 144A DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RULE 144A GDR CERTIFICATE AND SECTION 4.10 OF THE RULE 144A DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS (IF ANY) AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY A REPRESENTATIVE OF THE UNDERWRITERS FOR THE INITIAL OFFERING, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF ITS RECEIPT OF SUCH PROCEEDS THIS RULE 144A GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN US DOLLARS WILL BE CONVERTED INTO US DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs, IN EACH CASE UPON THE TERMS OF THE RULE 144A DEPOSIT AGREEMENT. THE RULE 144A GDRs WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS RULE 144A GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRs MAY BE LESS THAN THE PRICE AT WHICH THE RULE 144A GDRs HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDER THEREOF, AND SUCH DISTRIBUTION MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.]

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Legends for Regulation S GDRs

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY, HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH, AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM, IS THE RECORD OWNER OF THE NUMBER OF REGULATION S GDRS INDICATED

ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES, OF JOINT STOCK COMPANY ACRON, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION. AT THE DATE HEREOF, EACH REGULATION S GDR SHALL REPRESENT 0.1 (ONE TENTH) OF SHARES DEPOSITED UNDER THE REGULATION S DEPOSIT AGREEMENT WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE REGULATION S DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD.

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

[**INSERT IF THE COMPANY OFFERS AND PLACES NEWLY ISSUED SHARES IN THE INITIAL OFFERING**: THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE REGULATION S DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE REGULATION S DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, ANY SHARES NEWLY ISSUED AND PLACED BY THE COMPANY OR SOLD BY ANY SELLING SHAREHOLDERS IN THE INITIAL OFFERING.

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE REGULATION S GDRs EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS REGULATION S GDR CERTIFICATE OR THE REGULATION S DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS CERTIFICATE OR SECTION 2.7 OF THE REGULATION S DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS REGULATION S GDR CERTIFICATE OR SECTION 4.10 OF THE REGULATION S DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS (IF ANY) AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY A REPRESENTATIVE OF THE UNDERWRITERS FOR THE INITIAL OFFERING, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF ITS RECEIPT OF

SUCH PROCEEDS THIS REGULATION S GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN US DOLLARS WILL BE CONVERTED INTO U.S. DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRs, IN EACH CASE ON THE TERMS OF THE REGULATION S DEPOSIT AGREEMENT. THE REGULATION S GDRs WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS REGULATION S GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRs MAY BE LESS THAN THE PRICE AT WHICH THE REGULATION S GDRs HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDER THEREOF, AND MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.]

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

CERTAIN ERISA CONSIDERATIONS

As described below, the Company will prohibit investors that are subject to Title I of ERISA or Section 4975 of the Code from acquiring any Securities.

General

ERISA, and Section 4975 of the Code, impose certain restrictions on (a) employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Title I of ERISA, (b) plans (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, including individual retirement accounts and annuities or Keogh plans, (c) entities whose underlying assets include "plan assets" of any plan, account or arrangement described in (a) or (b) (a "**Plan**") by reason of a Plan's investment in such entities and (d) persons who have certain specified relationships to Plans ("**Parties in Interest**" under ERISA and "**Disqualified Persons**" under the Code). Moreover, an insurance company's general account may be deemed to include assets of the Plans investing in the general account (e.g., through the purchase of an annuity contract), and such insurance company might be treated as a Party in Interest with respect to a Plan by virtue of such investment. ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA, and ERISA and Section 4975 of the Code prohibit certain transactions between a Plan and Parties in Interest or Disqualified Persons with respect to such Plan. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and the Code.

A US Department of Labor regulation (the "**Plan Asset Regulation**") addresses what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of the fiduciary responsibility provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets are deemed to include both the equity interest itself and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation by "benefit plan investors" is not "significant."

Under the Plan Asset Regulations, as modified by Section 3(42) of ERISA, equity participation in an entity by Benefit Plan Investors is "significant" on any date if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the value of any class of equity interest in the entity is held by Benefit Plan Investors. The term "**Benefit Plan Investor**" includes (i) any "employee benefit plan" (as defined in Section 3(3) of ERISA) that is subject to part 4 of Title I of ERISA, (ii) any "plan" (as defined in Section 4975(e)(1) of the Code) that is subject to Section 4975 of the Code and (iii) any entity whose underlying assets include plan assets by reason of such an employee benefit plan's or plan's investment in such entity, including without limitation, as applicable, an insurance company general account. For purposes of calculating the percentage of the total value of any class of equity interest that is held by Benefit Plan Investors, the value of any equity interests held by any person (other than a Benefit Plan Investor) who has discretionary authority with respect to the assets of the entity or who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person, is disregarded.

The Securities will constitute "equity interests" in the Company for purposes of the Plan Asset Regulation; the Company will not be registered under the Investment Company Act; the Securities are not "publicly offered securities" for the purposes of the Plan Asset Regulation; and it is not certain that the Company would qualify as an "operating company" for purposes of the Plan Asset Regulation. Therefore, if equity participation in the Securities by Benefit Plan Investors (as defined below) is "significant" within the meaning of the Plan Asset Regulation, the assets of the Company could be deemed to be the assets of Plans investing in the Securities. Were that to be the case, (i) transactions involving the assets of the Company could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Company could be subject to ERISA's reporting and disclosure requirements, (iii) the fiduciary causing the Plan to make an investment in the Securities could be deemed to have delegated its responsibility to manage the assets of the Plan, (iv) the requirements of Section 404(b) of ERISA, which generally provides that no fiduciary may maintain the indicia of ownership of any assets of a Plan outside the jurisdiction of the district courts of the United States unless a regulatory exception is available, could be violated and (v) the fiduciary making an investment in the Company on behalf of a Plan could be deemed to have improperly delegated its asset management responsibility.

Restrictions on Purchases of the Securities

The acquisition of Securities by an investor that is a Plan or an entity whose underlying assets include "plan assets" of any Plan is prohibited, as is the acquisition of Securities by any other Regulated Plan that, while not subject to Title I of ERISA or Section 4975 of the Code, is subject to the provisions of any Similar Law. Each investor will be required to represent, or will be deemed to have represented by virtue of its acquisition and holding of the Securities, as applicable, that it is not a Regulated Plan and is not purchasing the Securities on behalf of, or with "plan assets" of, any Regulated Plan.

For a discussion of transfer restrictions with respect to the Securities, see "*Transfer Restrictions*".

The Offering is being made in accordance with Rule 144A and Regulation S. The Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States. The GDRs may not be offered or sold within the United States except to certain persons who (i) are both QIBs and QPs and (ii) have executed a US Purchaser's Letter in the form set forth in the Appendix to this document, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and to non-US persons outside the United States in accordance with Regulation S. The Shares will be offered to certain non-US persons outside the United States. No transfer of the Securities that would have the effect of requiring the Company to register as an "investment company" under the Investment Company Act will be permitted. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

Rule 144A GDRs

Each purchaser of Rule 144A GDRs that is located within the United States or that is a US person will be required to execute a US Purchaser's Letter in the form of the appendix to this document.

Any purchaser of Rule 144A GDRs who is a US person may only sell, transfer, assign, pledge, or otherwise dispose of such Rule 144A GDRs in compliance with the Securities Act and other applicable securities laws outside the United States in an offshore transaction complying with the provisions of Regulation S and must also execute an Offshore Transaction Letter in the form of the Annex to the Appendix to this document and deliver such letter to the Company and the Depositary; provided that such transferor will notify any subsequent transferee or executing broker, as applicable, of the restrictions that are applicable to the Rule 144A GDRs being sold.

Any purchaser of Rule 144A GDRs that is located within the United States or that is a US person will be required to represent in its US Purchaser's Letter, and any other investor will, by its acquisition and holding of the Securities, be deemed to have represented, that it is not a Regulated Plan and is not purchasing the Securities on behalf of, or with "plan assets" of, any Regulated Plan.

Regulation S Securities

Each purchaser of Securities outside the United States will be deemed to have represented and agreed as follows:

(1) it is not a US person as defined in Regulation S;

(2) it is aware that the Shares and Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States;

(3) it is purchasing the Shares and Regulation S GDRs in an offshore transaction meeting the requirements of Regulation S;

(4) it will not offer, sell, pledge or transfer any shares or Regulation S GDRs, except in accordance with the Securities Act and any applicable laws of any state of the United States and any other jurisdiction; and

(5) the purchaser understands that the Company, the Selling Shareholder, the Managers and their respective affiliates will rely on the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs.

Rule 144A GDRs may be exchanged for Regulation S GDRs upon certification by the transferor and the transferee in the forms set forth in the Deposit Agreement that the transfer of any such Rule 144A GDRs has been made in accordance with Rule 904 under the Securities Act.

General

The Company may restrict transfers of its GDRs, where such transfer might result in ownership of shares exceeding the limits imposed by applicable law, the requirements of any stock exchange on which the Shares or GDRs are listed or the corporate documents of the Company. The Company may also restrict, in such manner as it deems appropriate, transfers of the GDRs where such transfer may result in the total number of deposited shares represented by the GDRs owned by a single owner or beneficial owner to exceed any such limits. The

Company may, in its sole discretion, but subject to applicable law, instruct the Depositary to take action with respect to the ownership interest of any owner or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of an owner or beneficial owner of the Deposited Securities represented by the GDRs held by such owner or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and the corporate documents of the Company.

The delivery of GDR Certificates against deposit of shares generally or against deposit of particular shares may be suspended, or the transfer of GDR Certificates in particular instances may be refused, or the registration of transfer of outstanding GDR Certificates generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement, or for any other reason.

The following summary of material US federal income, UK and Russian tax consequences of ownership of the Shares or GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of GDRs or shares.

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT HIS, HER OR ITS TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF GDRs OR SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

Russian Tax Considerations

The following is a general description of certain Russian tax considerations relating to the GDRs and the Shares. It does not purport to be a complete analysis of all tax considerations relating to the GDRs and the Shares. Prospective investors in the GDRs and the Shares should consult their own tax advisers as to which countries' tax laws could be relevant to, and the local tax consequences of, acquiring, holding and disposing of the GDRs and the Shares and receiving dividends. This summary is based upon the law as in effect on the date of this Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the GDRs and the Shares.

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the GDRs and the Shares, as well as the taxation of dividend income. The summary is based on the laws of Russia in effect at the date of this Prospectus, which are subject to change (possibly with retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief in respect of the GDRs and the Shares, and it should be noted that there might be practical difficulties, including satisfying certain documentation requirements, involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own professional advisors regarding the tax consequences of investing in the Shares and GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The provisions of the Russian Tax Code applicable to investors and transactions involving the GDRs or the Shares are uncertain and lack interpretative guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may impose conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents, decisions on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a **"non-resident holder"** means (i) an individual person actually present in Russia for an aggregate period of less than 183 days within 12 successive months (excluding days of arrival into Russia, but including days of departure from Russia); or (ii) a legal entity or organisation in each case not organised under Russian law that holds and disposes of the Shares and GDRs otherwise than through a permanent establishment in Russia. The law specifies that for determining tax residence status for an individual in Russia, the period of stay in Russia is calculated without taking into account an individual's short-term departures (less than 6 months) from Russia for medical treatment or education purposes.

For the purposes of this summary, a **"Russian resident holder"** means an entity or an individual which is not a non-resident holder defined in the previous paragraph.

However, based on the recent clarifications provided by the Russian tax authorities, the residence status of an individual should be defined for each entire calendar year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to other articles of the Tax Code dealing with the taxation of individuals.

Taxation of Acquisition of the Shares and GDRs

No Russian tax implications should arise for Russian resident holders or non-resident holders upon purchase of the Shares and GDRs. However, under certain conditions, a taxable gain or income may arise for individuals if the Shares and GDRs are purchased at a price below the market value.

Taxation of Dividends

The following sections summarise the taxation of dividends paid by the Company on the Shares and GDRs.

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. However, the applicable withholding tax rate will depend on the status of the dividend's recipient.

Russian Resident Holders

Payments of dividends by the Company to a Russian resident holder who is an individual or legal entity resident in Russia for tax purposes (except legal entities or organisations, in each case not organised under Russian law, that hold the GDRs or the Shares through a permanent establishment in Russia) should generally be subject to Russian withholding income tax and such tax should not exceed 9% from the gross dividend amount payable to each Russian resident holder. However, if the Depositary is viewed as the beneficial owner of the dividends, the Company is likely to withhold income tax at a rate of 15% from dividend payments on shares of the Company represented by the GDRs, notwithstanding that such GDRs are owned by Russian resident holders. There can be no assurance that the above reduction in tax rate under the provisions of the Russian domestic tax law will be available for Russian resident holders based on, *inter alia*, the above uncertainty on treatment of the GDR holders as beneficial owners of dividend income from the underlying shares and the applicability of Russian domestic tax provisions to Russian resident holders.

Payments of dividends by the Company to a holder that is a legal entity or organisation, in each case not organised under Russian law, that holds the GDRs or the Shares through a permanent establishment in Russia should generally be subject to Russian withholding tax at a rate of 15%. A holder that is a legal entity or organisation, in each case not organised under Russian law, that holds GDRs or Shares through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e., without withholding of the tax amount by the Company distributing the dividends to such holder) if such holder provides a Russian entity distributing the dividends with special documentary evidence confirming the fact that this dividend income is attributable to a permanent establishment of the holder in Russia (including a notarised copy of a form confirming registration of a holder with the Russian tax authorities and a notification issued by the local tax authorities at the holder's place of the relevant tax registration confirming the fact that the relevant dividend income is attributable to the permanent establishment of the holder in Russia).

Alternatively, payments of dividends on the GDRs or the Shares made by the Company to a holder that is a legal entity or organisation, in each case not organised under Russian law, that holds the GDRs or the Shares through a permanent establishment in Russia may be subject to taxation at a rate not exceeding 9%. This lower rate could apply to each holder that holds GDRs or Shares through a permanent establishment in Russia if the applicable double tax treaty between Russia and the country of the tax residence of such holder provides for non-discrimination of tax residents of such country as compared to Russian tax residents. In such case, a tax rate not exceeding 9%, (i.e., the rate applicable to Russian legal entities) should be applied with respect to the gross dividend amount payable to such holder to the extent such holder is otherwise entitled to benefits under such double tax treaty and provided further that such holder satisfies the Russian tax documentation requirements (holder's annual advance tax residency confirmation). However, there can be no assurance that such double tax treaty relief will be available to a holder which is a legal entity or organisation, in each case not organised under

Russian law, and which holds the GDRs through a permanent establishment in Russia. In particular, under both above alternatives, if the Depositary is viewed as the beneficial owner of the dividends, the Company is likely to withhold income tax at a rate of 15% from dividend payments on shares of the Company represented by the GDRs.

As stated above, if the Depositary is viewed as the beneficial owner of the dividends, the Company is likely to withhold income tax at a rate of 15% from dividend payments on shares of the Company represented by GDRs. By virtue of receiving dividend payments from the Depositary rather than from the Company, resident GDR holders may be required to report these dividends in their tax returns as dividends from foreign sources, and may be required to pay additional tax on the declared amount at applicable Russian domestic tax rates and are likely to be unable to reclaim the tax initially withheld by the Company.

Russian resident holders should consult their own tax advisers with respect to the tax consequences of the receipt of dividend income from a source within Russia.

As of 1 January 2008 new tax legislative provisions came into force in Russia with respect to taxation of dividends. These new legislative provisions introduced participation exemption rules providing that dividends received by a holder that is a Russian legal entity will be taxed at zero rate provided the following conditions are met when the decision on the payment of dividends is adopted:

- such Russian legal entity has owned not less than 50 percent of the charter capital of the Company for at least 365 days uninterruptedly; and
- such Russian legal entity's contribution to the charter capital of the Company exceeds RUR 500 million.

If the above conditions are not met, the dividends received by a Russian legal entity would be taxed in Russia at a rate not exceeding 9 per cent as stated above.

A holder which is a Russian legal entity would be required to provide the tax authorities with certain documentation in order to confirm its eligibility for zero rate tax on dividend income received.

Russian resident holders should consult their own tax advisors with respect to the tax consequences of the receipt of dividend income from a source within Russia.

Non-Resident Holders

In general, dividends paid by a Russian entity to non-resident holders are subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may generally be reduced pursuant to the terms of an applicable double tax treaty between Russia and the country of the tax residence of the relevant non-resident holder of the GDRs or the Shares (provided such double tax treaty is available) to the extent that such non-resident holder is otherwise entitled to benefit from the relevant double tax treaty and the corresponding tax treaty relief provided by such treaty. The payments of dividends on the GDRs or the Shares made by the Company to a non-resident holder may be subject to withholding tax at a reduced rate if such reduction is provided by a relevant double tax treaty between Russia and the country of tax residence of such non-resident holder to the extent that such non-resident holder is entitled to benefit from the relevant double tax treaty and the corresponding tax treaty relief provided by such treaty and provided that the Russian tax documentation requirements (annual advance confirmation of the non-resident holder's tax residency and, with respect to non-resident individual holders, a confirmation of the income received and the taxes paid in the country of tax residence of such non-resident individual holder as confirmed by the relevant tax authorities of such country) are satisfied.

However, Russian tax rules applicable to GDR holders are characterised by significant uncertainties and, until recently, an absence of interpretive guidance. The Ministry of Finance of the Russian Federation has expressed its opinion that holders of depositary receipts should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to Russian withholding taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the depositary receipts is duly confirmed. However, the Russian tax authorities have not provided official guidance of general applicability addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares. In the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard. In such circumstances there can be no assurance that a non-resident holder of the GDRs will be in a position to benefit from a reduced Russian

withholding tax rate on dividend income from the underlying shares provided by a relevant applicable double tax treaty. Consequently, in the absence of any interpretative guidance on the beneficial ownership concept in Russia, and due to the fact that the Depositary (and not the holders of the GDRs) is the legal holder of the Shares under Russian law, the Company is likely to withhold tax at a rate of 15% even if non-resident holders are entitled to such a reduced tax rate under the relevant double tax treaty between Russia and the country of the tax residence of such non-resident holders and the relevant procedures for advance treaty clearance are completed by such non-resident holders.

Procedures for advance treaty clearance are not provided for by current Russian legislation with respect to non-resident individual holders. As a result, for non-resident individual holders, a reduction of withholding income tax provided by a respective double tax treaty between Russia and the country of the tax residence of such non-resident individual holder cannot be obtained. If a non-resident individual holder does not obtain double tax treaty relief at the time the dividend income is paid to such non-resident individual holder, and income tax is withheld by the Company, such non-resident individual holder may apply for a refund within one year from the end of the tax period in which the tax was withheld. However, there can be no assurance that such double tax treaty relief (or refund of any taxes withheld) will be available for a non-resident holder based on, *inter alia*, the above uncertainty as to the treatment of the GDR holders as beneficial owners of dividend income from the underlying shares and as to the applicability of double tax treaty benefits to the GDR holders.

Non-resident holders should consult their own tax advisers with respect to the tax consequences of the receipt of dividend income on the GDRs or the Shares.

Taxation of Capital Gains

The following sections summarise the taxation of capital gains in respect of the disposition of the Shares and GDRs.

Russian Resident Holders

A holder who is an individual or legal entity resident in Russia for tax purposes is subject to all applicable Russian taxes, including any documentation that may be required by law or practice in respect of capital gains arising from any disposal of the GDRs or the Shares.

A Russian resident holder that is a legal entity or organisation should generally be subject to Russian profits tax at a rate of 24% from the net capital gain to be generally determined as the gross proceeds from the disposal of the GDRs or the Shares less cost of acquisition of such GDRs or the Shares and expenses incurred by such Russian resident holder in relation to acquisition, holding and sale of the GDRs or the Shares provided that the cost of acquisition of the GDRs or the Shares disposed and other above expenses can be confirmed by proper source documents. Russian resident holders which are legal entities should consult their own tax advisers with respect to the tax consequences of gains derived from the disposal of the GDRs or the Shares.

A Russian resident holder who is an individual will generally be subject to income tax at a rate of 13% in respect of gross proceeds from a disposal of the GDRs or the Shares less any available cost deduction (including, inter alia, the cost of acquisition of the GDRs or the Shares). In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this income tax. Unless the tax is withheld by the payer, the resident individual would be liable to pay the tax to the Russian budget. Russian resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of gains derived from the disposal of the GDRs or the Shares.

Non-Resident Holders

If a non-resident holder that is a legal person or an organisation disposes of GDRs or the Shares (otherwise than through a permanent establishment in Russia) and the proceeds from such disposal are from a Russian source, the gain on such disposal may be subject to withholding tax in Russia at a rate of 20%. Alternatively, the capital gains from the sale may be subject to a 24% withholding tax. Capital gain is the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the GDRs and of the Shares. Russian withholding tax would apply, should more than 50% of the Company's assets consist of immovable property located in Russia. No withholding income tax applies to any Russian shares, regardless of the portion of total assets which is comprised of immovable property, where such shares or their derivatives are sold through a non-Russian recognized exchange.

The above withholding tax rates are subject to any available double tax treaty relief. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed. Non-resident holders that are legal entities should consult their own tax advisers with respect to this possibility.

A non-resident holder should generally not be subject to any Russian taxes in respect of capital gains or other income realised on the sale or other disposal of the GDRs or the Shares outside of Russia, provided that the proceeds of such sale, redemption or other disposal of the GDRs or the Shares are not received from a source within Russia. Even if a sale or other disposal by a non-resident holder to another non-resident holder could be regarded as received from a Russian source, there is currently no mechanism for withholding of the Russian tax due. Non-resident holders should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds received from a source outside of Russia in respect of a disposal of the GDRs or the Shares.

If proceeds from a disposal of the GDRs or the Shares are received from a Russian source, a non-resident holder who is an individual will generally be subject to tax at a rate of 30%, subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deductions (including, inter alia, the cost of acquisition of the GDRs or the Shares). In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax or the non-resident individual may be liable to pay the tax. Procedures for advance treaty clearance are not provided for by current Russian legislation with respect to non-resident individual holders. As a result, for non-resident individual holders, a reduction of withholding income tax provided by the double tax treaty between Russia and the country of the tax residence of such non-resident individual holder cannot be obtained. If a non-resident individual holder does not obtain double tax treaty relief at the time the proceeds from the disposal of the GDRs or the Shares are paid to such non-resident individual holder, and income tax is withheld by the Russian payer of such income, the non-resident individual holder may apply for a refund within one year from the end of the tax period in which the tax was withheld. However, there can be no assurance that such double tax treaty relief (or the refund of any taxes withheld) will be available for a non-resident holder. Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposal of the Shares or the GDRs.

Where proceeds from the disposal of the GDRs or the Shares are received from a Russian source, in order for the non-resident holder, whether an individual, legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. No procedures currently exist for non-resident holders who are individuals to claim treaty benefits prior to the receipt of income; therefore, such non-resident holders may be required to claim a refund of taxes withheld from the Russian budget as discussed below.

Tax Treaty Relief Procedures

To apply for double tax treaty relief, a holder that is a non-resident legal person should provide the payer of income with a confirmation of its tax residency. Such confirmation should be presented before the income payment date and certified by the competent authority. Such confirmation is valid for the calendar year in which it is issued. It should be legalised or apostilled with a notarized Russian translation attached to it. In the absence of the tax residence confirmation, Russian legal entities acting as tax agents are required to withhold Russian income tax at the full rate from the proceeds representing taxable Russian source income as provided for by the Russian Tax Code.

Refund of Tax Withheld

For a holder that is not an individual and for which double tax treaty relief is available, where Russian withholding tax on income was withheld at the source of payment, a refund of such tax is possible within three years from the end of the tax period in which the tax was withheld. In order to obtain a refund, the tax documentation confirming the right of the non-resident recipient of the income to double tax treaty relief is required.

For an individual holder for which double tax treaty relief is available, where Russian withholding tax on income was withheld by the source of payment, a refund of such tax may be filed within one year after the end of the year in which the tax was withheld.

If Russian withholding tax on dividend income from the GDRs or Shares is withheld at the source of payment at a rate of 15% for Russian resident holders, even though a tax rate not exceeding 9% was available under Russian domestic tax law provisions, a refund of such excess tax is possible within three years of the end of the tax period in which the tax was withheld for holders that are not individuals and within one year after the end of the year in which tax was withheld for individual holders.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty or the right to receive a tax rate not exceeding 9% under Russian domestic tax law. Such documentation, in practice, may not be explicitly required by the Russian Tax Code. Obtaining a refund of Russian tax withheld may be a time-consuming process and can involve considerable difficulties.

The procedures described above may be more complicated with respect to taxation of the dividend income on the GDRs due to the lack of clarity in the applicable Russian tax law with respect to the treatment of GDR holders as beneficial owners of dividend income from the underlying shares and the applicability of double tax treaty benefits and domestic tax law provisions to GDR holders. As a result, the Company cannot assure potential investors that any tax reduction or refund of the tax withheld will be available under any applicable tax treaty (or, with respect to certain Russian resident holders under the provisions of domestic Russian tax law) in respect of Russian taxes payable or withheld in respect of the dividends on the GDRs.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law and published HM Revenue & Customs practice as of the date of this Prospectus, as well as the provisions of the 1994 Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains (the "**UK Treaty**"), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the Securities (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) solely in the UK for tax purposes;
- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base in Russia with which the holding of the Shares or GDRs (and the payment of dividends in respect of the Shares or GDRs) is connected.

Such absolute beneficial owners of the Shares or GDRs are referred to in this discussion as "UK holders".

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the Shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations or persons connected with the Group.

Further, the summary assumes that:

- a holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying Shares and to the dividends on those Shares;
- the UK holder acquires the Shares or GDRs as an initial investor in the Offering;
- the UK holder did not acquire and will not be deemed to have acquired his/her shares or GDRs by virtue of an office or employment;
- the Shares will not be held by, and the GDRs will not be issued by, a depositary incorporated in the UK;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting power of the Company;

- neither the Shares nor the GDRs are registered in a register kept in the UK, by or on behalf of the Company, and they will not become so registered; and
- the Shares are not paired with the shares issued by a body corporate incorporated in the UK nor will they be so paired.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Readers should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of acquisition, ownership and disposition of the shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or corporation tax, as applicable, on the total of the dividends received on their Shares or GDRs plus any withholding tax deducted in Russia.

Withholding Tax and Tax Credits

When the Company pays dividends to UK holders, it generally must, for Russian tax purposes, act as a tax agent to withhold tax and remit the amount of tax due to the Russian state budget. See "*—Russian Tax Considerations—Taxation of Dividends*". Under the UK Treaty, UK holders may be able to obtain relief at source, or a refund from the Russian tax authorities, in respect of withholding tax to the extent that it is levied at a rate in excess of 10% of the gross amount of the dividend. However, see *"—Russian Tax Considerations—Taxation of Dividends—Non-Resident Holders"* and *"—Russian Tax Considerations—Taxation of Capital Gains—Non-Resident Holders"* and *"—Russian Tax Considerations—Tax Treaty Relief Procedures"* regarding, among other things, the procedures for obtaining relief at source or a refund, certain uncertainties relating thereto and the position that the Company intends to take in respect of its obligation to withhold tax on dividends that it pays to the Depositary.

Any remaining Russian withholding tax may be allowed as a credit against the UK income or corporation tax liability, as applicable, of a UK holder depending on the circumstances but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not generally refundable. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the UK Treaty to minimise the amount of tax payable in the Russian Federation, including obtaining relief at source and any available refunds. See also *"—Russian Tax Considerations"*.

The Company need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK income tax on dividends at the dividend upper rate (currently 32.5%), UK income tax will be chargeable on the gross dividend with potential credit for Russian tax deducted at source (subject to the restrictions on the tax credit allowed, for withholding tax imposed by Russia on GDRs, as described above). For an individual UK holder who is liable to UK tax on the dividend at the dividend ordinary rate (currently 10%), any credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend, in which case he will have no further UK income tax to pay.

In addition, UK resident individuals and certain non-UK resident individuals who, either alone or with connected persons, hold less than a 10 per cent. shareholding in the Company may receive a non-payable tax credit equal to one-ninth of the grossed-up dividend. For individual UK holders who are liable to UK income tax at the dividend upper rate, the effect of this tax credit is to reduce the effective rate of UK income tax payable in respect of such dividends (before any foreign tax credits) from 32.5 per cent. of the gross dividend to 25 per cent. of the gross dividend. For individual UK holders who are liable to UK income tax at the dividend ordinary rates, the effect of this tax credit is that they will have no further tax to pay on such dividends.

Tax Liability for Corporate Shareholders

For a UK holder within the charge to UK corporation tax who is liable for UK corporation tax on the receipt of the gross dividend, UK corporation tax will be chargeable with potential credit for Russian tax deducted at source (as described above). In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Provision of Information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or GDRs may constitute "foreign dividends" for this purpose.

Taxation of Capital Gains

The disposal or deemed disposal of all or part of the Shares or GDRs held by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual UK holders who dispose of their shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK. Any gains or losses in respect of currency fluctuations over the period of holding the shares or GDRs would also be brought into account on the disposal.

As regards individual UK holders, the annual exemption for individuals is £9,600 for the 2008-2009 tax year.

A UK holder that is a company may be entitled to an indexation allowance that applies to reduce chargeable gains to the extent that (broadly speaking) they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create or increase any allowable loss.

As discussed in "*Russian Tax Considerations—Taxation of Capital Gains*", certain capital gains may be subject to Russian tax. Credit against UK capital gains or corporation tax on the same gain may be available in respect of the Russian tax suffered, subject to the detailed UK tax law and practice regarding the availability and calculation of such credit.

Stamp Duty and Stamp Duty Reserve Tax

No ad valorem stamp duty will be payable in the UK in connection with a transfer of the Shares provided that any instrument of transfer is executed outside the UK and does not relate to any property situated or to any matter or thing done or to be done in the UK.

No stamp duty reserve tax ("**SDRT**") will be payable in the UK in respect of any agreement to transfer the shares.

No ad valorem stamp duty or SDRT will arise in the UK in respect of:

- the issue of the GDRs;
- the delivery of GDRs into a clearance service; or
- any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Other UK Tax Considerations

The attention of individuals ordinarily resident in the UK is drawn to the provisions of Chapter 2 of Part 13 of the Income Tax Act 2007. These contain anti-avoidance provisions dealing with the transfer of assets to overseas persons in circumstances which may render such individuals liable to taxation in respect of undistributed profits of the Company.

United States Federal Income Tax Considerations

The following summary of the taxation of the holders of shares or GDRs sets forth the material US federal income tax considerations relating to the purchase, ownership and disposition of the shares or GDRs by the purchasers in this offering.

The following legal discussion (including and subject to the matters and qualifications set forth in such discussion) of certain United States federal income tax considerations relies upon and is premised on the accuracy of the assumptions contained herein and the factual statements and representations made by the Company and its representatives, concerning the Group's business, properties, ownership, organisation, cash flows, source of income and manner of operations, including any forward looking statements, beliefs, intentions or expectations with respect to such. The tax treatment of a holder of shares or GDRs, or of a person treated as a holder of shares or GDRs for US federal income, state, local or non-US tax purposes, may vary depending on the holder's particular tax situation. Statements contained herein as to the Company's beliefs, expectations, intended treatment and conditions represent the view of the Company's management and do not represent the opinions of counsel.

Treasury Department Circular 230. To ensure compliance with Treasury Department Circular 230, each holder and/or purchaser of shares or GDRs is hereby notified that: (a) any discussion of tax issues herein is not intended or written to be relied upon, and cannot be relied upon, by a holder and/or purchaser for the purpose of avoiding penalties that may be imposed on such holder and/or purchaser under applicable tax law; (b) such discussion is included herein in connection with the promotion or marketing (within the meaning of Circular 230) of the offer to sell shares or GDRs by the Company; and (c) a holder and/or purchaser of any shares or GDRs should seek advice based on its particular circumstances from an independent advisor.

Taxation of US Persons Holding shares or GDRs

Unless otherwise stated, this summary deals only with holders of shares or GDRs that are US Persons (as defined below) who acquire their shares or GDRs pursuant to this offering at the initial offering price and who hold their shares or GDRs as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "**Code**"). The following discussion is a discussion of only the material US federal income tax matters as described herein and does not purport to address all of the US federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder's specific circumstances. In addition, the following summary does not address the US federal income tax consequences that may be relevant to special classes of holders of shares or GDRs, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, dealers or traders in securities, tax-exempt organisations, expatriates, investors in pass-through entities, persons who are considered with respect to the Company as "United States shareholders" for purposes of the controlled foreign corporation rules of the Code (generally, a US Person, as defined below, who owns or is deemed to own 10% or more of the total combined voting power of the Company's equity (i.e., 10% US Shareholders)), 7 persons who acquired the shares or GDRs through the exercise or cancellation of employee stock options or otherwise as compensation for their services, persons subject to the alternative minimum tax, holders whose functional currency is not the US dollar or persons who hold their shares or GDRs as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code. This discussion is based upon current law under the Code, the Treasury Regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively and could affect the tax consequences to the Company or holders of shares or GDRs. There can be no assurances that the Internal Revenue Service or other taxing authority will not challenge one or more of the consequences discussed herein. This discussion does not include any description of the tax laws of any state or local governments within the United States or of any non-US government. Persons considering acquiring shares or GDRs should consult their own tax advisors concerning the application of the US federal tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-US taxing jurisdiction prior to making such investment.

If a partnership (or other entity treated as a partnership for US federal income tax purposes) holds the shares or GDRs, the tax treatment of the partners will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding shares or GDRs should consult his tax advisor.

For purposes of this discussion, the term "US Person" means: (i) a citizen or resident of the United States, (ii) a partnership or corporation created or organised in or under the laws of the United States or organised under

the laws of any political subdivision thereof, (iii) an estate the income of which is subject to US federal income taxation regardless of its source, (iv) a trust if either (x) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more US Persons have the authority to control all substantial decisions of such trust or (y) the trust has a valid election in effect to be treated as a US Person for US federal income tax purposes or (v) any other person or entity that is treated for US federal income tax purposes as if it were one of the foregoing. A US Person, other than an entity treated as a partnership or other pass-through entity for US federal income tax purposes, that is the beneficial owner of a share or GDR may be referred to herein as a "US Holder".

Ownership of GDRs in General

For US federal income tax purposes, a holder of GDRs generally will be treated as the owner of the shares represented by such GDRs. As a consequence, no gain or loss will be recognised upon the exchange of shares for GDRs or the exchange of GDRs for shares.

Taxation of Distributions

Subject to the discussion below under "*Passive Foreign Investment Companies*," distributions should constitute foreign source dividend income for US federal income tax purposes to the extent paid out of the Company's current or accumulated earnings and profits (as computed using US federal income tax principles). Distributions in excess of the Company's current and accumulated earnings and profits will be treated first as a return of the US Person's basis in the shares or GDRs to the extent thereof and then as gain from the sale of a capital asset. The Company does not intend to compute (or to provide US Persons with the information necessary to compute) earnings and profits under US federal income tax principles. Accordingly, US Persons should expect to treat distributions as dividends.

Dividends paid by the Company to corporate holders will not be eligible for the dividends received deduction. We believe dividends paid by us before 2011 to non-corporate holders on the shares or GDRs will be eligible for reduced rates of tax up to a maximum of 15% as qualified dividend income, provided that we are entitled to the benefits of the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the "**1994 Income Tax Convention between Russia and the US**") and are not characterised as a PFIC (as defined below) for US federal income tax purposes, and certain other requirements, including stock holding period requirements, are satisfied. Qualified dividend income is subject to tax at capital gain rates. We believe that we should be entitled to the benefits of the 1994 Income Tax Convention between Russia and the US and should not be characterised as a PFIC (as discussed below).

Dividends paid in Roubles will be included in the gross income of a US Person in a US dollar amount calculated by reference to the prevailing spot market exchange rate in effect either on the date that the dividends are received by the US Person (in the case of shares) or by the Depositary (in the case of GDRs) if such person is a cash basis taxpayer, or on the date the right to receive the dividends is fixed if such US person is an accrual basis taxpayer, regardless of whether such Roubles are in fact converted into US dollars on such date. If such dividends are converted into US dollars on such date, a US Holder generally should not be required to recognise foreign currency gain or loss in respect thereof.

A US Holder eligible for benefits under the 1994 Income Tax Convention between Russia and the US may be able to claim a reduced rate of Russian withholding tax. Each US Holder should consult its own tax advisor about its eligibility for reduction of Russian withholding tax. A US Holder may claim a deduction or a foreign tax credit, subject to other applicable limitations, only for tax withheld at the appropriate rate. A US holder should not be allowed a foreign tax credit for withholding tax for any portion of the tax that could have been avoided by claiming benefits under the 1994 Income Tax Convention between Russia and the US. See *"Russian Tax Considerations-Taxation of Dividends—Non-Resident Holders' shares"*. The rules relating to US foreign tax credits and the timing thereof are extremely complex. Accordingly, US Holders should consult their tax advisors with regard to the availability of a US foreign tax credit and the application of the US foreign tax credit limitations to their particular situations.

Distributions will be non-US source income for purposes of the Code and "passive" or general income for foreign tax credit limitation purposes, unless the dividends are paid out of earnings and profits derived by the Company from a US trade or business and at least 25% of the Company's gross income for the preceding three tax years was effectively connected with a US trade or business, in which case the distributions would be treated as arising from sources within the United States.

Dispositions of shares or GDRs

Subject to the discussion below under "*Passive Foreign Investment Companies*", US Holders of shares or GDRs generally should recognise capital gain or loss for US federal income tax purposes on the sale, exchange or other disposition of shares or GDRs in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. Such gain or loss is equal to the difference between the amount realised in such sale, exchange or other disposition and the US Person's tax basis in the Shares or GDRs. In this regard, a US Person's tax basis will initially equal the amount paid for the shares or GDRs. If the holding period for the shares or GDRs exceeds one year, any gain should be subject to tax at a current maximum marginal tax rate of 35% for corporations and 15% for individuals and certain other non-corporate US Holders. For taxable disposition on or after January 1, 2011, such long-term capital gains will generally be taxed at a rate of 20%. Deductions for capital losses are subject to limitations.

A US Holder that receives currency other than the US dollar on the sale or other disposition of shares or GDRs will realise an amount equal to the US dollar value of such currency on the date of sale, or, in the case of cash basis and electing accrual basis taxpayers, the settlement date. A US Holder will have a tax basis in the currency received equal to the US dollar amount realised. Any gain or loss on a subsequent conversion of the non-US currency into US dollars for a different amount generally will be US source ordinary income or loss.

A US Holder eligible for benefits under the 1994 Income Tax Convention between Russia and the US may be exempt from Russian capital gains tax, provided 50% or more of the fixed assets of the Company are not represented by immovable property located in Russia. Each US Holder should consult its own tax advisor about its eligibility for the exemption. Any gain or loss on the sale or disposition of the shares or GDRs generally will be treated as arising from US sources. Consequently, in the case of a sale or disposition that is subject to tax in Russia, a US Holder's ability to use any foreign tax credits for Russian tax imposed on the sale may be limited. A US Holder will not be allowed a foreign tax credit for Russian capital gains tax if the holder could have avoided the tax by claiming benefits under the 1994 Income Tax Convention between Russia and the US.

Passive Foreign Investment Companies

In general, a non-US corporation will be a Passive Foreign Investment Company ("**PFIC**") during any taxable year in which, treating the corporation's ratable shares of its 25% subsidiaries' assets and income as held and earned directly, either: (i) 75% or more of its gross income constitutes "passive income" (the "**75% test**") or (ii) 50% or more of the quarterly average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of passive income (the "**50% test**"). For the above purposes, passive income generally includes interest, dividends, annuities, certain royalties rents (other than certain rents and royalties derived in the active conduct of a trade or business) and other investment income. Based on the Company's, and its subsidiaries, projected business activities, the Company believes that it should not meet the 75% test or the 50% test for 2007 and the foreseeable future and that it should not be characterised as a PFIC for US federal income tax purposes for 2007 and the foreseeable future. However, because PFIC status is determined annually it is possible the Company may become a PFIC. For example, the Company owns certain portfolio investments that generate passive income representing a significant portion of the Company's assets in 2007. If the value of those investments were to increase significantly without a corresponding increase in value of other assets of the Company, the Company could be a PFIC under the 50% test. If the Company is classified as a PFIC in any year in which you as a US Holder own shares or GDRs, we generally will continue to be treated as a PFIC as to you in all succeeding years, regardless of whether we continue to meet the income or asset test discussed above.

In general, if a non-US corporation is characterised as a PFIC during a given year, each US Person holding its shares would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an "excess distribution" with respect to, their shares, unless such person has made a timely "qualified electing fund election" ("**QEF election**") or a mark to market election. The Company does not expect to provide the information necessary for a US Person to make a QEF election. A US Holder can elect to mark the shares or GDRs to market only if the shares or GDRs are "marketable stock." The shares or GDRs will be marketable stock only if they are traded (other than in de minimis quantities) on at least 15 days during each calendar quarter on a "qualified exchange." Any gain from marking the shares or GDRs to market or from disposing of them is ordinary income. A US Holder can recognise loss from marking the shares or GDRs to market, but only to the extent of its unreversed gains. Loss recognised from marking the shares or GDRs to market is ordinary, but loss on disposing of them is capital loss except to the extent of unreversed gains. In general, a shareholder receives an "excess distribution" if the amount of the distribution is more than 125% of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). In

general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taken in equal portion at the highest applicable tax rate on ordinary income throughout the shareholder's period of ownership. For these purposes, gifts, exchanges pursuant to corporate reorganisations, and use of the shares or GDRs as security for a loan may be treated as a taxable disposition. The interest charge is equal to the applicable rate imposed on underpayments of US federal income tax for such period.

Prospective investors in the shares or GDRs are urged to consult their tax advisor as to the application and effects of the PFIC rules.

Backup Withholding and Information Reporting on Distributions and Dispositions

US backup withholding tax and information reporting requirements generally apply to certain distributions on the shares or GDRs and proceeds from a sale or other disposition of the shares or GDRs made within the United States, or by a US payor or US middleman unless the US Holder of the shares or GDRs establishes an exemption from the information reporting rules. A US Holder of shares or GDRs that does not establish such an exemption may be subject to US backup withholding tax on these payments if the holder is not a corporation or non-US Person or fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a US Person should be allowed as a credit against the US Person's US federal income tax liability and may entitle the US Person to a refund, provided that the required information is timely furnished to the IRS.

Potential Changes to US Federal Tax Law

The US federal income tax laws and interpretations regarding whether a company is a PFIC, are subject to change, possibly on a retroactive basis. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Company cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect. Prospective investors are urged to consult with their tax advisors.

Purchasers are advised to consult legal counsel prior to making any resale, pledge or transfer of Securities.

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear and Clearstream to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including managers, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

Global Clearance and Settlement Procedures

Initial settlement

Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts.

Secondary Market Trading

Transfer restrictions. For a description of transfer restrictions relating to the Securities, see *"Transfer Restrictions"* and *"Plan of Distribution—Selling Restrictions."*

Trading between Euroclear and Clearstream participants. Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to equity securities.

General

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of GDRs will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing of the GDRs. Pursuant to

Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade GDRs in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact that the GDRs initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of GDRs may be affected by such local settlement practices and purchasers of GDRs between the date of pricing and the relevant Closing Date should consult their own adviser.

Settlement and delivery of shares

Each purchaser of Shares in the Offering is required to pay for any Shares in same-day funds and the Shares will be delivered to such purchasers commencing on or about the GDR Closing Date. In order to take delivery of the Shares, potential purchasers may be required to have a depo account at one or more Russian licensed custodians. Upon taking delivery of the Shares, purchasers may choose to hold the Shares through a direct account with the Registrar; however, directly held Shares are ineligible for trading on the RTS and MICEX. In addition, in order to trade Shares on the RTS and MICEX, the Shares may need to be further transferred to an account at a different Russian licensed custodian and any costs associated with such transfers shall be the responsibility of the purchasers of Shares.

Description of the Distribution

The Offering consists of an international offering by the Selling Shareholder of ordinary shares, each with a nominal value of RUR 5 per share, of the Company, in the form of shares and GDRs, with ten GDRs representing an interest in one Share. The GDRs will be offered in the United States to certain persons who are both QIBs and QPs in reliance on Rule 144A and to certain non-US persons outside the United States and Russia in offshore transactions in reliance on Regulation S, and the Shares will be offered to certain non-US persons outside the United States in offshore transactions in reliance on Regulation S. Under the terms of, and subject to, the conditions contained in (i) a listing agreement dated 6 August 2008 entered into among the Company and the Managers (the "**Listing Agreement**"), and (ii) an agreement dated 6 August 2008 entered into among the Selling Shareholder and the Managers (the "**Selling Shareholder Agreement**"), the Managers named below have severally agreed to procure purchasers for, or to themselves purchase, at the offer price, the number of shares (including shares in the form of GDRs), in the aggregate amount as indicated below.

Name of Manager	Number of shares
Morgan Stanley & Co. International plc	13,500
Bank Austria Creditanstalt AG	16,500
Total	30,000

UniCredit CAIB UK Ltd. is acting as a Global Coordinator for the Offering. The underwriter for the Offering, on behalf of UniCredit CAIB UK Ltd. as member of the UniCredit Group, is Bank Austria Creditanstalt AG. Bank Austria Creditanstalt AG is party to the Selling Shareholder Agreement and the Listing Agreement. Bank Austria Creditanstalt AG shall be considered a Manager for purposes of the Offering.

The GDRs will be represented by a Master Rule 144A GDR and a Master Regulation S GDR (each as defined in the relevant Deposit Agreement), and will be subject to certain restrictions as further discussed in "*Description of the Global Depositary Receipts.*"

The total expenses of the Company and the Selling Shareholder are expected to be approximately US$5.8m.

The Joint Global Coordinators will deduct from the proceeds of the Offering to the Selling Shareholder certain costs and expenses incurred by them in connection with the Offering. Alfa Capital Markets is Co-Lead Manager. Alfa Capital Markets is the UK branch of Alfa Capital Holdings (Cyprus) Limited, a company incorporated in Cyprus, which is based in and focused on Cyprus and the UK and is not affiliated with US-based Alfa Insurance.

The Company and the Selling Shareholder (see "*Principal and Selling Shareholder*") have each given customary representations and warranties, and made certain undertakings, to the Managers, including in relation to the Company's business, its accounting records and legal compliance, in relation to the Securities and in relation to the contents of this Prospectus. The Selling Shareholder has given certain further representations and warranties, and made certain undertakings, to the Managers, including in relation to its capacity, its good title to the ordinary shares and its conduct.

The Selling Shareholder Agreement provides that the obligations of the Managers are subject to certain conditions precedent. In addition, the Joint Global Coordinators may terminate the Listing Agreement and the Selling Shareholder Agreement in certain circumstances prior to the Closing Date. If any of the above-mentioned conditions is not satisfied (or expressly waived in writing) as and when required by the Selling Shareholder, or the Selling Shareholder Agreement is terminated prior to payment for the Securities, then the Offering will lapse. The Company and the Selling Shareholder have each agreed to give customary indemnities and contribution to the Managers against certain liabilities in respect of the Offering.

In connection with the Offering, each Manager and any affiliate acting as an investor for its own account may take up the Securities and in that capacity may retain, purchase or sell for its own account such Securities or any other securities of Acron or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the Securities being offered or placed should be read as including any offering or placement of Securities to any Manager and any affiliate acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Lock-up Arrangements

None of the Company, Dorogobuzh, or any of the Company's other shareholders, including those controlled by the Principal Shareholder, or the Company's directors or senior management, are entering into lock-up arrangements.

Selling Restrictions

The following is a summary of selling restrictions applicable to the GDRs. See also *"Description of the Global Depositary Receipts" and "Transfer Restrictions"*.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. The Managers propose to offer the GDRs in the United States to certain persons that are both QIBs and QPs in accordance with Rule 144A through the US selling agents of certain of the Managers and outside the United States and the Russian Federation to non-US persons in accordance with Regulation S, and to offer the Shares outside the United States to non-US persons in accordance with Regulation S.

In addition, until 40 days after the commencement of the Offering of the Securities, the offer or sale of the Securities within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each purchaser of the Securities will be deemed to have made acknowledgments and agreements as described under "*Transfer Restrictions*".

European Economic Area

Others than the offers of Securities contemplated in this Prospectus in the United Kingdom once the Prospectus has been approved by the FSA and published in accordance with the Prospective Directive as implemented in the United Kingdom, in relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a Relevant Member State) an offer to the public of any Securities which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Securities may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Managers for any such offer; or

(d) in any other circumstances failing within Article 3(2) of the Prospectus Directive, provided that no such offer of Securities shall result in a requirement for the publication by the Company, the Selling Shareholder or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase any Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

In the case of any Securities being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Securities acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer or any Securities to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Managers has been obtained to each such proposed offer or resale. The Company, the Selling Shareholder, the Managers and their affiliates, and others will rely (and the Company and the Selling Shareholder each acknowledges that the Managers and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase Securities.

The Managers may rely on the truth and accuracy of the forgoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

United Kingdom

Each Manager has agreed that it has:

(a) only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the sale of any Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(b) complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

Russian Federation

No Russian prospectus has been registered or is intended to be registered with respect to the GDRs and the GDRs have not been and are not intended to be registered in the Russian Federation and, consequently, no GDRs may be offered or sold or otherwise transferred as part of the Offering or at any time thereafter to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law. The Managers or their affiliates may distribute this Prospectus to persons in the Russian Federation in a manner that does not constitute an "advertisement" (as defined under Russian law) of the GDRs and may resell the GDRs to Russian persons in a manner that does not constitute "placement" or "public circulation" of the GDRs in the Russian Federation (as defined under Russian law).

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares or the GDRs, or the possession, circulation or distribution of this Prospectus or any other offering or publicity material relating to the Company or the Securities, in any jurisdiction where action for such purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering or publicity material or advertisement in connection therewith be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, the Selling Shareholder or any Manager. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

Other

The Managers and their affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Selling Shareholder and/or and the Company or their respective affiliates, for which they received customary fees, and may provide such services for the Selling Shareholder, the Company or their respective affiliates in the future.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company with respect to United States laws and the laws of England and Wales by Norton Rose LLP, London and with respect to Russian law by Norton Rose (Central Europe) LLP. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to Russian laws by Dewey & LeBoeuf LLC, Moscow, and with respect to the laws of the United States and England and Wales by Dewey & LeBoeuf, London.

INDEPENDENT AUDITORS

The Audited Consolidated Financial Statements prepared in accordance with IFRS as of and for the years ended 31 December 2007, 2006 and 2005 and included elsewhere in this Prospectus, have been audited in accordance with International Standards on Auditing by ZAO PricewaterhouseCoopers Audit, independent auditors, Kosmodamianskaya nab. 52, bldg.5, 115054 Moscow, Russian Federation, as stated in the report contained herein. ZAO PricewaterhouseCoopers Audit is a member of the Russian Chamber of Auditors *(Auditorskaya Palata Rossii)* and The Institute of Professional Accountants of Russia *(Institut Professionalnikh Bukhgalterov Rossii)*.

ZAO PricewaterhouseCoopers Audit has given and has not withdrawn its written consent to the inclusion in this Prospectus of its Independent Auditor's Report on the Group's Audited Consolidated Financial Statements as of and for the years ended 31 December 2007, 2006 and 2005 prepared in accordance with IFRS, in the form and context in which it appears in this Prospectus and has authorised the contents of such report for the purposes of Rule 5.5.4R(2)(f) of the Prospectus Rules and item 1.2 of Annex X of the Prospectus Rules.

A written consent under the Rule 5.5.4R(2)(f) and item 1.2 of Annex X of the Prospectus Rules is different from a consent filed with the US Securities and Exchange Commission under Section 7 of the US Securities Act, which is applicable only to transactions involving securities registered under the US Securities Act. As the GDRs represented by the Offering Shares have not and will not be registered under the US Securities Act, ZAO PricewaterhouseCoopers Audit has not filed a consent under Section 7 of the US Securities Act.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is Deutsche Bank Trust Company Americas. Deutsche Bank Trust Company Americas was incorporated in 1903 as a bank with limited liability in the State of New York and is a wholly-owned subsidiary of Deutsche Bank Trust Corporation, a registered bank holding Company. Deutsche Bank Trust Corporation is a wholly-owned subsidiary of Deutsche Bank AG. The Depositary is subject to regulation and supervision by the New York State Banking Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation. The registered office of the Depositary is located at 60 Wall Street, New York, NY 10005 and the registered number is BR1026. A copy of the Depositary's by-laws, as amended, together with copies of the most recent financial statements and annual report of the Depositary will be available for inspection at the principal administrative establishment of the Depositary located at 60 Wall Street, DR Department, 27th Floor, New York, NY 10005 and at the office of the Depositary located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Such information will be updated as long as the GDRs are admitted to listing on the Official List.

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR to the Official List on or about 11 August 2008. Application has been made for the GDRs to be traded on the LSE's Main Market. Prior to admission to the Official List, conditional dealings will be permitted by the LSE in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. The Company has obtained all consents, approvals and authorisations in connection with the listing and issue of the GDRs. Entry into the Listing Agreement was authorised by the Board of Directors of the Company on 30 July 2008 and entry into the Selling Shareholder Agreement was authorised by the board of directors of Dorogobuzh on 30 July 2008 and 6 August 2008. The issuance of the GDRs for circulation outside the Russian Federation was authorised by the FSFM on 1 July 2008.

3. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the offices of Norton Rose LLP at 3 More London Riverside, London SE1 2AQ, United Kingdom for 30 days from the date of this Prospectus:

   a. the Charter (English translation);

   b. the Deposit Agreements;

   c. the Audited Consolidated Financial Statements together with the report of PricewaterhouseCoopers thereon;

   d. the Interim Financial Information together with the report of PricewaterhouseCoopers thereon; and

   e. this Prospectus.

4. The Company's significant subsidiaries include the following:

Entity	Country of Incorporation	Percentage Shareholding	Registered Office
Dorogobuzh	Russia	78%	Verkhnedneprovsky Settlement, Dorogobuzh District, Smolensk Region, 215753, Russia
Hongri Acron	China	50.5%	Luozhuang District, Linyi City, Shandong Province, 276021, People's Republic of China
Agronova (formerly Deloyt)	Russia	100%	37 (2), Prechistenka, Moscow, 119034, Russia
Andrex	Russia	100%	5th Prichalnaya, Kaliningrad, 236035, Russia
NWPC	Russia	100%	37(2), Prechistenka, Moscow, 119034, Russia
BCT	Estonia	85%	Ahtri 12 - 509 Tallinn 10151, Estonia
VPC	Russia	100%	37 (2), Prechistenka, Moscow, 119034, Russia
Acron-Trans	Russia	50%	Acron premises, Veliky Novgorod, 173012, Russia

5. Except for (i) the Group's purchase on 29 May 2008 (at a price of RUR 16.8 billion or approximately US$700 million) of a licence to develop the Talitsky area of the Verkhnekamsk potassium-magnesium salts deposits in the Perm region of Russia and related financing; (ii) the Group's repayment in full on 11 June 2008 of the amounts outstanding (totalling RUR 882.8 million) on the three-year nonconvertible bonds issued by Dorogobuzh; and (iii) the interim dividend of RUR 40 per common share for the first quarter of 2008 (as announced at the Company's general meeting of shareholders on 27 June 2008), which amounts to a total dividend payout of RUR 1,908,246,555, as described in "*Operating and Financial Review—Recent Developments*," on pages 55 to 56 above, there has been no significant change in the financial or trading position of the Company since 31 March 2008.

6. Set forth in "*Description of Business—Raw Materials*" above under the headings: "*Contracts for the supply of natural gas*", "*Contracts for the supply of apatite concentrate*" and "*Contracts for the supply of potash*" at pages 110 to 113 of this Prospectus are summaries of each material contract, other than contracts entered into in the ordinary course of business, to which Acron (or another member of the Group) is a party, for the two years immediately preceding publication of the Prospectus, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by Acron (or another member of the Group), which contain any provisions under which Acron (or another member of the Group) has any obligation or entitlement material to it at the date of this Prospectus.

7. The Company prepares consolidated annual and interim financial information in accordance with IFRS.

8. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Managers. The results of the Offering will be made public by the Company through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.

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Report on the Review of the Interim Financial Information for the Three Months Ended 31 March 2008

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

Introduction

We have reviewed the accompanying consolidated condensed interim balance sheet of Open Joint Stock Company "Acron" and its subsidiaries (together, the "Group") as at 31 March 2008 and the related consolidated condensed interim statements of income, cash flows and changes in equity for the three month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Without qualifying our report, we draw your attention to Note 2 to the consolidated condensed interim financial information. Management has withdrawn the previously issued consolidated condensed interim financial information due to an error identified by management related to valuation of available for sale investments attributable to minority interest. The consolidated condensed interim financial information as previously reported by the Group has been revised to adjust for this matter. Consequently, our review report dated 30 June 2008 which we have issued on that consolidated condensed interim financial information should no longer be relied upon.

Moscow, Russian Federation
16 July 2008

The firm is an authorized licensee of the tradename and logo of PricewaterhouseCoopers

	Note	31 March 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	14,184,017	13,726,062
Intangible assets		31,921	-
Exploration rights		237,843	237,843
Leasehold land		146,169	147,414
Goodwill		1,023,601	1,023,601
Other non-current assets		510,273	504,446
Investments in associates	9	434,155	362,568
Available-for-sale investments	8	25,768,752	17,306,627
Long-term loans receivable		3,606	3,606
Total non-current assets		**42,340,337**	**33,312,167**
Current assets			
Inventories		4,040,550	3,883,823
Other current assets		66,923	29,942
Short-term loans receivable		673,711	643,718
Accounts receivable	6	4,473,944	4,036,616
Dividends receivable		-	114,454
Cash and cash equivalents	5	5,239,751	1,335,275
Total current assets		**14,494,879**	**10,043,828**
TOTAL ASSETS		**56,835,216**	**43,355,995**
EQUITY			
Share capital		3,125,018	3,125,018
Treasury shares		(39,737)	(39,737)
Retained earnings		14,899,230	11,247,092
Revaluation reserve		15,629,953	11,207,376
Cumulative currency translation difference		(73,514)	(78,531)
Share capital and reserves attributable to the Company's equity holders		**33,540,950**	**25,461,218**
Minority interest		5,152,327	2,835,506
TOTAL EQUITY		**38,693,277**	**28,296,724**

The accompanying notes on pages F-9 to F-20 are an integral part of this consolidated condensed interim financial information.

	Note	31 March 2008	31 December 2007
LIABILITIES			
Non-current liabilities			
Long-term borrowings	11	2,616,815	3,081,023
Finance lease liability		77,504	110,744
Other long-term liabilities		207,279	193,593
Deferred tax liability		6,788,492	4,779,595
Total non-current liabilities		**9,690,090**	**8,164,955**
Current liabilities			
Accounts payable	10	1,346,212	2,428,901
Notes payable		335,028	134,415
Current income tax payable		944,428	290,236
Other taxes payable		326,865	308,608
Short-term borrowings	11	4,083,530	2,418,101
Advances received		1,215,884	1,153,898
Finance lease liability		25,472	31,965
Other current liabilities		174,430	128,192
Total current liabilities		**8,451,849**	**6,894,316**
TOTAL LIABILITIES		**18,141,939**	**15,059,271**
TOTAL LIABILITIES AND EQUITY		**56,835,216**	**43,355,995**

Approved for issue and signed on behalf of the Board of Directors on 16 July 2008.

I. N. Antonov
President

A.V. Milenkov
Finance Director

The accompanying notes on pages F-9 to F-20 are an integral part of this consolidated condensed interim financial information.

		Three months ended	
	Note	**31 March 2008**	**31 March 2007**
Revenue		11,661,134	7,705,926
Cost of sales		(5,089,622)	(4,776,725)
Gross profit		**6,571,512**	**2,929,201**
Transportation services		(660,703)	(387,919)
Selling, general and administrative expenses		(678,080)	(593,223)
Loss on disposal of property, plant and equipment, net		(4,294)	(18,181)
Other operating expenses		(26,481)	(43,576)
Operating profit		**5,201,954**	**1,886,302**
Finance income		130,911	42,738
Interest expense		(136,446)	(152,345)
Share of result of associates	9	71,587	(11,346)
Profit before taxation		**5,268,006**	**1,765,349**
Income tax expense	13	(1,305,034)	(465,403)
Net profit for the period		**3,962,972**	**1,299,946**
Net profit is attributable to:			
Equity holders of the Company		3,652,138	1,207,989
Minority interest		310,834	91,957
Net profit for the period		**3,962,972**	**1,299,946**
Earnings per share for profit for the period attributable to the equity holders of the Company, basic and diluted (expressed in RR per share)	12	83.73	27.70

The accompanying notes on pages F-9 to F-20 are an integral part of this consolidated condensed interim financial information.

		Three months ended	
	Note	**31 March 2008**	**31 March 2007**
Cash flows from operating activities			
Profit before taxation		**5,268,006**	**1,765,349**
Adjustments for:			
Depreciation and amortization		275,502	258,462
Reversal of impairment of accounts receivable	6	(888)	(36,218)
Reversal of provision for write-down on inventory		(8,346)	(78,192)
Reversal of impairment of property, plant and equipment, net		-	(587)
Share of results of associate		(71,587)	11,346
Loss on disposal of property, plant and equipment		4,294	18,181
Interest expense		136,446	152,345
Interest income		(35,687)	(17,152)
Dividend income		-	(148)
Foreign exchange effect on non-operating balances		(68,863)	(52,415)
Operating cash flows before working capital changes		**5,498,877**	**2,020,971**
(Increase)/decrease in gross trade receivables		(397,451)	153,280
Decrease/(increase) in advances to suppliers		67,254	(275,781)
Increase in other receivables		(100,935)	(111,277)
(Increase)/decrease in inventories		(148,381)	96,358
Decrease in trade payables		(612,706)	(257,904)
Increase/(decrease) in other payables		113,593	(179,667)
Increase /(decrease) in advances from customers		61,986	(58,129)
(Increase)/decrease in other current assets		(36,980)	6,293
Increase/(decrease) in other current liabilities		46,238	(50,071)
Net change in other non-current assets and liabilities		7,859	(41,852)
Cash generated from operations		**4,499,354**	**1,302,221**
Income taxes paid		(499,929)	(166,947)
Interest paid		(135,159)	(85,822)
Net cash generated from operating activities		**3,864,266**	**1,049,452**

The accompanying notes on pages F-9 to F-20 are an integral part of this consolidated condensed interim financial information.

		Three months ended	
	Note	**31 March 2008**	**31 March 2007**
Cash flows from investing activities			
Purchase of property, plant and equipment		(745,480)	(719,175)
Purchase of intangible assets		(31,921)	-
Proceeds from sale of property, plant and equipment		10,382	53,281
Loans provided		(118,800)	(93,606)
Proceeds from loans repaid		88,807	150,719
Interest received		30,380	21,059
Dividends received		114,454	11,753
Purchase of available-for-sale investments		(53,829)	(24,980)
Proceeds from sale of leasehold land rights		-	213,170
Net cash used in investing activities		**(706,007)**	**(387,779)**
Cash flows from financing activities			
Dividends paid to shareholders		(498,643)	(446,386)
Dividends paid to minority shareholders		(23)	-
Finance lease payments		(39,733)	-
Proceeds from borrowings	11	5,162,537	975,795
Repayment of borrowings	11	(3,873,543)	(956,929)
Net cash provided from (used in) financing activities		**750,595**	**(427,520)**
Effect of exchange rate changes on cash and cash equivalents		(4,378)	(13,892)
Net increase in cash and cash equivalents		**3,904,476**	**220,261**
Cash and cash equivalents at the beginning of the period		**1,335,275**	**1,239,287**
Cash and cash equivalents at the end of the period		**5,239,751**	**1,459,548**

The accompanying notes on pages F-9 to F-20 are an integral part of this consolidated condensed interim financial information.

	Share capital and reserves attributable to the Company's equity holders						
	Share capital	**Treasury shares**	**Retained earnings**	**Revaluation reserve**	**Cumulative currency translation difference**	**Minority interest**	**Total equity**
Balance at 1 January 2007	**3,125,018**	**(39,737)**	**7,840,636**	**3,180,513**	**3,586**	**1,258,965**	**15,368,981**
Fair value gains on available-for-sale investments (Note 8)	-	-	-	319,828	-	259,014	578,842
Currency translation differences	-	-	-	-	13,890	8,519	22,409
Income tax recorded in equity	-	-	-	(76,759)	-	(62,164)	(138,923)
Net income recognized directly in equity	-	-	-	243,069	13,890	205,369	462,328
Profit for the period	-	-	1,207,989	-	-	91,957	1,299,946
Total recognized income	-	-	1,207,989	243,069	13,890	297,326	1,762,274
Balance at 31 March 2007	**3,125,018**	**(39,737)**	**9,048,625**	**3,423,582**	**17,476**	**1,556,291**	**17,131,255**
Balance at 1 January 2008	**3,125,018**	**(39,737)**	**11,247,092**	**11,207,376**	**(78,531)**	**2,835,506**	**28,296,724**
Fair value gains on available-for-sale investments (Note 8)	-	-	-	5,819,180	-	2,632,986	8,452,166
Currency translation differences	-	-	-	-	5,017	4,918	9,935
Income tax recorded in equity	-	-	-	(1,396,603)	-	(631,917)	(2,028,520)
Net income recognised directly in equity	-	-	-	4,422,577	5,017	2,005,987	6,433,581
Profit for the period	-	-	3,652,138	-	-	310,834	3,962,972
Total recognised income	-	-	3,652,138	4,422,577	5,017	2,316,821	10,396,553
Balance at 31 March 2008	**3,125,018**	**(39,737)**	**14,899,230**	**15,629,953**	**(73,514)**	**5,152,327**	**38,693,277**

The accompanying notes on pages F-9 to F-20 are an integral part of this consolidated condensed interim financial information.

1 Acron Group and Its Operations

This unaudited consolidated condensed interim financial information has been prepared in accordance with International Financial Reporting Standards for the three months ended 31 March 2008 for Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group").

The Group's principal activities include the manufacture, distribution and sales of chemical fertilizers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya and Smolenskaya oblasts of Russia and also in China. Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Group's ultimate parent is Subero Associates Inc (British Virgin Islands) (31 December 2007: Subero Associates Inc). At as 31 March 2008 and 31 December 2007 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

The Company's registered office is at Novgorod the Great, 173012, Russia.

Financial and operating activities of the Group are subject to certain seasonal factors. Usually the Group's sales decrease in the second and third quarters, which is connected with decreased demand due to the end of sowing season at key Group's markets being Russia and China. The Group utilizes this period for capital and current repairs of its production facilities. The Group's policy to decrease volatility of sales from seasonal factors is aimed at diversification of overseas customers and range of products as well as on-demand production.

2 Basis of Presentation

This consolidated condensed interim financial information for the three months ended 31 March 2008 has been prepared in accordance with IAS 34, *Interim Financial Reporting*. This consolidated condensed interim financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2007.

Re-issuance of financial statements. Management has withdrawn the previously issued consolidated condensed interim financial information which was issued on 30 June 2008 in order to correct the valuation of available for sale investments attributable to minority interest. In the originally issued consolidated condensed interim financial information the fair value gains or losses, net of income tax effect, on available for sale investments attributable to minority interest were not recorded in the statement of changes in equity. Management has concluded that IFRS require minority interest in the net assets of consolidated subsidiaries to include the share of fair value gains or losses attributable to minority interest. As a result of this adjustment, at 31 March 2008 and 31 December 2007, the carrying values of available for sale investments were increased by RR 4,441,487 and RR 1,788,220, respectively, with corresponding increase in minority interest by RR 3,375,530 and RR 1,359,047, respectively, and deferred tax liabilities by RR 1,065,957 and RR 429,173, respectively.

3 Accounting Policies

The accounting policies adopted are consistent with those of the consolidated financial statements for the year ended 31 December 2007, as described in the consolidated financial statements for the year ended 31 December 2007.

3 Accounting Policies (continued)

In addition, the following revised and issued standards were adopted in accordance with their transitional provisions and effective dates:

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

These standards and interpretations have not significantly affected the Group's financial information.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been adopted early:

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

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued on March 2007. The main change in IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Group expects the revised IAS 23 has no impact on the financial statements as the Group's accounting policies historically complied with it.

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

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

3 Accounting Policies (continued)

is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

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

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not applicable to the Group as the Group companies do not currently operate any loyalty programmes.

Improvements to International Financial Reporting Standards (issued in May 2008, effective for annual periods beginning on or after 1 January 2009). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under

3 Accounting Policies (continued)

IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group is currently assessing what impact the amendments will have on its consolidated financial statements.

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

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

4 Balances and Transactions with Related Parties

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

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

The following turnovers and balances arise from transactions with related parties:

i Balances with related parties

Balance sheet caption	Note	Relationship	31 March 2008	31 December 2007
Trade receivables, gross	6	Parties under common control	55,678	48,610
Provision for impairment of trade receivables	6	Parties under common control	(13,744)	(18,214)
Prepayments	6	Parties under common control	8,911	5,000
Loans issued		Parties under common control	224,300	200,583
Loans issued		Key management	42,500	-
Other receivables	6	Parties under common control	7,473	27,894
Loans received		Parties under common control	(9,913)	(9,714)
Trade payables	10	Parties under common control	(18,791)	(20,932)
Advances from customers		Parties under common control	(20,228)	(7)

4 Balances and Transactions with Related Parties (continued)

ii Transactions with related parties

Income statement caption	Note	Relationship	Three months ended 31 March 2008	Three months ended 31 March 2007
Sales of chemical fertilizers		Parties under common control	370,776	106,114
Purchases of raw materials		Parties under common control	(37,195)	(8,416)
Security services		Parties under common control	(32,422)	(35,345)

iii Cross shareholding

At 31 March 2008 JSC "Dorogobuzh", a 71.83% subsidiary of the Company, owned 4,071,600 ordinary shares or 8.54% of the ordinary share capital of the Company (31 December 2007: 4,071,600 ordinary shares or 8.54%). Shares owned by JSC "Dorogobuzh" are accounted for as treasury shares, but retain their voting rights and dividends.

iv Loans issued

At 31 March 2008 and 31 December 2007 short-term loans to parties under common control totalled RR 224,300 and RR 200,583 respectively, at interest rates in the range of 9% to 10% (2007: 10% to 10.5%).

For three months ended 31 March 2008 the Group accrued interest income of RR 5,079 (for three months ended 31 March 2007: RR 4,888).

At 31 March 2008 long-term loans to key management members totalled RR 42,500, at interest rate of 8% (31 December 2007: nil).

v Key management personnel compensation

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

Total key management personnel compensation included in general and administrative expenses in the income statement for three months ended 31 March 2008 amounted to RR 86,815 (for three months ended 31 March 2007: RR 89,447). Related state pension and social security costs for three months ended 31 March 2008 amounted to RR 3,175 (for three months ended 31 March 2007: RR 3,130).

5 Cash and Cash Equivalents

	31 March 2008	31 December 2007
Cash on hand and bank balances denominated in RR	4,251,296	642,278
Bank balances denominated in US$	446,062	170,978
Bank balances denominated in Euro	23,167	16,565
Bank balances denominated in RMB	519,226	505,454
Total cash and cash equivalents	**5,239,751**	**1,335,275**

5 Cash and Cash Equivalents (continued)

At 31 March 2008, 53 percent of the Group's cash and cash equivalents were placed as a deposit with a single bank, which is rated as "BBB+" based on the credit ratings of independent rating agency Standard & Poor's.

6 Accounts Receivable

	31 March 2008	31 December 2007
Trade accounts receivable	925,569	528,118
Notes receivable	44,291	435,870
Other accounts receivable	170,271	186,961
Less: impairment provision	(136,921)	(129,753)
Total financial assets	**1,003,210**	**1,021,196**
Advances to suppliers	2,175,700	2,242,954
Deposit for participation in auction for exploration license (Note 15)	620,123	-
Value-added tax recoverable	672,516	772,477
Income tax prepayments	3,065	10,992
Other taxes receivable	7,644	5,367
Less: impairment provision	(8,314)	(16,370)
Total accounts receivable	**4,473,944**	**4,036,616**

7 Property, Plant and Equipment

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

	2008	2007
Carrying amount at 1 January	**13,726,062**	**12,233,590**
Additions	759,772	719,175
Disposals	(14,658)	(70,875)
Charge for the period	(275,502)	(257,137)
Currency translation difference	(11,657)	(2,302)
Carrying amount at 31 March	**14,184,017**	**12,622,451**

At 31 March 2008, buildings, machinery, equipment and construction in progress with a net book value of RR 839,298 (31 December 2007: RR 698,623) had been pledged as security for long-term loans.

8 Available-for-Sale Investments

The Group has investments in the following companies:

Name	Activity	Country of registration	31 March 2008	31 December 2007
JSC Sylvinit	Potash mining	Russia	16,327,295	13,229,443
JSC Apatite	Apatite concentrate mining	Russia	9,064,259	3,637,946
JSC Sberbank	Banking	Russia	182,407	254,405
Other			194,791	184,833
			25,768,752	**17,306,627**

For the three months ended 31 March 2008 fair value gains (losses) for available-for-sale investments were recognized directly in equity in the amount of RR 8,452,166 (for three months ended 31 March 2007: RR 578,842). These investments comprise principally equity securities, which are listed on the Russian Trading System. The share price quoted by RTS for JSC Apatite and JSC Sylvinit amounted to 600 and 1,095 US Dollars for 1 share at 31 March 2008 (230 and 850 US Dollars respectively for 1 share at 31 December 2007).

9 Investments in Associates

	2008	2007
Balance at 1 January	362,568	422,221
Share of income/(loss) before tax	71,587	(11,346)
Balance at 31 March	**434,155**	**410,875**

The amount above is represented by the investment of the Group into JSC Sibir Oil and Gas Company (21% of interest held), which significantly expanded production and sales starting from 2008.

10 Accounts Payable

	31 March 2008	31 December 2007
Trade accounts payable	815,092	1,427,798
Dividends payable	6,203	504,869
Total financial payables	**821,295**	**1,932,667**
Payables to employees	277,590	432,469
Accrued liabilities and other creditors	247,327	63,765
Total accounts payable and accrued expenses	**1,346,212**	**2,428,901**

11 Short-Term and Long-Term Borrowings

The Group's borrowings mature as follows:

	31 March 2008	31 December 2007
Borrowings due:		
- within 1 year	4,083,530	2,418,101
- between 2 and 5 years	1,705,893	2,462,135
- after 5 years	910,922	618,888
	6,700,345	**5,499,124**

Bank loans denominated in RMB were collateralised by buildings, machinery and equipment with a net book value of RR 174,299 (31 December 2007: RR 174,834) and land use right with a net book value of RR 124,211 (31 December 2007: RR 123,713). The loans obtained from Chinese banks are secured by guarantees issued by third parties totalled RR 923,336 (2007: RR 1,094,138).

Bank loans denominated in EUR were collateralised by construction in progress with a book value of RR 665,000 (31 December 2007: RR 502,000) and 50% interest in AS BCT, a Group's subsidiary (31 December 2007: 50% interest).

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

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

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

	31 March 2008	31 December 2007
Short-term borrowings		
Russian roubles		
Loans with fixed interest rates of 7% to 14% per annum	155,078	144,663
Bonds with coupon payments of 8.6% per annum	882,823	882,823
US$		
Loans with fixed interest rates of 7% to 14% per annum	470,312	-
Loans with floating interest rates of LIBOR + 3.45% per annum	1,469,725	147,277
RMB		
Loans with fixed interest rates of 5.58% to 8.28% per annum	804,067	940,905
Plus: current portion of long-term debt	301,525	302,433
Total short-term borrowings	**4,083,530**	**2,418,101**

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

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

	31 March 2008	31 December 2007
Long-term borrowings		
Russian roubles		
Loans with fixed interest rates of 8% to 14% per annum	621,332	599,382
Euro		
Loans with floating interest rates of EURIBOR + 1.3%	910,922	618,888
US$		
Loans with fixed interest rates of 7.9% per annum	470,312	981,848
Loans with floating interest rates of LIBOR + 2.75% to LIBOR + 3.45% per annum	293,962	559,653
RMB		
Loans with fixed interest rates of 6.732% to 7.83% per annum	621,812	623,685
Less: current portion of long-term debt	(301,525)	(302,433)
Total long-term borrowings	**2,616,815**	**3,081,023**

Unused credit lines available under long-term loan facilities were RR 2,211,795 (31 December 2007: RR 1,791,320).

The loan agreements for a total of RR 2,674,609 (2007: RR 1,325,818) contain certain covenants including those which require the Group to maintain a minimum level of net assets of at least USD 190 million, and impose restrictions on total debt which should not exceed 60% of the net assets, and EBITDA/net interest expense ratio which should be no less than 4 to 1. The loan agreements also provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks. The loan agreements also provide for subjective acceleration clauses in case of the borrower's failure to fulfill or appropriately fulfill his obligations to the bank.

The loan agreements for a total of RR 1,490,624 (2007: RR 1,551,848) were secured by a pledge of the Company's promissory notes. The collateral value of the notes remaining in pledge should not be less than the borrower's liability, including principal and interest accrued for no less than three months of the credit term. In addition, these agreements contain subjective acceleration clauses in relation to events triggered by borrower's failure to fulfill the contractual obligations. Also, these covenants permit the lending banks to directly debit the accounts opened by the borrower with the banks to ensure repayment of the overdue debt.

The loan agreements for a total of RR 110,000 (2007: RR 110,000) contain a covenant, that requires the borrower to maintain a required level of cash flows through the accounts opened with the lending bank. The loan agreement also includes a number of covenants and a subjective acceleration clause in case of the borrower's failure to fulfill his obligations under the loan agreements which include restrictions on material transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the borrowings.

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

The loan agreements for a total of RR 116,410 (2007: RR 56,045) contain a covenant to maintain the required level of cash flows through the accounts opened with the lender. Also, they allow the bank to directly debit the borrower's accounts with the lending banks to ensure repayment of his debt.

12 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the reporting period, excluding treasury shares. The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equal the basic earnings per share.

	Three months ended	
	31 March 2008	**31 March 2007**
Weighted average number of shares outstanding	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(4,071,600)	(4,071,600)
Weighted average number of shares outstanding	43,616,000	43,616,000
Profit attributable to the equity holders of the Company	**3,652,138**	**1,207,989**
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	**83.73**	**27.70**

13 Income Taxes

	Three months ended	
	31 March 2008	**31 March 2007**
Income tax expense – current	1,324,656	434,067
Deferred tax credit – origination and reversal of temporary differences	(19,622)	31,336
Income tax charge	**1,305,034**	**465,403**

14 Contractual Commitments and Contingencies

As at 31 March 2008 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 812,791 (31 December 2007: RR 904,199).

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

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 March 2008 and 31 December 2007, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of RR 923,336 and RR 1,094,138, respectively. No amount has been accrued in the consolidated condensed interim financial information for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

Management estimates that the Group has possible obligations from exposure to other than remote tax risks of RR 59,773 (2007: RR 64,750). These exposures primarily relate to recoverability of VAT.

15 Subsequent Events

Export duties

In March 2008 the Government of the Russian Federation introduced duties, effective from April 2008, on exports of nitrogen fertilizers, complex fertilizers and apatite to countries outside the CIS Customs Union. The duties applicable to the Group's products are 8.5% and 6% of the declared customs value of nitrogen and complex fertilizers and apatite, respectively. Management is currently assessing the impact of these duties on the Group's future financial results. Currently, export sales represent 52% (for three months ended 31 March 2007: 50%) of Group's of revenues.

Acquisition of the right to develop Verkhnekamskoye potash deposit

In May 2008, the Group, following an auction process, acquired a license for the exploration and development of the Talitsky section of the Verkhnekamskoye potash deposit, located in Perm region, Russian Federation. The license expires in April 2028. The cost of the license amounted to RR 16,802,000, which was paid in cash to the Russian State. This acquisition was financed by credit line committed by JSC Sberbank for RR 13,441,600 payable in 7 years and bearing 11.25% interest. Available for sale investment in JSC Sylvinit (Note 8) and 100% shares in the Group's subsidiary, LLC "Verkhnekamskaya Kaliyanaya Kompaniya", the legal owner of the license, had been pledged as security for this long-term loan facility. In accordance with the conditions of the license, the Group has the following commitments:

- to commence the geological exploration by 15 April 2009;
- to commence the extraction of potash salt by 15 June 2014.

Management is in the process of estimation of the probable expenditure required to comply with terms of the license. At the date of this consolidated condensed interim financial information, no significant purchase commitments or contracts were outstanding in connection with such exploratory expenditure.

Dividends declared by the Company

In May 2008 the annual shareholders meeting approved an annual dividends distribution for the year ended 31 December 2007 in the amount of 65 Russian roubles per each ordinary share. This dividend will be paid in addition to the interim dividends declared during the year in the amount of 25 Russian roubles per each ordinary share.

In June 2008 the extraordinary shareholders meeting of the Company approved an interim dividends distribution for the three months ended 31 March 2008 in the amount of 40 Russian roubles per each ordinary share.

Dividends declared by the Group's subsidiary

In May 2008 the annual shareholders meeting of the Group's subsidiary, JSC Dorogobuzh, approved an annual dividends distribution for the year ended 31 December 2007 in the amount of RR 1,645,826 (1.88 Russian roubles per each ordinary share and preferred share).

New subsidiaries

In June 2008 the Group established the 100% subsidiary, trading house Agronova International Inc. in the United States of America.

In May 2008 the Group contributed RR 734,700 ($CDN 31 million) to the share capital of 101109718 Saskatchewan Ltd (Canada) in exchange for the new shares issued comprising 98%

15 Subsequent Events (continued)

of the share capital of a company. The cash contributed was used to acquire exploration licenses. As at the date of this consolidated condensed interim financial information the acquired entity obtained 26 licenses to explore for potash deposits in the Canadian province of Saskatchewan.

Bank loans and bonds

Subsequent to 31 March 2008 and prior to the date of this consolidated condensed interim financial information, the Group has obtained additional bank loans of RR 3,246,687, excluding JSC Sberbank loan described above, and repaid existing bank loans and bonds of RR 988,945.

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INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying financial statements of Joint Stock Company "Acron" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2007, 31 December 2006 and 31 December 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

6. Our work has not been carried out in accordance with Auditing Standards generally accepted in the United States of America or Auditing Standards of the Public Company accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those Standards.

The firm is an authorized licensee of the tradename and logo of PricewaterhouseCoopers

Opinion

7. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, 31 December 2006 and 31 December 2005 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board.

Declaration

8. For the purposes of Prospectus Rule 5.5.4R (2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all responsible care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of the Prospectus Directive Regulation.

Moscow, Russian Federation
6 August 2008

	Note	2007	2006	2005
ASSETS				
Non-current assets				
Property, plant and equipment	14	13,726,062	12,233,590	10,827,333
Exploration rights	15	237,843	237,843	-
Leasehold land	13	147,414	151,221	267,423
Goodwill	16	1,023,601	1,023,601	-
Other non-current assets		504,446	316,367	237,476
Investments in associates	17	362,568	422,221	300,221
Available-for-sale investments	18	17,306,627	5,318,115	3,833,699
Long-term loans receivable	11	3,606	125,525	57,500
Total non-current assets		**33,312,167**	**19,828,483**	**15,523,652**
Current assets				
Inventories	12	3,883,823	3,240,817	3,220,444
Other current assets		29,942	45,756	38,591
Short-term loans receivable	11	643,718	577,491	501,435
Accounts receivable	10	4,036,616	3,722,288	2,393,120
Dividends receivable		114,454	11,605	-
Cash and cash equivalents	9	1,335,275	1,239,287	1,338,779
Total current assets		**10,043,828**	**8,837,244**	**7,492,369**
TOTAL ASSETS		**43,355,995**	**28,665,727**	**23,016,021**
EQUITY				
Share capital	23	3,125,018	3,125,018	3,125,018
Treasury shares	23	(39,737)	(39,737)	(39,737)
Retained earnings		11,247,092	7,840,636	6,546,852
Revaluation reserve		11,207,376	3,180,513	1,927,397
Cumulative currency translation difference		(78,531)	3,586	14,814
Share capital and reserves attributable to the Company's equity holders		**25,461,218**	**14,110,016**	**11,574,344**
Minority interest		2,835,506	1,258,965	1,981,122
TOTAL EQUITY		**28,296,724**	**15,368,981**	**13,555,466**

The accompanying notes on pages F-30 to F-79 are an integral part of these consolidated financial statements.

	Note	2007	2006	2005
LIABILITIES				
Non-current liabilities				
Long-term borrowings	21	3,081,023	5,278,124	2,217,329
Finance lease liability	22	110,744	-	-
Other long-term liabilities		193,593	276,648	243,881
Deferred tax liability	29	4,779,595	2,040,243	1,892,535
Total non-current liabilities		**8,164,955**	**7,595,015**	**4,353,745**
Current liabilities				
Accounts payable	19	2,428,901	2,165,109	1,470,129
Notes payable		134,415	250,405	343,329
Current income tax payable		290,236	44,637	105,027
Other taxes payable	20	308,608	189,482	204,011
Short-term borrowings	21	2,418,101	1,764,057	1,936,976
Advances received		1,153,898	1,235,287	1,007,865
Finance lease liability	22	31,965	-	-
Other current liabilities		128,192	52,754	39,473
Total current liabilities		**6,894,316**	**5,701,731**	**5,106,810**
Total liabilities		**15,059,271**	**13,296,746**	**9,460,555**
TOTAL LIABILITIES AND EQUITY		**43,355,995**	**28,665,727**	**23,016,021**

Approved for issue and signed on behalf of the Board of Directors on 6 August 2008.

I. N. Antonov
President

A.V. Milenkov
Finance Director

The accompanying notes on pages F-30 to F-79 are an integral part of these consolidated financial statements.

	Note	2007	2006	2005
Revenue	7	31,105,184	23,624,534	22,748,310
Cost of sales	24	(18,943,506)	(15,653,747)	(13,952,861)
Gross profit		**12,161,678**	**7,970,787**	**8,795,449**
Transportation services		(1,725,442)	(1,462,179)	(1,477,168)
Selling, general and administrative expenses	25	(2,595,093)	(2,556,144)	(2,265,679)
Gain (loss) on disposal of property, plant and equipment, net		(12,083)	63,875	762
Other operating expenses	27	(180,030)	(295,120)	(71,706)
Operating profit		**7,649,030**	**3,721,219**	**4,981,658**
Finance income, net	26	466,406	243,371	39,159
Interest expense		(509,582)	(491,996)	(369,214)
Share of result of associates	17	(59,653)	-	-
Profit before taxation		**7,546,201**	**3,472,594**	**4,651,603**
Income tax expense	29	(1,877,875)	(1,009,005)	(1,268,144)
Net profit for the year		**5,668,326**	**2,463,589**	**3,383,459**
Net profit is attributable to:				
Equity holders of the Company		5,063,864	2,253,336	3,031,058
Minority interest		604,462	210,253	352,401
Net profit for the year		**5,668,326**	**2,463,589**	**3,383,459**
Earnings per share for profit for the year attributable to the equity holders of the Company, basic and diluted (expressed in RR per share)	28	116.10	51.66	69.49

The accompanying notes on pages F-30 to F-79 are an integral part of these consolidated financial statements.

	Note	2007	2006	2005
Cash flows from operating activities				
Profit before taxation		**7,546,201**	**3,472,594**	**4,651,603**
Adjustments for:				
Depreciation and amortization	13, 14	1,009,580	924,334	872,856
Reversal of impairment of accounts receivable	10	(47,125)	(30,568)	54,519
(Decrease)/Increase in provision for write-down on inventory	12	(11,535)	30,860	21,614
Reversal of impairment of property, plant and equipment, net	14	(2,349)	(6,901)	-
Share of results of associate	17	59,653	-	-
Loss/(gain) on disposal of property, plant and equipment		12,083	(63,875)	-
Interest expense		509,582	491,996	368,431
Interest income		(73,826)	(76,956)	(80,216)
Dividend income		(267,383)	(39,077)	(34,609)
Foreign exchange effect on non-operating balances		(148,545)	(22,934)	(137,728)
Operating cash flows before working capital changes		**8,586,336**	**4,679,473**	**5,716,470**
Decrease/(Increase) in gross trade receivables		523,569	(635,677)	(44,080)
Increase in advances to suppliers		(1,155,693)	(63,505)	(438,771)
Decrease/(Increase) in other receivables		57,011	(599,418)	(227,278)
Increase in inventories		(631,471)	(115,617)	(1,480,459)
(Decrease) / increase in trade payables		630,516	(92,332)	489,593
Decrease in other payables		(251,834)	66,019	(270,062)
(Decrease)/Increase in advances from customers		(81,389)	227,422	(314,802)
Increase /(Decrease) in other current assets		15,814	(7,166)	(11,557)
Increase /(Decrease) in other current liabilities		75,438	13,278	(21,333)
Net change in other non-current assets and liabilities		(271,134)	18,264	48,357
Cash generated from operations		**7,497,163**	**3,490,741**	**3,446,078**
Income taxes paid		(1,368,133)	(1,050,651)	(1,097,693)
Interest paid		(544,783)	(415,380)	(383,405)
Net cash generated from operating activities		**5,584,247**	**2,024,710**	**1,964,980**

The accompanying notes on pages F-30 to F-79 are an integral part of these consolidated financial statements.

	Note	2007	2006	2005
Cash flows from investing activities				
Purchase of property, plant and equipment		(2,524,434)	(2,818,313)	(1,326,834)
Purchase of exploration rights		-	(237,843)	-
Acquisition of additional interest in subsidiaries	16	(474,256)	(1,249,410)	-
Proceeds from sale of property, plant and equipment		162,408	197,315	9,726
Contribution to share capital of associate	17	-	(122,000)	-
Loans provided	11	(397,956)	(618,281)	(806,234)
Proceeds from loans repaid	11	453,648	474,200	908,733
Interest received		74,777	76,956	91,896
Dividends received		164,534	39,077	34,609
Proceeds from sale of leasehold land rights		213,170		
Purchase of available-for-sale investments		(99,272)	(76,194)	(126,208)
Net cash used in investing activities		**(2,427,381)**	**(4,334,493)**	**(1,214,312)**
Cash flows from financing activities				
Dividends paid to shareholders		(1,624,067)	(666,628)	(905,189)
Dividends paid to minority shareholders		(80)	(122,695)	(152,873)
Proceeds from borrowings	21	5,007,494	6,723,931	5,838,334
Repayment of borrowings	21	(6,410,964)	(3,641,996)	(5,312,965)
Net cash provided from (used in) financing activities		**(3,027,617)**	**2,292,612**	**(532,693)**
Effect of exchange rate changes on cash and cash equivalents		(33,261)	(82,321)	28,769
Net increase (decrease) in cash and cash equivalents		**95,988**	**(99,492)**	**246,744**
Cash and cash equivalents at the beginning of the year		**1,239,287**	**1,338,779**	**1,092,035**
Cash and cash equivalents at the end of the year		**1,335,275**	**1,239,287**	**1,338,779**

The accompanying notes on pages F-30 to F-79 are an integral part of these consolidated financial statements.

	Capital and reserves attributable to the Company's equity holders						
	Share capital (Note 23)	**Treasury shares (Note 23)**	**Retained earnings**	**Revaluation reserve**	**Cumulative currency translation difference**	**Minority interest**	**Total shareholders' equity**
Balance at 31 December 2004 (as previously reported)	**3,125,018**	**(39,737)**	**4,427,459**	**332,826**	**919**	**1,599,003**	**9,445,488**
Accounting change (Note 8 (iii), Note 18)	-	-	291,535	-	-	(168,243)	**123,292**
Balance at 1 January 2005 (as restated)	**3,125,018**	**(39,737)**	**4,718,994**	**332,826**	**919**	**1,430,760**	**9,568,780**
Fair value gains on available-for-sale investments (Note 18)	-	-	-	2,098,120	-	527,009	2,625,129
Currency translation differences	-	-	-	-	13,895	14,869	28,764
Income tax recorded in equity (Note 29)	-	-	-	(503,549)	-	(126,482)	(630,031)
Net income recognised directly in equity	-	-	-	1,594,571	13,895	415,396	2,023,862
Profit for the year	-	-	3,031,058	-	-	352,401	3,383,459
Total recognised income for 2005	-	-	3,031,058	1,594,571	13,895	767,797	5,407,321
Dividends	-	-	(1,203,200)	-	-	(217,435)	(1,420,635)
Balance at 31 December 2005 (as restated)	**3,125,018**	**(39,737)**	**6,546,852**	**1,927,397**	**14,814**	**1,981,122**	**13,555,466**
Balance at 1 January 2006	**3,125,018**	**(39,737)**	**6,546,852**	**1,927,397**	**14,814**	**1,981,122**	**13,555,466**
Fair value gains on available-for-sale investments (Note 18)	-	-	-	1,648,837	-	(205,900)	1,442,937
Currency translation differences	-	-	-	-	(11,228)	(80,974)	(92,202)
Income tax recorded in equity (Note 29)	-	-	-	(395,721)	-	49,416	(346,305)
Net income recognised directly in equity	-	-	-	1,253,116	(11,228)	(237,458)	1,004,430
Profit for the year	-	-	2,253,336	-	-	210,253	2,463,589
Total recognised income for 2006	-	-	2,253,336	1,253,116	(11,228)	(27,205)	3,468,019
Acquisition of additional interest in subsidiaries	-	-	-	-	-	(620,450)	(620,450)
Dividends declared (Note 23)	-	-	(959,552)	-	-	(74,502)	(1,034,054)
Balance at 31 December 2006	**3,125,018**	**(39,737)**	**7,840,636**	**3,180,513**	**3,586**	**1,258,965**	**15,368,981**

The accompanying notes on pages F-30 to F-79 are an integral part of these consolidated financial statements.

	Capital and reserves attributable to the Company's equity holders						
	Share capital (Note 23)	**Treasury shares (Note 23)**	**Retained earnings**	**Revaluation reserve**	**Cumulative currency translation difference**	**Minority interest**	**Total shareholders' equity**
Balance at 1 January 2007	**3,125,018**	**(39,737)**	**7,840,636**	**3,180,513**	**3,586**	**1,258,965**	**15,368,981**
Fair value gains on available-for-sale investments (Note 18)	-	-	-	10,561,662	-	1,377,151	11,938,813
Currency translation differences	-	-	-	-	(82,117)	(66,959)	(149,076)
Income tax recorded in equity (Note 29)	-	-	-	(2,534,799)	-	(330,516)	(2,865,315)
Net income recognised directly in equity	-	-	-	8,026,863	(82,117)	979,676	8,924,422
Profit for the year	-	-	5,063,864	-	-	604,462	5,668,326
Total recognised income for 2007	-	-	5,063,864	8,026,863	(82,117)	1,584,138	14,592,748
Dividends declared (Note 23)	-	-	(1,657,408)	-	-	(7,597)	(1,665,005)
Balance at 31 December 2007	**3,125,018**	**(39,737)**	**11,247,092**	**11,207,376**	**(78,531)**	**2,835,506**	**28,296,724**

The accompanying notes on pages F-30 to F-79 are an integral part of these consolidated financial statements.

1 Acron Group and its Operations

These consolidated financial statements have been prepared for inclusion in the prospectus to be issued by the Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together the "Group" or the "Acron Group") for the offering of shares in the form of shares and Global Depositary Receipts ("GDRs"), the proposed admission of the GDRs to the Official List maintained by the Financial Services Authority and the proposed admission to trading of the GDRs on the London Stock Exchange's Regulated Market.

The Group's principal activities include the manufacture, distribution and sales of chemical fertilizers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya and Smolenskaya oblasts of Russia and also in China. Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Group's immediate parent is Subero Associates Inc (British Virgin Islands) (2006: Subero Associates Inc, 2005: La Societe de Placement International a Luxembourg S.A.). As at 31 December 2007, 2006 and 2005 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

The Company's registered office is at Novgorod the Great, 173012, Russia.

2 Basis of Preparation of the Financial Statements

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

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

Accounting for the effect of inflation. Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

3 Summary of Significant Accounting Policies

3.1 Group accounting

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

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

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

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

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

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

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

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated

3 Summary of Significant Accounting Policies (continued)

income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

3.2 Cash and cash equivalents

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

3.3 Trade and other receivables

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

- Any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty considers bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

3.4 Value added tax

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

3 Summary of Significant Accounting Policies (continued)

3.5 Inventories

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

3.6 Property, plant and equipment

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

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

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

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

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

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in the statement of income as incurred.

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.7 Leasehold land

Leases of land are classified as operating leases. The pre-paid lease payments are amortized over the lease period of 30 years on a straight-line basis.

3 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 acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange.

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

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

Research and development. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, on average over a period not exceeding 5 years.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, acquired trademarks and licences. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives, but not exceeding 20 years.

3.9 Borrowings

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

3.10 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Corporate profit tax rate is 24% (2006: 24%; 2005: 24%) for Russia, where the most significant Group subsidiaries are registered.

3 Summary of Significant Accounting Policies (continued)

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

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

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

3.11 Foreign currency transactions

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was US$ 1 = 24.5462 RR , US$ 1 = 7.3046 RMB (2006: US$ 1 = RR 26.3311, US$ 1 = RMB 7.8098; 2005: US$ 1 = RR 28.7825, US$ 1 = RMB 8.0734). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.12 Provisions for liabilities and charges

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

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

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

3.13 Shareholders' equity

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

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

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

3.14 Revenue recognition

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

3 Summary of Significant Accounting Policies (continued)

Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

3.15 Mutual cancellations

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

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3.16 Employee benefits

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

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

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognized contributions of RR 462,065 as part of labour costs in 2007 (2006: RR 448,949; 2005: RR 462,965).

3.17 Financial assets and liabilities.

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

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

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to

3 Summary of Significant Accounting Policies (continued)

hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

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

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

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

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

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

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

3.18 Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset

3 Summary of Significant Accounting Policies (continued)

and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

3.19 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting year.

3.20 Exploration assets

Expenditures incurred in exploration activities (acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource) are capitalized. In accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources,* exploration assets are measured applying the cost model described in IAS 16, *Property, Plant and Equipment,* after initial recognition. Exploration assets are not depreciated until the production phase. The Group tests exploration assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

3.21 Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the current year presentation (Note 7, Note 8 (iii)).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 16. At 31 December 2007 no impairment of goodwill was required, and none would be required even if the budgeted sales growth rate used in the value-in-use calculations for any CGU had been 5% lower than management estimates at 31 December 2007. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 1% higher than management estimates, the goodwill would still have not been impaired.

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

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, in industry and sector performance, or in operating or financing cash flows, or when there are significant adverse consequences of changes in technology.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Refer to Note 8.

Useful lives of property, plants and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions. The impact on depreciation for the period would be to increase it by RR 26,106 or decrease it by RR 27,778 were the estimated useful lives to differ by 10% from management's estimates.

Valuation of available-for-sale investments. As of 31 December 2006 and 2005 the investments in JSC Apatite and in JSC Sylvinit had no active market in line with requirements of IAS 39. For these investments, fair value was estimated by using valuation techniques based on application guidance of IAS 39 (revised). As of 31 December 2007 the Group concluded that the investments in JSC Apatite and in JSC Sylvinit were traded in active market in line with requirements of IAS 39, and fair value was determined by reference to the current market value at the close of business on 31 December 2007. Although the free float and volume of trades of investments may be not significant, their quoted prices are readily and regularly available from exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Refer to Note 18.

Consolidation of subsidiaries. Although the Company has only 50% interest in CJSC Acron-Trans, it has the power to cast the majority of votes at meetings of the board of directors. Accordingly, the Company has consolidated CJSC Acron-Trans in these financial statements.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information regarding financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including analysis of sensitivity to market risk. IFRS 7 replaced some of the requirements of IAS 32, *Financial Instruments: Disclosure and Presentation.* A complementary Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

Other new standards or interpretations. The Group has adopted the following interpretations which became effective from 1 January 2007:

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

These interpretations did not have a significant impact on these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not early adopted:

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

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued on March 2007. The main change in IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies prospectively to borrowing costs relating to qualifying assets for

6 New Accounting Pronouncements (continued)

which the commencement date for capitalization is on or after 1 January 2009. The Group expects the revised IAS 23 has no impact on the financial statements as the Group's accounting policies historically complied with it.

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

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

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

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting

6 New Accounting Pronouncements (continued)

conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Amendment to IFRS 2, *Share-based Payment* is not currently applicable to the Group as it has no such payments.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not applicable to the Group as the Group companies do not currently operate any loyalty programmes.

Improvements to International Financial Reporting Standards (issued in May 2008, effective for annual periods beginning on or after 1 January 2009). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Most of the amendments are effective annual periods beginning on or after 1 January 2009. The Group is currently assessing what impact the amendments will have on its consolidated financial statements.

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

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

- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);

6 New Accounting Pronouncements (continued)

- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 15, IAS 11, IAS 18 – *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16, IAS 39 – *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008).

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

7 Segment Information

The Group has one primary reportable segment, which is manufacturing and sale of chemical fertilizers which have similar risks and returns. 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, China, and other countries.

In 2007 the Group's management changed the presentation of reportable geographical segments, to more appropriately report distinguishable components of an entity that are engaged in providing products or services within a particular economic environment and that are subject to risks and returns that are different from those of components operating in other economic environments. In this regard, sales in China were separated from Overseas' sales as they represent domestic sales of the Group's subsidiary in the People's Republic of China. Sales in other countries represent export sales of Group's entities located in the Russian Federation including sales to CIS countries (previously reported within "Russia and CIS countries" in the amount of RR 1,277,003 and RR 883,624 in 2006 and 2005, respectively).

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

	2007	2006	2005
Revenue			
Russia	8,050,652	5,238,065	3,223,013
China	6,847,401	4,842,904	4,444,664
Other countries	16,207,131	13,543,565	15,080,633
	31,105,184	**23,624,534**	**22,748,310**
Total assets			
Russia	36,952,516	23,413,348	18,075,234
China	5,784,591	5,252,379	4,940,787
Other countries	618,888	-	-
	43,355,995	**28,665,727**	**23,016,021**

7 Segment Information (continued)

	2007	2006	2005
Costs incurred during the period to acquire non-current segment assets			
Russia	1,882,813	2,359,402	857,891
China	149,530	580,349	736,259
Other countries	502,000	-	-
	2,534,343	**2,939,751**	**1,594,150**

The Group sells to two international trading entities that account for the majority of segment "Other countries". In 2007, AgroNitrogen Logistics Ltd. and NPKhemical Trading Inc. purchased 34% and 26% of the sales of segment "Other countries", respectively (2006: 29% and 33%; 2005: 30% and 38%). The sales to them are included in the segment "Other countries" as risks and returns on them are similar to other overseas sales. The rest of sales in segment "Other countries" is widely spread between a number of less significant customers.

8 Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007, 2006 and 2005 are detailed below.

The following turnovers and balances arise from transactions with related parties:

i Balances with related parties

Balance sheet caption	Note	Relationship	2007	2006	2005
Trade receivables, gross	10	Parties under common control	48,610	140,853	171,090
Provision for impairment of trade receivables	10	Parties under common control	(18,214)	(65,556)	(103,880)
Prepayments	10	Parties under common control	5,000	98,763	78,876
Loans issued	11	Parties under common control	200,583	327,569	249,004
Other receivables	10	Parties under common control	27,894	10,594	3,617
Loans received		Parties under common control	(9,714)	(8,000)	-
Trade payables	19	Parties under common control	(20,932)	(12,963)	(7,282)
Deferred purchase consideration for acquisition of additional interest in existing subsidiaries	19	Parties under common control	-	(342,573)	-
Advances from customers		Parties under common control	(7)	(32,815)	(2,710)

8 Balances and Transactions with Related Parties (continued)

ii Transactions with related parties

Income statement caption	Note	Relationship	2007	2006	2005
Sales of chemical fertilizers	7	Parties under common control	293,029	1,147,253	1,086,318
Purchases of raw materials	24	Parties under common control	(85,398)	(42,157)	(38,496)
Purchase of transportation services		Parties under common control	-	(266,347)	(177,091)
Impairment reversal (expense) for trade receivables	10	Parties under common control	6,730	7,652	(64,352)
Security services	25	Parties under common control	(128,637)	(120,956)	(95,104)

iii Cross shareholding

At 31 December 2007 JSC Dorogobuzh, a 71.83% subsidiary of the Group (2006: 71.57%; 2005: 55.29%), owned 4,071,600 ordinary shares or 8.54% of the ordinary share capital of the Company (2006: 4,071,600 ordinary shares or 8.54%; 2005: 4,071,600 ordinary shares or 8.54%). Shares owned by JSC Dorogobuzh are accounted for as treasury shares, but retain their voting rights and dividends.

Shares owned by JSC Dorogobuzh are accounted for as available-for-sale investments with fair value gains (losses) recorded directly in equity in the financial statements of JSC Dorogobuzh. In 2006 and 2005 the fair value gains attributable to the Company were eliminated on consolidation while the proportional share of unrealized gains attributable to the minority interest was recorded within minority interest. In 2007 the Group changed the accounting treatment it applied for calculation of minority interest. In accordance with the revised accounting treatment, the fair value gains (losses) attributable to the treasury shares of the Company are eliminated entirely on consolidation. The effect of this change was to reduce minority interest by RR 824,301, RR 801,375, RR 291,535 for the years ended 31 December 2006, 2005 and 2004, respectively.

iv Acquisitions of interest in subsidiaries

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

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

v Loans issued

At 31 December 2007, 2006 and 2005 short-term loans to parties under common control totalled RR 200,583, RR 307,926, and RR 191,504, respectively, at interest rates in the range of 10% to 10.5% (2006: 8.5% to 12%; 2005: 5.2% to 12%). The loans are unsecured.

At 31 December 2006 long-term loans to parties under common control totalled RR 19,643 (2005: RR 57,500) at interest rate of 9%. The loans are unsecured.

In 2007 the Group accrued interest income of RR 20,153 (2006: RR 31,104; 2005: RR 42,745).

8 Balances and Transactions with Related Parties (continued)

vi Key management personnel compensation

Compensation of key management personnel consists of remunerations paid to the members of the Management Boards of the Group's main subsidiaries and to members of Boards of Directors of the Company and its main subsidiaries. Compensation is made up of an annual remuneration and a performance bonus depending on operating results. Refer to Note 35.

Total key management personnel compensation included in general and administrative expenses in the income statement for the year ended 31 December 2007 amounted to RR 164,010 (31 December 2006: RR 130 059; 31 December 2005: RR 90,824). Related state pension and social security costs for the year ended 31 December 2007 amounted to RR 4,822 (31 December 2006: RR 4,134; 31 December 2005: RR 3,491).

9 Cash and Cash Equivalents

	2007	2006	2005
Cash on hand and bank balances denominated in RR	642,278	339,797	468,096
Bank balances denominated in US$	170,978	372,111	325,954
Bank balances denominated in Euro	16,565	26,993	24,453
Bank balances denominated in RMB	505,454	500,386	520,276
Total cash and cash equivalents	**1,335,275**	**1,239,287**	**1,338,779**

All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of bank balances and term deposits is as follows:

	2007	2006	2005
A to AAA* rated	115,434	202,971	312,526
BB- to BBB+* rated	674,368	524,523	501,822
Chinese banks with top internal credit ratings	505,454	500,386	524,431
Unrated	40,019	11,407	-
Total	**1,335,275**	**1,239,287**	**1,338,779**

* Based on the credit ratings of independent rating agency Standard & Poor's.

The fair value of cash and cash equivalents are equal to their carrying amount.

10 Accounts Receivable

	2007	2006	2005
Trade accounts receivable	528,118	1,051,687	407,958
Notes receivable	435,870	139,804	19,178
Other accounts receivable	186,961	396,190	21,440
Less: impairment provision	(129,753)	(167,753)	(185,248)
Total financial assets	**1,021,196**	**1,419,928**	**263,328**
Advances to suppliers	2,242,954	1,087,261	1,023,756
Value-added tax recoverable	772,477	1,133,237	1,112,635
Income tax prepayments	10,992	28,313	3,715
Other taxes receivable	5,367	19,756	-
Settlements on claims	-	59,288	28,254
Less: impairment provision	(16,370)	(25,495)	(38,568)
Total accounts receivable	**4,036,616**	**3,722,288**	**2,393,120**

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

Included in notes receivable are notes receivable from Sberbank Russia for RR 100,750 (2006: RR 107,811; 2005: RR 1,452) and notes receivable from Chinese banks for RR 335,120 (2006: RR 31,893; 2005: nil).

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

As of 31 December 2007, trade and other accounts receivable of RR 129,753 thousand (2006: RR 167,753; 2005: RR 185,248) were individually impaired and an impairment provision was recognized. The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations.

The ageing of these receivables is as follows:

	2007	2006	2005
Less than 3 months	-	(150)	-
From 3 to 9 months	(4,659)	(8,877)	(24,378)
From 9 to 12 months	(6,879)	(8,430)	(12,777)
Over 12 months	(118,215)	(150,296)	(148,093)
Total gross amount of impaired accounts receivable	**(129,753)**	**(167,753)**	**(185,248)**

10 Accounts Receivable (continued)

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

2005	Trade receivables	Other debtors
Provision for impairment at 1 January	**(96,178)**	**-**
Provision for impairment	(127,324)	-
Provision used	30,242	-
Provision reversed	8,012	-
Provision for impairment at 31 December	**(185,248)**	**-**

2006	Trade receivables	Other debtors
Provision for impairment at 1 January	**(185,248)**	**-**
Provision for impairment	(16,624)	(7,089)
Provision used	31,531	-
Provision reversed	9,677	-
Provision for impairment at 31 December	**(160,664)**	**(7,089)**

2007	Trade receivables	Other debtors
Provision for impairment at 1 January	**(160,664)**	**(7,089)**
Provision for impairment	(33,273)	-
Provision used	56,684	7,089
Provision reversed	7,500	-
Provision for impairment at 31 December	**(129,753)**	**-**

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

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

Financial assets which are potentially subject to credit risk, consist principally of trade receivables.

As of 31 December 2007, trade receivables of RR 32,453 thousand (2006: RR 43,251; 2005: RR 33,025) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2007	2006	2005
Less than 3 months	-	-	-
From 3 to 9 months	28,421	30,851	29,855
From 9 to 12 months	3,116	12,400	233
Over 12 months	916	-	2,937
Trade accounts receivable past due not impaired	**32,453**	**43,251**	**33,025**

10 Accounts Receivable (continued)

Analysis by credit quality of trade and other receivables is as follows:

	2007		2006		2005	
	Trade receivables	**Notes receivable**	**Trade receivables**	**Notes receivable**	**Trade receivables**	**Notes receivable**
Current and not impaired – exposure to:						
– Notes receivable from top Russian and foreign banks		435,870		139,804	-	19,178
– Foreign traders and customers	230,500	-	733,664	-	95,182	-
– Small individual Russian companies and farms	118,182	-	101,061	-	83,779	-
– Chinese customers	36,262	-	45,771	-	40,450	-
– Municipal companies	13,421	-	3,438	-	3,299	-
Total current and not impaired	**398,365**	**435,870**	**883,934**	**139,804**	**222,710**	**19,178**

11 Loans Receivable

	2007	2006	2005
Short-term loans receivable			
Loans issued to related parties (refer to Note 8)	200,583	307,926	191,504
Loans issued to third parties	443,135	269,565	309,931
	643,718	**577,491**	**501,435**
Long-term loans receivable			
Loans issued to related parties (refer to Note 8)	-	19,643	57,500
Loans issued to third parties	3,606	105,882	-
	3,606	**125,525**	**57,500**

Loans receivable do not contain neither impaired nor overdue assets as of 31 December 2007. No provision for impairment was created for loans receivable as of respective dates.

At 31 December 2007 short-term loans totalled RR 643,718 (2006: RR 577,491; 2005: RR 501,435) at interest rates in the range of 10 % to 10.5% (2006 and 2005: 10% to 12%). The loans were unsecured.

At 31 December 2007 long-term loans totalled RR 3,606 (2006: RR 125,525; 2005: RR 57,500) at interest rates in the range of 9 % to 10.5% (2006 and 2005: 9% to 10.5%). The loans were unsecured.

In 2007 the Group accrued interest income of RR 73,826 (2006: RR 76,956; 2005: RR 80,216).

11 Loans Receivable (continued)

At 31 December 2007, 2006 and 2005 the Group had two counterparties with aggregated loans receivable balances in excess of 80%, 60% and 90% of the Group's loans receivable balances, respectively. The loans were issued to parties, with whom the Group had standing business relationship as lending business is not Group's primary activity.

12 Inventories

	2007	2006	2005
Raw materials and spare parts	3,033,612	2,388,072	2,253,101
Work in progress	167,551	106,068	155,336
Finished products	682,660	746,677	812,007
	3,883,823	**3,240,817**	**3,220,444**

Raw materials are shown net of impairment provision of RR 284,033 (2006: 295,568; 2005: RR 264,708). No inventory was pledged as security at 31 December 2007, 2006 and 2005.

13 Leasehold Land

	2007	2006	2005
Cost			
Balance at 1 January	170,420	299,255	281,087
Disposals	-	(112,664)	-
Translation difference	(610)	(16,171)	18,168
Balance at 31 December	**169,810**	**170,420**	**299,255**
Accumulated amortization			
Balance at 1 January	19,199	31,832	25,046
Amortization for the year	3,266	3,982	4,998
Disposals	-	(14,895)	-
Translation difference	(69)	(1,720)	1,788
Balance at 31 December	**22,396**	**19,199**	**31,832**
Net book value			
Balance at 1 January	**151,221**	**267,423**	**256,041**
Balance at 31 December	**147,414**	**151,221**	**267,423**

At 31 December 2007, the Group's leasehold land with net book value of RR 147,414 (2006: RR 151,221; 2005: RR 267,423) was held under prepayments for land use rights with terms of 27 to 30 years expiring from March 2023 to November 2028. The leasehold land related to location of buildings and production facilities of Shandong Hongri Acron Chemical Joint Stock Company Ltd., the Group's subsidiary in the People's Republic of China.

At 31 December 2007, land use right with a net book value of RR 123,712 (2006: RR 138,263; 2005: RR 152,290) and cost of RR 152,290 (2006: RR 176,779; 2005: RR 186,694) had been pledged as security for long-term loans (Note 21).

14 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2007	16,949,060	18,878,072	1,202,795	545,876	2,117,935	**39,693,738**
Additions	-	-	146,000	-	2,534,343	**2,680,343**
Transfers	548,393	915,560	61,665	160,147	(1,685,765)	**-**
Disposals	(360,560)	(884,233)	(41,220)	(45,455)	-	**(1,331,468)**
Translation difference	(2,945)	(7,935)	(292)	(238)	(256)	**(11,666)**
Balance at 31 December 2007	17,133,948	18,901,464	1,368,948	660,330	2,966,257	**41,030,947**
Accumulated Depreciation						
Balance at 1 January 2007	11,073,714	15,459,751	581,859	291,873	-	**27,407,197**
Depreciation charge	346,875	544,589	81,167	33,683	-	**1,006,314**
Disposals	(242,234)	(856,489)	(30,142)	(28,112)	-	**(1,156,977)**
Translation difference	(274)	(1,797)	(62)	74	-	**(2,059)**
Balance at 31 December 2007	11,178,081	15,146,054	632,822	297,518	-	**27,254,475**
Accumulated Impairment Loss						
Balance at 1 January 2007	4,690	38,650	-	5,447	4,164	**52,951**
Additions	-	-	-	-	-	**-**
Reversal	-	(2,349)	-	-	-	**(2,349)**
Translation difference	(20)	(138)	-	(19)	(15)	**(192)**
Balance at 31 December 2007	4,670	36,163	-	5,428	4,149	**50,410**
Net Book Value						
Balance at 1 January 2007	**5,870,656**	**3,379,671**	**620,936**	**248,556**	**2,113,771**	**12,233,590**
Balance at 31 December 2007	**5,951,197**	**3,719,247**	**736,126**	**357,384**	**2,962,108**	**13,726,062**

14 Property, Plant and Equipment (continued)

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2006	16,971,071	18,349,741	703,365	497,821	1,585,576	**38,107,574**
Acquisitions through business combinations	53,078	26,097	-	-	405	**79,580**
Additions	-	-	-	-	2,701,908	**2,701,908**
Transfers	281,157	1,225,467	520,458	78,562	(2,105,644)	**-**
Disposals	(309,517)	(609,602)	(17,176)	(27,091)	(34,890)	**(998,276)**
Translation difference	(46,729)	(113,631)	(3,852)	(3,416)	(29,420)	**(197,048)**
Balance at 31 December 2006	16,949,060	18,878,072	1,202,795	545,876	2,117,935	**39,693,738**
Accumulated Depreciation						
Balance at 1 January 2006	10,907,919	15,477,624	556,249	278,596	-	**27,220,388**
Depreciation charge	315,963	529,365	38,566	36,458	-	**920,352**
Disposals	(146,312)	(523,647)	(12,363)	(21,630)	-	**(703,952)**
Translation difference	(3,856)	(23,591)	(593)	(1,551)	-	**(29,591)**
Balance at 31 December 2006	11,073,714	15,459,751	581,859	291,873	-	**27,407,197**
Accumulated Impairment Loss						
Balance at 1 January 2006	36,406	18,854		3,561	1,032	**59,853**
Impairment loss	-	-	-	-	-	**-**
Additions	19,240	63,746		2,722	3,187	**88,895**
Reversal	(48,938)	(42,931)		(641)	-	**(92,510)**
Translation difference	(2,018)	(1,019)		(195)	(55)	**(3,287)**
Balance at 31 December 2006	4,690	38,650		5,447	4,164	**52,951**
Net Book Value						
Balance at 1 January 2006	**6,026,746**	**2,853,263**	**147,116**	**215,664**	**1,584,544**	**10,827,333**
Balance at 31 December 2006	**5,870,656**	**3,379,671**	**620,936**	**248,556**	**2,113,771**	**12,233,590**

14 Property, Plant and Equipment (continued)

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2005	16,837,737	18,049,683	693,224	721,473	588,930	**36,891,047**
Additions	-	-	-	-	1,594,150	**1,594,150**
Transfers	156,538	374,568	27,697	57,360	(616,163)	**-**
Disposals	(61,320)	(180,886)	(19,581)	(283,035)	-	**(544,822)**
Translation difference	38,116	106,376	2,025	2,023	18,659	**167,199**
Balance at 31 December 2005	16,971,071	18,349,741	703,365	497,821	1,585,576	**38,107,574**
Accumulated Depreciation						
Balance at 1 January 2005	10,612,887	15,087,759	526,030	310,751	-	**26,537,427**
Depreciation charge	321,770	475,156	42,741	28,191	-	**867,858**
Disposals	(30,381)	(108,335)	(13,378)	(61,203)	-	**(213,297)**
Translation difference	3,643	23,044	856	857	-	**28,400**
Balance at 31 December 2005	10,907,919	15,477,624	556,249	278,596	-	**27,220,388**
Accumulated Impairment Loss						
Balance at 1 January 2005						
Impairment loss	36,257	17,709	-	3,395	970	**58,331**
Additions	-	-	-	-	-	**-**
Reversal	-	-	-	-	-	**-**
Translation difference	149	1,145	-	166	62	**1,522**
Balance at 31 December 2005	36,406	18,854	-	3,561	1,032	**59,853**
Net Book Value						
Balance at 1 January 2005	**6,188,593**	**2,944,215**	**167,194**	**407,327**	**587,960**	**10,295,289**
Balance at 31 December 2005	**6,026,746**	**2,853,263**	**147,116**	**215,665**	**1,584,543**	**10,827,333**

The assets transferred to the Group upon privatisation did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. As a result of changes in legislation in 2001, all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and

14 Property, Plant and Equipment (continued)

certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date for this option is the end of 2008. At 31 December 2007 major subsidiaries of the Group exercised the option and purchased the land under production plants.

At 31 December 2007, buildings, machinery and equipment and construction in progress with a net book value of RR 698,623 (2006: RR 191,178; 2005: RR 250,812) had been pledged as security for long-term loans (Note 21).

Leased assets

The following amounts were included in the financial statements in respect of property, plant and equipment where the Group is a lessee under a finance lease:

	31 December 2007
Cost of transport	146,000
Accumulated depreciation	(3,291)
Carrying amount of transport	142,709

15 Exploration Rights

In November 2006 the Group's subsidiary, CJSC Severo-Zapadnaya Phosphornaya Kompaniya, following an auction process, acquired a license for the exploration and development of Partomchorr and Oleny Ruchey apatite-nepheline deposits, located in Murmansk region, Russian Federation. The license expires in 20 years.

In December 2006 the Group made a one-off payment of RR 237,843 to the Russian State for the right to explore the Partomchorr and Oleny Ruchey apatite-nepheline deposits. In accordance with the conditions of the license, the Group has the following commitments:

- to commence construction of an exploration complex by 1 May 2009;

- to commence extraction of apatite-nepheline ore by 1 May 2012.

The Group accounted for the license at cost including a one-off payment of RR 237,843 to the Russian state.

The Group commenced geological exploration in February 2007. During 2007 the Group incurred expenses of RR 150,685 thousand (2006: RR nil) directly related to the development of deposits. These expenses were capitalized in accordance with the Group accounting policy and included within assets under construction.

	2007	**2006**
Cost		
Balance at 1 January	237,843	-
Additions	-	237,843
Disposals	-	-
Balance at 31 December	**237,843**	**237,843**

15 Exploration Rights (continued)

	2007	2006
Accumulated Amortization		
Balance at 1 January	-	-
Additions	-	-
Disposals	-	-
Balance at 31 December	-	-
Net Book Value		
Balance at 1 January	**237,843**	**-**
Balance at 31 December	**237,843**	**237,843**

16 Goodwill

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

	Note	2007	2006
Carrying amount at 1 January		**1,023,601**	**-**
Acquisition of subsidiary	31	-	52,068
Acquisition of additional interest in existing subsidiary		-	971,533
Carrying amount at 31 December		**1,023,601**	**1,023,601**
Gross book value at 31 December		1,023,601	1,023,601
Carrying amount at 31 December		**1,023,601**	**1,023,601**

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

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

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

16 Goodwill (continued)

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

	2007	2006	2005
LLC Andrex	52,068	52,068	-
JSC Dorogobuzh	971,533	971,533	-
Total carrying amount of goodwill	**1,023,601**	**1,023,601**	**-**

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

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

The key assumptions used for value-in-use at 31 December 2007 are as follows:

	LLC Andrex	JSC Dorogobuzh
Growth rate beyond five years	0%	0%
Discount rate	8%	8%

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

17 Investments in Associates

	2007	2006	2005
Balance at 1 January	**422,221**	**300,221**	**300,221**
Contribution to share capital of associate	-	122,000	-
Share of loss before tax	(59,653)	-	-
Balance at 31 December	**362,568**	**422,221**	**300,221**

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

The Group's interests in its principal associate JSC Sibir Oil and Gas Company and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

As of and for the year ended	Total assets	Total liabilities	Revenue	Profit/(loss)	% interest held	Country of incorporation
31 December 2007	18,211,812	17,945,124	876,051	(284,062)	21%	Russia
31 December 2006	14,591,496	14,104,406	-	48,408	21%	Russia
31 December 2005	11,362,233	11,439,870	-	(187,989)	21%	Russia

18 Available-for-Sale Investments

	2007	2006	2005
Balance at 1 January	5,318,115	3,833,699	1,082,363
Additions	99,272	76,196	128,529
Fair value gain recognized directly in equity	11,938,813	1,442,937	2,625,129
Disposals	(49,573)	(34,717)	(2,322)
Balance at 31 December	**17,306,627**	**5,318,115**	**3,833,699**

The Group has investments in the following companies:

Name	Activity	Country of registration	2007	2006	2005
JSC Sylvinit	Potash mining	Russia	13,229,443	3,864,240	2,294,272
JSC Apatite	Apatite concentrate mining	Russia	3,637,946	1,091,529	1,352,413
JSC Sberbank	Banking	Russia	254,405	227,213	93,360
Other			184,833	135,133	93,654
			17,306,627	**5,318,115**	**3,833,699**

Investments previously classified as at fair value through profit or loss were retrospectively designated by the Group as available-for-sale in line with requirements of IAS 39 (Amendment), *The Fair Value Option*, effective from 1 January 2006. Respective fair value gains were recognized directly in equity. These investments comprise principally equity securities, which are listed on the Russian Trading System.

In 2006 and 2005 the fair value gains or losses on available for sale investments attributable to minority interest were not recognised in the financial statements. In 2007 management concluded that IFRS require minority interest in the net assets of consolidated subsidiaries to include the share of fair value gains or losses attributable to minority interest. As a result of this adjustment, at 31 December 2006 and 2005, the carrying values of available for sale investments were increased by RR 418,729 and RR 662,682, respectively, with corresponding increase in minority interest by RR 318,234 and RR 503,639, respectively, and deferred tax liabilities by RR 100,495 and RR 159,043, respectively.

As of 31 December 2006 and 2005 the investments in JSC Apatite and in JSC Sylvinit had no active market in line with requirements of IAS 39. For these investments, fair value was estimated by using valuation techniques based on application guidance of IAS 39 (revised). As of 31 December 2006 applied multiples of enterprise value to sales and EBITDA were 0.85 and 5.2 (31 December 2005: 1.5 and 10.25) for JSC Apatite and 4.2 and 10.15 (31 December 2005: 2.5 and 10.70) for JSC Sylvinit, respectively. As of 31 December 2006 and 2005 applied discounts for lack of control and lack of marketability were 15% and 35% respectively. For other investments traded in active markets, fair value was determined by reference to the current market value at the close of business on 31 December 2006 and 2005.

As at 31 December 2007 the Group concluded that the investments in JSC Apatite and in JSC Sylvinit were traded in active market in line with the requirements of IAS 39, and fair value was determined by reference to the current market value at the close of business on 31 December 2007. At 31 December 2007 the share price quoted by RTS for JSC Apatite and JSC Sylvinit amounted to 230 and 850 US Dollars, respectively.

19 Accounts Payable

	2007	2006	2005
Trade accounts payable (refer to Note 8)	1,427,798	797,282	889,614
Deferred purchase consideration for acquisition of new subsidiaries and additional interest in existing subsidiaries (refer to Notes 16 and 31)	-	474,256	-
Dividends payable	504,869	450,886	251,259
Total financial payables	**1,932,667**	**1,722,424**	**1,140,873**
Payables to employees	432,469	366,482	258,133
Accrued liabilities and other creditors	63,765	76,203	71,123
Total accounts payable and accrued expenses	**2,428,901**	**2,165,109**	**1,470,129**

20 Other Taxes Payable

	2007	2006	2005
Value-added tax payable	90,504	48,548	90,697
Payroll taxes	69,239	53,664	61,085
Property and other taxes payable	148,865	87,270	52,229
	308,608	**189,482**	**204,011**

21 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2007	2006	2005
Bonds issued	882,823	882,823	904,255
Credit lines	2,209,686	2,979,411	1,522,614
Term loans	2,406,615	3,179,947	1,727,436
	5,499,124	**7,042,181**	**4,154,305**

In June 2005 the Group's subsidiary JSC Dorogobuzh issued 900 thousand non-convertible three year Russian Rouble denominated bonds (at par value 1,000 roubles each) for RR 900,000 with quarterly coupon payments of 9.9% per annum with an early redemption option. In June 2005 the Board of Directors of JSC Dorogobuzh approved the decision to grant to the holders of the bonds a one off option to redeem the bonds in December 2006. Bonds for RR 17,177 were redeemed and not placed as at 31 December 2007 (2006: RR 17,177). In December 2006 the Board of Directors of JSC Dorogobuzh approved the decision to reduce quarterly coupon payments to 8.6% per annum. The bonds are guaranteed by a parent company.

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

The Group's borrowings mature as follows:

	2007	2006	2005
Borrowings due:			
– within 1 year	2,418,101	1,764,057	1,936,976
– between 2 and 5 years	2,462,135	5,278,124	2,217,329
– after 5 years	618,888	-	-
	5,499,124	**7,042,181**	**4,154,305**

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

	2007	2006	2005
Borrowings denominated in:			
– Russian Roubles	1,626,868	1,822,101	912,307
– Euro	618,888	-	-
– US Dollars	1,688,778	3,449,374	1,781,732
– RMB	1,564,590	1,770,706	1,460,266
	5,499,124	**7,042,181**	**4,154,305**

Bank loans denominated in RMB were collateralised by buildings, machinery and equipment with a net book value of RR 174,834 (2006: RR 191,178; 2005: RR 250,812) (refer to Note 14) and land use right with a net book value of RR 123,713 (2006: RR 138,263; 2005: RR 152,290) (refer to Note 13). The loans obtained from Chinese banks are secured by guarantees issued by third parties totalled RR 1,094,138 (2006: RR 1,366,012; 2005: RR 604,641).

Bank loans denominated in EUR were collateralised by construction in progress with a book value of RR 502,000 (2006: nil; 2005: nil) and 50% interest in AS BCT, a Group's subsidiary (2006: none; 2005: none).

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

At 31 December 2007, 2006 and 2005 the fair value of borrowings was not materially different from their carrying amounts.

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

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

	2007	2006	2005
Short-term borrowings			
Russian roubles			
Loans with fixed interest rates of 7% to 14% per annum	144,663	619,278	26,547
Bonds with coupon payments of 8.6% to 9.9% per annum	882,823	-	904,255
US$			
Loans with floating interest rates of LIBOR + 3.45% per annum	147,277	-	535,355
RMB			
Loans with fixed interest rates of 5.58% to 8.28% per annum	940,905	841,258	285,218
Add: current portion of long-term debt	302,433	303,521	185,601
Total short-term borrowings	**2,418,101**	**1,764,057**	**1,936,976**

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

	2007	2006	2005
Long-term borrowings			
Russian roubles			
Loans with fixed interest rates of 8% to 14% per annum	599,382	320,000	-
Bonds with coupon payments of 8.6% to 9.9% per annum	-	882,823	-
Euro			
Loans with floating interest rates of EURIBOR + 1.3%	618,888	-	
US$			
Loans with fixed interest rates of 7.9% per annum	981,848	1,053,244	-
Loans with floating interest rates of LIBOR + 2.75% to LIBOR + 3.45% per annum	559,653	2,396,130	1,234,789
RMB			
Loans with fixed interest rates of 6.73% to 7.83% per annum	623,685	929,448	1,168,141
Less: current portion of long-term debt	(302,433)	(303,521)	(185,601)
Total long-term borrowings	**3,081,023**	**5,278,124**	**2,217,329**

The loan agreements for a total of RR 1,325,818 (2006: RR 2,372,432; 2005: RR 1,338,407) contain certain covenants including those which require the Group to maintain a minimum level of net assets of at least USD 190 million, and impose restrictions on total debt which should not exceed 60% of the net assets, and EBITDA/net interest expense ratio which should be no less than 4 to 1. The loan agreements also provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks. The loan agreements also provide for subjective acceleration clauses in case of the borrower's failure to fulfill or appropriately fulfill his obligations to the bank.

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

The loan agreements for a total of RR 1,551,848 (2006: RR 1,373,244; 2005: RR nil) were secured by the pledge of the Company's promissory notes. The collateral value of the notes remaining in pledge should not be less than the borrower's liability, including principal and interest accrued for no less than three months of the credit term. In addition, these agreements contain subjective acceleration clauses in relation to events triggered by borrower's failure to fulfill the contractual obligations. Also, these covenants permit the lending banks to directly debit the accounts opened by the borrower with the banks to ensure repayment of the overdue debt.

The loan agreements for a total of around RR 110,000 (2006: RR 600,000; 2005: RR 431,737) contain a covenant, that requires the borrower to maintain the required level of cash flows through the accounts opened with the lending bank. The loan agreement also contains a number of covenants and a subjective acceleration clause in case of the borrower's failure to fulfill his obligations under the loan agreements which include restrictions on material transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the borrowings.

The loan agreements for a total of RR 56,045 (2006: nil; 2005: nil) contain a covenant to maintain the required level of cash flows through the accounts opened with the lender. Also, they allow the bank to directly debit the borrower's accounts with the lending banks to ensure repayment of his debt. These loan agreements are collateralized by property for a total of RR 21,790 (see Note 14).

Unused credit lines available under long-term loan facilities were RR 1,791,320 (RR 983,602; 2005: RR 607,311).

22 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 10.64% and are effectively collateralized by the leased assets, as the assets revert to the lessor in the event of default.

Finance lease liabilities minimum lease payments:

	2007
Not later than 1 year	35,954
Later than 1 year and not later than 5 years	108,522
More than 5 years	33,571
Future finance charges on finance lease	(35,338)
Present value of finance lease liabilities	**142,709**

The present value of finance lease liabilities matures as follows:

	2007
Not later than 1 year	31,965
Later than 1 year and not later than 5 years	86,948
More than 5 years	23,796
	142,709

23 Shareholders' Equity

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

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
At 31 December 2004	**8,222**	**(702)**	**3,125,018**	**(39,737)**	**3,085,281**
Share split	47,679,378	(4,070,898)	-	-	-
At 31 December 2005	**47,687,600**	**(4,071,600)**	**3,125,018**	**(39,737)**	**3,085,281**
At 31 December 2006	**47,687,600**	**(4,071,600)**	**3,125,018**	**(39,737)**	**3,085,281**
At 31 December 2007	**47,687,600**	**(4,071,600)**	**3,125,018**	**(39,737)**	**3,085,281**

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

In November 2005, the Company made a stock split through an conversion of each ordinary common stock with a par value of RR 29,000 into 5,800 ordinary common stock with a par value of 5 Russian Rouble each. These shares were distributed to all existing shareholders of the Company in proportion to their interest held at the date of conversion. As at 31 December 2007, 2006 and 2005 the Company's share capital consisted of 47,687,600 issued common with a par value of 5 Russian Rouble each.

A dividend was declared in 2007 in respect of 2006 to holders of ordinary shares of RR 24 per ordinary share (2006: RR 22 per ordinary share in respect of 2005). Interim 2007 dividends were declared during the year in the amount of RR 25 per ordinary share.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2007, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 13,609,523 (2006: RR 5,908,505; 2005: RR 2,833,809) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 21,220,774 (2006: RR 9,423,380; 2005: RR 4,564,002). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

24 Cost of Sales

The components of cost of sales were as follows:

	2007	2006	2005
Change in inventories of finished goods and work in progress	141,077	(49,135)	(481,455)
Staff costs	1,628,162	1,619,690	1,509,894
Materials and components used	8,817,216	6,694,726	6,234,957
Fuel and energy	2,285,275	2,038,437	1,798,059
Natural gas	3,906,635	2,936,475	2,696,273
Depreciation and amortization	1,009,580	924,334	872,856
Production overheads	172,256	157,638	114,777
Repairs and maintenance	748,092	1,122,990	933,735
Social expenditure	235,213	208,592	273,765
	18,943,506	**15,653,747**	**13,952,861**

25 Selling, General and Administrative Expenses

	2007	2006	2005
Staff costs	1,288,647	1,302,795	1,129,109
(Reversal of provision)/provision for bad debts	(31,575)	(18,074)	53,670
Business trips expenses	194,064	201,910	160,277
Research and development costs	6,595	3,913	13,774
Taxes other than income tax	195,563	154,428	146,613
Marketing services	164,891	120,600	57,208
Audit, legal and consulting services	74,441	178,324	198,601
Bank services	45,220	40,196	35,435
Insurance	35,952	81,014	25,935
Buildings maintenance and rent	119,321	106,240	165,780
Security	148,161	149,699	119,000
Telecommunication costs	41,303	47,706	36,976
Representation expenses	100,759	64,802	59,082
Other expenses	211,751	122,591	64,219
	2,595,093	**2,556,144**	**2,265,679**

26 Finance Income, Net

	2007	2006	2005
Interest income from loans provided	73,826	76,956	80,216
Dividend income	267,383	39,077	33,867
Foreign exchange gain/(loss)	125,197	127,338	(74,924)
	466,406	**243,371**	**39,159**

27 Other Operating Expenses

	2007	2006	2005
Loss on disposal of investments	45,963	50,495	-
Charity expenses	75,169	96,494	17,654
Other expenses	58,898	148,131	54,052
	180,030	**295,120**	**71,706**

28 Earnings per Share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (see Note 23). The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share. In 2005 the Company executed share split which is described in Note 23. For the purposes of earnings per share calculation the number of shares outstanding was adjusted retrospectively for all periods presented as follows:

	2007	2006	2005
Weighted average number of shares outstanding	47,687,600	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(4,071,600)	(4,071,600)	(4,071,600)
Weighted average number of shares outstanding	43,616,000	43,616,000	43,616,000
Profit attributable to the equity holders of the Company	**5,063,864**	**2,253,336**	**3,031,058**
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	**116.10**	**51.66**	**69.49**

29 Income Taxes

	2007	2006	2005
Income tax expense – current	2,003,838	1,207,603	1,408,488
Deferred tax credit – origination and reversal of temporary differences	(125,963)	(198,598)	(140,344)
Income tax charge	**1,877,875**	**1,009,005**	**1,268,144**

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

	2007	2006	2005
Profit before taxation	7,546,201	3,472,594	4,651,603
Theoretical tax charge at statutory rate of 24% thereon (2006: 24%; 2005: 24%)	1,811,088	833,423	1,116,385
Tax effect of items which are not deductible or assessable for taxation purposes:			
Income not taxable	(64,172)	(39,077)	(107,198)
Other non-deductible expenses	130,959	214,659	258,957
Income tax charge	**1,877,875**	**1,009,005**	**1,268,144**

29 Income Taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 24% (2006 and 2005: 24%).

	31 December 2004	Charged/ (credited) to profit or loss	Charged/ (credited) to equity	31 December 2005	Charged/ (credited) to profit or loss	Charged/ (credited) to equity	31 December 2006	Charged/ (credited) to profit or loss	Charged/ (credited) to equity	31 December 2007
Tax effects of taxable temporary differences:										
Property, plant and equipment	1,196,537	(91,995)	-	1,104,542	(150,621)	-	953,921	(148,794)	-	805,127
Investments	335,586	23,039	630,031	988,656	(10,550)	346,305	1,324,412	(18,629)	2,865,315	4,171,098
Other temporary differences	10,152	(20,887)	-	(10,735)	18,778	-	8,043	(11,562)		(3,519)
Tax effects of deductible temporary differences:										
Inventories	(51,999)	29,819	-	(22,180)	(5,985)	-	(28,165)	1,320	-	(26,845)
Accounts receivable	(32,526)	(34,476)	-	(67,002)	(24,885)	-	(91,887)	32,594	-	(59,293)
Accounts payable	(9,990)	(25,844)	-	(35,834)	(60,057)	-	(95,891)	10,823	-	(85,068)
Staff costs payable	(44,912)	(20,000)	-	(64,912)	34,722	-	(30,190)	8,285	-	(21,905)
Recognized net deferred tax liability	**1,402,848**	**(140,344)**	**630,031**	**1,892,535**	**(198,598)**	**346,305**	**2,040,243**	**(125,963)**	**2,865,315**	**4,779,595**

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

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

30 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2007 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 904,199 (2006: RR 241,692; 2005: RR 631,006).

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

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2007, 2006 and 2005, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of RR 1,094,138, RR 1,161,136 and RR 2,187,201, respectively. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

ii Legal proceedings

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

iii Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

iv Recent volatility in global financial markets

Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

Russian Federation

v Taxation

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

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not

30 Contingencies, Commitments and Operating Risks (continued)

been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

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

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

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

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

Management estimates that the Group has possible obligations from exposure to other than remote tax risks of RR 64,750 (2006: RR 83,050; 2005: 17,488). These exposures primarily relate to recoverability of VAT.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2007 no provision for potential tax liabilities had been recorded (2006 and 2005: no provision).

vi Environmental matters

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

vii Operating environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

30 Contingencies, Commitments and Operating Risks (continued)

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

People's Republic of China

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

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

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

31 Business Combinations

i) Acquisition of subsidiaries

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

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

31 Business Combinations (continued)

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

The details of the assets acquired and liabilities assumed and goodwill arising on acquisition are as follows:

	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		11	11
Property, plant and equipment		12,826	79,581
Other assets		274	274
Other liabilities		(251)	(251)
Fair value of net assets of subsidiary			**79,615**
Goodwill arising from the acquisition	16		52,068
Total purchase consideration			**131,683**
Less: deferred purchase consideration	19		(131,683)
Less: cash and cash equivalents of subsidiary acquired			(11)
Inflow of cash and cash equivalents on Acquisition			**11**

ii) Pooling of Interest

In May 2005 the Group acquired 100% of voting shares in Acronagrotrans Limited (BVI) for a cash consideration of US$ 20 mln. Acronagrotrans Limited (BVI) is the owner of 50.5% interest in Shandong Hongri Acron Chemical Joint Stock Company Limited. This acquisition was accounted for using the pooling of interest method as described in Note 3.1 Group accounting, "Pooling of interest". Under this method of accounting the financial statements of the Acron Group are presented as if the businesses had been combined from the beginning of the earliest period presented.

31 Business Combinations (continued)

The assets and liabilities arising from the acquisition and corresponding effect on the Groups financial position at 1 January 2005 are as follows:

	1 January 2005 (prior to pooling)	Acquisition of Acronagrotrans Limited	1 January 2005 (restated)
Non-current assets	9,979,987	1,999,778	11,979,765
Current assets	4,021,413	1,308,251	5,329,664
Total assets	**14,001,400**	**3,308,029**	**17,309,429**
Equity attributable to the Company's equity holders	7,865,151	(18,666)	7,846,485
Minority interest	900,736	698,267	1,599,003
Total equity	**8,765,887**	**679,601**	**9,445,488**
Non-current liabilities	2,075,224	777,943	2,853,167
Current liabilities	3,160,289	1,850,485	5,010,774
Total liabilities	**5,235,513**	**2,628,428**	**7,863,941**
Total equity and liabilities	**14,001,400**	**3,308,029**	**17,309,429**
Sales	13,399,186	3,943,045	17,342,231
Cost of sales	(9,120,939)	(3,460,938)	(12,581,877)
Gross profit	4,278,247	482,107	4,760,354
Profit for the year	**1,374,332**	**14,282**	**1,388,614**

Condensed consolidated financial information on Acronagrotrans Limited is presented below:

	2005	2004
Non-current assets	2,629,848	1,999,778
Current assets	2,310,939	1,308,251
Total assets	**4,940,787**	**3,308,029**
Equity attributable to the Company's equity holders	724,874	(18,666)
Minority interest	883,874	698,267
Total equity	**1,608,748**	**679,601**
Non-current liabilities	1,077,560	777,943
Current liabilities	2,254,479	1,850,485
Total liabilities	**3,332,039**	**2,628,428**
Total equity and liabilities	**4,940,787**	**3,308,029**
Sales	4,444,684	3,943,045
Cost of sales	(3,478,391)	(3,460,938)
Gross income	966,293	482,107
Profit for the year	**156,610**	**14,282**

32 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RR 133,479 (2006: RR 295,745; 2005: RR 75,675), which were settled via non-cash transactions during the years ended 31 December 2007, 2006 and 2005, respectively. The transactions primarily represent cancellation of mutual balances with customers within the operating cycle.

33 Financial and Capital Risk Management

33.1 Financial risk management

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

(a) Market risk

(i) Foreign currency risk

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

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

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

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

At 31 December 2007	**US Dollar**	**EURO**
Monetary financial assets:		
Cash and cash equivalents	170,979	16,565
Accounts receivable	206,851	23,860
Loans receivable	171,112	-
	548,942	40,425
Monetary financial liabilities:		
Accounts payable and other liabilities	(11,144)	(18,641)
Borrowings and notes payable	(1,688,778)	(618,888)
	(1,699,922)	(637,529)
Net balance sheet position	**(1,150,980)**	**(597,104)**

33 Financial and Capital Risk Management (continued)

At 31 December 2006	US Dollar	EURO
Monetary financial assets:		
Cash and cash equivalents	372,111	26,994
Accounts receivable	731,056	4,198
Loans receivable	63,669	-
	1,166,836	31,192
Monetary financial liabilities:		
Accounts payable and other liabilities	(6,536)	(17,418)
Borrowings and notes payable	(3,449,374)	-
	(3,455,910)	(17,418)
Net balance sheet position	**(2,289,074)**	**13,774**

At 31 December 2005	US Dollar	EURO
Monetary financial assets:		
Cash and cash equivalents	325,954	24,453
Accounts receivable	74,768	6,271
Loans receivable	-	-
	403,752	30,724
Monetary financial liabilities:		
Accounts payable and other liabilities	(979)	(1,865)
Borrowings and notes payable	(1,781,732)	-
	(1,782,711)	(1,865)
Net balance sheet position	**(1,378,959)**	**28,859**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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

	2007	2006	2005
Impact on post-tax profit and on equity of:			
US Dollar strengthening by 10%	(115,098)	(228,907)	(137,881)
US Dollar weakening by 10%	115,098	228,907	137,881
Euro strengthening by 10%	(59,710)	1,377	2,886
Euro weakening by 10%	59,710	(1,377)	(2,886)

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

33 Financial and Capital Risk Management (continued)

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

(ii) Interest rate risk

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

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

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

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

The Group interest rate risk arises from various long-term debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2007, 2006 and 2005 borrowings at variable rates amounted to RR 1,325,818, RR 2,396,130 and RR 1,770,144, respectively (Note 21).

At 31 December 2007, if interest rates at that date had been 1% higher with all other variables held constant, profit for the year would have been RR 16,040 (2006: RR 23,896; 2005: RR 22,469) lower, mainly as a result of higher interest expense on variable interest liabilities.

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

(iii) Price risk

The Group is exposed to an equity securities price risk, since it has an investment in equity stakes of JSC Sylvinit and JSC Apatite, which are classified on the consolidated balance sheet as available-for-sale as of 31 December 2007, 2006 and, respectively. Monitoring of the fair value of the stakes is performed on a regular basis to assess risk of impairment of the stakes. No impairment of these investments was recognized as of 31 December 2007, 2006 and 2005.

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

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

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject

33 Financial and Capital Risk Management (continued)

Group entities to credit risk, consist principally of trade receivables, cash and bank deposits and loans receivable. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, not including equity investments. The Group has no significant concentrations of credit risk.

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

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

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

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2007, 2006 and 2005 the Group had no counterparties with aggregated receivables balances of in excess of 10% of the Group's gross accounts receivable balances, except for trade receivables from NPKhemical Trading Inc. as of 31 December 2006 in the amount of RR 691,306.

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

(c) Liquidity risk

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

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

33 Financial and Capital Risk Management (continued)

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

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2007						
Bonds issued (Note 21)	18,876	897,759	-	-	-	**916,635**
Credit lines (Note 21)	44,153	278,702	1,958,594	166,913	-	**2,448,362**
Term loans (Note 21)	404,350	1,096,824	343,967	675,883	112,294	**2,633,318**
Trade payables (Note 19)	1,392,060	35,738	-	-	-	**1,427,798**
Dividends and other distributions to shareholders (Note 19)	2,901	501,968	-	-	-	**504,869**
Finance lease minimum lease payments (Note 22)	8,788	27,166	31,192	77,330	33,571	**178,047**
Total future payments, including future principal and interest payments	**1,871,128**	**2,838,157**	**2,333,753**	**920,126**	**145,865**	**8,109,029**
As of 31 December 2006						
Bonds issued (Note 21)	18,721	57,202	917,199	-	-	**993,122**
Credit lines (Note 21)	53,080	478,161	461,133	2,455,973	-	**3,448,347**
Term loans (Note 21)	44,264	1,871,738	399,277	1,145,111	-	**3,460,390**
Trade payables (Note 19)	745,406	46,454	5,422	-	-	**797,282**
Deferred purchase consideration for acquisition of new subsidiaries and additional interest in existing subsidiaries (Notes 16 and 31)	-	474,256	-	-	-	**474,256**
Dividends and other distributions to shareholders (Note 19)	450,886	-	-	-	-	**450,886**
Total future payments, including future principal and interest payments	**1,312,357**	**2,927,811**	**1,783,031**	**3,601,084**	-	**9,624,283**
As of 31 December 2005						
Bonds issued (Note 21)	21,828	66,695	938,068	34,633	-	**1,061,224**
Credit lines (Note 21)	318,078	513,223	100,962	865,890	-	**1,798,153**
Term loans (Note 21)	416,791	402,481	394,814	790,292	-	**2,004,378**
Trade payables (Note 19)	865,633	20,572	3,409	-	-	**889,614**
Dividends and other distributions to shareholders (Note 19)	251,259	-	-	-	-	**251,259**
Total future payments, including future principal and interest payments	**1,873,589**	**1,002,971**	**1,437,253**	**1,690,815**	**-**	**6,004,628**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

33 Financial and Capital Risk Management (continued)

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

Unused credit lines available under long-term loan facilities were RR 1,791,320 (2006: RR 983,602; 2005: RR 607,311).

33.2 Capital risk management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated balance sheet. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company's statutory financial (accounting) reports. In 2007, the Group's strategy, which was unchanged from 2005, was to maintain the gearing ratio at the level not exceeding 80%.

The Gearing ratio as of 31 December 2007, 2006 and 2005 is shown in the table below:

	2007	2006	2005
Long-term borrowings	3,081,023	5,278,124	2,217,329
Short-term borrowings	2,418,101	1,764,057	1,936,976
Total debt	**5,499,124**	**7,042,181**	**4,154,305**
Shareholders' equity	**28,296,724**	**15,368,981**	**13,555,466**
Gearing ratio, %	**19.4%**	**45.8%**	**30.6%**

The Group also maintains an optimal capital structure by tracing certain capital requirements based on the minimum level of EBITDA/net interest expense ratio. In 2007, the Group's strategy, which was unchanged from 2005, was to maintain EBITDA/net interest expense ratio at the level not be lower than 4:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortization. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 21).

The ratio of EBITDA/net interest expense as of 31 December 2007, 2006 and 2005 is shown in the table below:

	2007	2006	2005
Operating profit	7,649,030	3,721,219	4,981,658
Add: depreciation and amortization (Note 24)	1,009,580	924,334	872,856
EBITDA	**8,658,610**	**4,645,553**	**5,854,514**
Net interest expense	435,756	415,040	288,998
EBITDA/Net interest expense	**20:1**	**11:1**	**20:1**

33 Financial and Capital Risk Management (continued)

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 21) and imposed by the statutory legislation of the Russian Federation and the People's Republic of China.

34 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

Fair values for available-for-sale investments carried at fair value were determined by reference to the current market value at active markets (refer to Note 18).

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate their fair values.

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 31 December 2007, 2006 and 2005 the fair value of the current and non-current borrowings is not materially different from their carrying amounts.

35 Subsequent Events

Export duties

In March 2008 the Government of the Russian Federation introduced duties, effective from April 2008, on exports of nitrogen fertilizers, complex fertilizers and apatite to countries outside the CIS Customs Union. The duties applicable to the Group's products are 8.5% and 6% of the declared customs value of nitrogen and complex fertilizers and apatite, respectively. Management is currently assessing the impact of these duties on the Group's future financial results. Currently, export sales represent 52% (2006: 57%; 2005: 66%) of Group's revenues.

35 Subsequent Events (continued)

Acquisition of the right to develop Verkhnekamskoye potash deposit

In May 2008, the Group, following an auction process, acquired a license for the exploration and development of the Talitsky section of the Verkhnekamskoye potash deposit, located in Perm region, Russian Federation. The license expires in April 2028. The cost of the license amounted to RR 16,802,000, which was paid in cash to the Russian State. This acquisition was financed by credit line committed by JSC Sberbank for RR 13,441,600 payable in 7 years and bearing 11.25% interest. Available for sale investment in JSC Sylvinit (Note 8) and 100% shares in the Group's subsidiary, LLC Verkhnekamskaya Kaliyanaya Kompaniya, the legal owner of the license, had been pledged as security for this long-term loan facility. In accordance with the conditions of the license, the Group has the following commitments:

- to commence the geological exploration by 15 April 2009;

- to commence the extraction of potash salt by 15 June 2014.

Management is in the process of estimation of the probable expenditure required to comply with terms of the license. At the date of these consolidated financial statements, no significant purchase commitments or contracts were outstanding in connection with such exploratory expenditure.

Dividends declared by the Company

In May 2008 the annual shareholders meeting of the Company approved an annual dividends distribution for the year ended 31 December 2007 in the amount of 65 Russian roubles per each ordinary share. This dividend will be paid in addition to the interim dividends declared during the year in the amount of 25 Russian roubles per each ordinary share.

In June 2008 the extraordinary shareholders meeting of the Company approved an interim dividends distribution for the three months ended 31 March 2008 in the amount of 40 Russian roubles per each ordinary share.

Dividends declared by the Group's subsidiary

In May 2008 the annual shareholders meeting of the Group's subsidiary, JSC Dorogobuzh, approved an annual dividends distribution for the year ended 31 December 2007 in the amount of RR 1,645,826 (1.88 Russian roubles per each ordinary share and preferred share).

New subsidiaries

In June 2008 the Group established the 100% subsidiary, trading house Agronova International Inc. in the United States of America.

In May 2008 the Group contributed RR 734,700 ($CDN 31 million) to the share capital of 101109718 Saskatchewan Ltd (Canada) in exchange for the new shares issued comprising 98% of the share capital of the company. The cash contributed was used to acquire exploration licenses. As at the date of these consolidated financial statements the acquired entity obtained 26 licenses to explore for potash deposits in the Canadian province of Saskatchewan.

Bank loans and bonds

Subsequent to 31 December 2007 and prior to the date of these consolidated financial statements, the Group has obtained additional bank loans of RR 3,246,687, excluding JSC Sberbank loan described above, and repaid existing bank loans and bonds of RR 988,945.

APPENDIX
US PURCHASER LETTER

[Letterhead of US Purchaser]

[date]

To: **Joint Stock Company Acron**
37(2), Prechistenka
Moscow
119034
Russian Federation

To: **UniCredit CAIB UK Ltd.**
4th Floor Moor House
120 London Wall
London EC2Y 5ET
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

on behalf of the several managers named in the Prospectus (as defined below)

Re: Purchase of common shares, par value 5.00 (five) Roubles per share, (the "**Shares**") of Joint Stock Company Acron (the "**Company**") in the form of Global Depositary Receipts, (the "**GDRs**" and, together with the Shares, the "**Securities**")

Ladies and Gentlemen:

In connection with our purchase of the GDRs:

1. We confirm that we have received a copy of the Company's final prospectus dated [●] 2008 (the "**Prospectus**").

2. We confirm that we are purchasing the GDRs for our own account or an account with respect to which we exercise sole investment discretion, and that each of us and any such account is also a "qualified institutional buyer" ("**QIB**") as defined in Rule 144A ("**144A**") under the US Securities Act of 1933, as amended (the "**Securities Act**") and are aware, and each beneficial owner of such GDRs has been advised, that the sale of the GDRs is being made in reliance on Rule 144A.

3. We confirm that each of us and such account, if any, for which we are purchasing the GDRs ("**Account**") is a "qualified purchaser" as defined in the US Investment Company Act of 1940, as amended (the "**Investment Company Act"**)("**QPs**") and was not formed for the specific purpose of acquiring the GDRs. We confirm that after our purchase of the GDRs referred to above, neither we nor any such Account will own more than 10% of the outstanding voting securities of the Company. If either we or such Account is a "dealer" described in 144A(a)(1)(ii), we confirm that we or any such Account, as the case may be, owns and invests on a discretionary basis at least US$25 million in securities of issuers that are not affiliated with us or such Account, as the case may be. If either we or any such Account is a "plan", "employee benefit plan" or trust fund described in 144A(a)(1), the plan beneficiaries do not make investment decisions with respect to the plan.

4. We are not an affiliate (as defined in Rule 501(b) of Regulation D of the Securities Act) of the Company or acting for an affiliate of the Company.

5. We understand and acknowledge that neither the GDRs nor the Shares have been or will be registered under the Securities Act and are being offered and sold to us in a transaction that is exempt from the registration requirements of the Securities Act. We further understand and acknowledge that the Company is not and will not be registered as an investment company under the Investment Company

Act and that the Company has imposed transfer and offering restrictions with respect to persons in the United States and US Persons (as defined below) described herein so that the Company will qualify for the exemption provided under Section 3(c)(7) of the Investment Company Act and will have no obligation to register as an investment company. We are purchasing the GDRs for investment purposes and not with a view to resale or distribution within the meaning of the US securities laws.

6. We are not a "regulated plan" (which term includes (i) any employee benefit plan subject to the provisions of Title I of ERISA, (ii) any plan, account or other arrangement that is subject to Section 4975 the US Internal Revenue Code of 1986, as amended (the "**Code**"), (iii) any plan, account or other arrangement that is subject to provisions under applicable federal, state, local or non-US laws or regulations that are substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code and which contain rules pursuant to which the underlying assets of an entity could be deemed to include "plan assets" by reason of investment in the entity by any such plan, account or arrangement ("**Similar Law**") and (iv) any entity the underlying assets of which are considered to include "plan assets" of any such plan, account or other arrangement for purposes of Title I of ERISA, Section 4975 of the Code or Similar Law) and we are not purchasing the GDRs on behalf of, or with the "plan assets" of, any Plan.

7. We have conducted our own investigation with respect to the Company and the Securities and we have received all information that we believe is necessary or appropriate in connection with our purchase of the GDRs. We have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of our prospective investment in the GDRs. We have the ability to bear the economic risk of our investment in the Securities, have adequate means of providing for our current and contingent needs, have no need for liquidity with respect to our investment in the GDRs, and are able to sustain a complete loss of our investment in the GDRs.

8. We agree that if we breach any covenant contained herein or make any misrepresentation herein the Company may instruct Deutsche Bank Trust Company Americas (the "**Depositary**") in writing to, and upon receipt of such instructions the Depositary will, require us to sell our GDRs to the Company or a person designated by the Company at the initial Offer Price stated in the Prospectus.

9. We agree that the GDRs or any interest therein may be transferred or resold only in a sale in an offshore transaction pursuant to Rule 904 of Regulation S under the Securities Act ("**Regulation S**"), to or for the account or benefit of a person not known to us to be a US person, by pre-arrangement or otherwise, and that we must execute an Offshore Transaction Letter in the form of the Annex hereto and deliver such letter to the and Company and provide the Depositary with a written certification (in the form provided in the Rule 144A Deposit Agreement). We agree that the Securities may not be deposited into any unrestricted depository receipt facility in respect of the Securities that may be established or maintained by a depository bank. Furthermore, we will make no directed selling efforts in the United States with respect to the Securities. The terms "**US person**", "**offshore transaction**" and "**directed selling efforts**" have the meaning set forth in Regulation S.

10. We agree, upon a proposed transfer of our GDRs, to notify any purchaser of such GDRs or the executing broker, as applicable, of any transfer restrictions that are applicable to the GDRs being sold.

Where there are joint applicants, each must sign this letter. Applications from a corporation must be signed by an authorised officer or be completed otherwise in accordance with its constitution (evidence of such authority may be required). Where a single signatory is signing this letter on behalf of more than one purchaser, the names of each purchaser must be listed below or in an attachment to this letter, and the representations and agreements contained herein shall be deemed to be made separately by each such purchaser.

You, the other members of the banking syndicate underwriting the offering of the GDRs and the Shares evidenced thereby and the Company are entitled to rely upon this letter and are irrevocably authorised to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

[PURCHASER]

Name:
Address:
Date:

ANNEX TO APPENDIX
OFFSHORE TRANSACTION LETTER

[Letterhead of US Purchaser]

Joint Stock Company Acron
37(2), Prechistenka
Moscow
119034
Russian Federation

Ladies and Gentlemen:

This letter (an "**Offshore Transaction Letter**") relates to the sale or other transfer by us of global depositary receipts ("**GDRs**") representing the ordinary shares of Joint Stock Company Acron, a joint stock company incorporated in the Russian Federation (the "**Company**") in an offshore transaction pursuant to Regulation S ("**Regulation S**") under the US Securities Act of 1933, as amended (the "**Securities Act**").

Terms used in this Offshore Transaction Letter are used as defined in Regulation S, except as otherwise stated herein.

We acknowledge (or if we are acting for the account of another person, such person has confirmed that it acknowledges) that the GDRs have not been and will not be registered under the Securities Act and that the Company has not registered as an investment company under the US Investment Company Act of 1940, as amended (the "**Investment Company Act**").

We hereby certify as follows:

1. The offer and sale of the GDRs was not and will not be made to a person in the United States or to a person known by us to be a US Person.
2. Either:
   (a) at the time the buy order for the GDRs was originated, the buyer was outside the United States or we and any person acting on our behalf reasonably believed that the buyer was outside the United States; or
   (b) the transaction in the GDRs was executed in, on or through the facilities or a designated offshore securities market (including the London Stock Exchange), and neither we nor any person acting on our behalf knows that the transaction was pre-arranged with a buyer in the United States.
3. Neither we, nor any of our affiliates, nor any person acting on our or their behalf, has made any directed selling efforts in the United States with respect to the GDRs.
4. The proposed transfer of the GDRs is not part of a plan or scheme to evade the registration requirements of the Securities Act or the Investment Company Act.
5. Neither the Company nor any of its agents participated in the sale of the GDRs.
6. We agree, prior to the sale of the GDRs, to notify the purchaser of such GDRs or the executing broker, as applicable, of any transfer restrictions that are applicable to the GDRs being sold.
7. We agree that the Company and its agents and their respective affiliates may rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Where there are joint transferors, each must sign this Offshore Transaction Letter. An Offshore Transaction Letter of a corporation must be signed by an authorized officer or be completed otherwise in accordance with such corporation's constitution (evidence of such authority may be required).

Very truly yours,

[NAME OF TRANSFEROR]

By:
Name:
Title:
Address:
Date:

GLOSSARY OF SELECTED TECHNICAL TERMS

"absorption columns"	Equipment used in the production of ammonia;
"acetic acid"	CH_3COOH, a colourless, corrosive organic acid, used extensively as an intermediate in the production of other chemicals. It is also known as ethanoic acid or vinegar;
"ammonia"	NH_3, a colourless, combustible alkaline gas. Ammonia is a compound of nitrogen and hydrogen, it is used extensively for the manufacture of fertilisers and a wide variety of nitrogen-containing organic and inorganic chemicals;
"ammonium"	The unipositive citation NH_4^+ which forms a group of, generally, soluble salts similar to the alkali metal salts (formed NH_3 and acid);
"ammonium nitrate"	A nitrogen fertiliser produced by reacting nitric acid, an intermediate chemical feedstock produced from ammonia, with ammonia (contains around 34% nitrogen);
"apatite"	A group of phosphate minerals (phosphate ore), usually referring to hydroxylapatite, fluorapatite, and chlorapatite with the general formula $Ca_5(PO_4)_3(OH,F,Cl)$. Apatite is the world's major source of phosphorus, found as variously coloured, glassy crystals, masses, or nodules. The phosphorus content of apatite is traditionally expressed as phosphorus pentoxide P_2O_5;
"apatite concentrate"	Enriched apatite ore with fixed P_2O_5 content. The apatite concentrate is extracted by a flotation method from the crushed apatite-nepheline ore. The apatite concentrate contains a minimum of 33% P_2O_5 with a maximum of 3% iron;
"apatite-nepheline ore"	Rocks and minerals containing apatite and nepheline;
"argon"	Argon is present to a small extent in the atmosphere and is obtained as a byproduct from the liquefaction and separation of air. It is used as an inert gas shield in may forms of welding and as a fill gas in incandescent lighting;
"bulk blends" or "blended fertilisers"	A chemical compound containing at least two primary plant nutrients among nitrogen, phosphorus and potassium. It is obtained by the dry mixing of several materials. No chemical reaction is involved;
"calcium carbonate"	This is a chemical compound which is a common substance found as rock in all parts of the world. It is the main component of shells of marine organisms, snails and eggshells. It is mainly used in the construction industry as a building material (marble) or as limestone aggregate for road building or as an ingredient of cement;
"CARSOL solution"	A chemical additive to prevent corrosion;
"catalytic synthesis"	Process for the catalytic synthesis of nitrogen-containing organic compounds, comprising the reaction of carbon monoxide with at least one amino compound in a reaction mixture containing a catalyst based on selenium and a substituted pyridine. The process is particularly suitable for the synthesis of ureas and of their polymers;
"centrifuge"	Equipment used in the production of urea;

"CIF"	Costs, insurance and freight terms—the shipper is responsible for all costs and expenses from the time the goods leave its premises until they arrive at the destination port or aircraft which is inclusive of insurance. The buyer is responsible for insurance and all other costs beyond this point;
"compound fertilisers"	Fertiliser containing at least two of the primary nutrients, obtained by chemical reaction, blending or a combination of both. The granules produced may contain different nutrients in varying ratios;
"complex fertilisers"	Fertilisers containing at least two of the primary nutrients obtained by chemical reaction. The granules that result contain a declared ration of nutrients;
"CPT"	Carriage paid to terms;
"DAF"	Delivered at frontier terms;
"diammonium phosphate" or "DAP"	$(NH_4)_2HPO_4$, a type of multi-nutrient fertiliser containing nitrogen and phosphorous. DAP is formed by evaporating a solution of phosphoric acid with excess of ammonia;
"diethanolamine solution"	Aqueous solution of diethanolamine, often abbreviated as DEA, is an organic chemical compound which is both a secondary amine and a dialcohol;
"dry blends"	Dry blends (or blended fertilisers) are simple physical mixtures of dry fertiliser materials. The ingredients of a blended fertiliser can be straight materials, such as urea or potassium chloride; they can be granulated compound fertiliser materials mixed together; or they can be a combination of the two. In blended fertilisers, the individual particles remain separate in the mixture, and there is a potential for segragation of the nutrients;
"EXW"	Ex works terms;
"food-grade carbon dioxide"	Its main applications are for use in the production of soft drinks and in the brewing sector, and for cooling and freezing processes in the food sector;
"formaldehyde"	CH_2O, a colourless, poisonous gas, made by the oxidation of methanol;
"free on board" "FOB"	An FOB contract price does not include insurance and freight from the point of shipping;
"granulators"	Equipment used in the production of ammonium nitrate and urea;
"granules"	Small grains or pellets, an aggregate similar in size to a crumb but more dense;
"heat exchanging equipment"	Equipment used in the production of ammonia, acetic acid, urea and methanol;
"hydrochloric acid"	A strong inorganic acid that is used in many industrial processes;
"hydrocarbons"	Organic compounds containing only hydrogen and carbon. Crude oil, natural gas condensate are all mixtures of various hydrocarbons, among which methane is the simplest;
"inorganics synthesis products"	These are products that mainly originate from the production of fertilisers and include low-density ammonium nitrate, calcium carbonate, food-grade carbon dioxide, argon, and hydrochloric acid;

"iron-ore concentrate"	Enriched iron-containing rocks and minerals from with fixed metallic iron content;
"low-density ammonium nitrate" "LDAN"	LDAN is used as a cost effective mining explosive, mainly in a mixture with fuel oil or in emulsion type explosives;
"monoammonium phosphate" "MAP" . .	$(NH_4)_3PO_4$, type of multi-nutrient fertiliser containing nitrogen and phosphorous. MAP is formed when a solution of phosphoric acid is added to ammonia until the solution is distinctly acid. Monoammonium phosphate is often used in the blending of dry agricultural fertilisers;
"metric tonne"	1,000 kilograms;
"methanol"	CH_3OH, or methyl alcohol, or wood alcohol, a colourless, flammable liquid, produced synthetically by the direct combination of hydrogen and carbon monoxide gases, heated under pressure in the presence of a catalyst;
"methanol synthesis reactor"	Equipment used in the production of methanol;
"MMbtu"	One million of British thermal units (BTUs), used as a standard unit of measurement for natural gas and provides a convenient basis for comparing the energy content of various grades of natural gas and other fuels;
"multi-nutrient fertiliser"	Fertilisers containing several macronutrients. These include complex fertilisers, compound fertilisers, blended/bulk fertilisers. They are often referred to using their primary nutrient components (e.g. NPK, NP etc);
"natural gas"	Colourless, highly flammable gaseous hydrocarbon consisting primarily of methane and ethane. It is a type of petroleum that commonly occurs in association with crude oil. Natural gas is often found dissolved in oil at the high pressures existing in a reservoir, and it can also be present as a gas cap above the oil;
"nitrogen" "N"	One of the primary plant nutrients essential for plant growth;
"nitrophosphate" or "NP"	A type of multi-nutrient fertiliser containing nitrogen and phosphorous. Nitrophosphate fertiliser is produced by the nitric acid digestion of phosphate rock;
"NPK"	A multi-nutrient fertiliser containing nitrogen, phosphorous and potassium;
"organics synthesis products"	These products are produced from carboxyl-bearing substances and include methanol, formaldehyde, urea-formaldehyde concentrate and urea-formaldehyde resins;
"phosphorous" "P"	One of the primary plant nutrients essential from plant growth. It occurs in natural geological deposits known as phosphorus rocks;
"phosphates"	A salt or ester of phosphoric acid or a fertiliser containing phosphorus compounds;
"potassium" "K"	One of the primary plant nutrients essential for plant growth. It is excavated mainly in salt as muriate of potash;

"potash"	Potash is the common term for fertiliser forms of the element potassium (K);
"primary nutrients"	Nitrogen (N), phosphorous (P) and potassium (K);
"primary reforming tubular furnaces"	Equipment used in the production of ammonia;
"pyridine"	Pyridine is a chemical compound with the formula C_5H_5N;
"rectification column"	Equipment used in the production of urea and methanol;
"secondary reforming methane converters"	Equipment used in the production of ammonia;
"straight fertiliser"	A fertiliser containing only one of the three primary nutrients;
"stripping columns"	Equipment used in the production of ammonia;
"sulphur"	Sulphur is the chemical element that has the atomic number 16. It is denoted with the symbol S. It is an abundant multivalent non-metal;
"sulphuric acid"	Sulphuric acid H_2SO_4, is a strong sulphur-based mineral acid;
"synthesis columns"	Equipment used in the production of ammonia and urea;
"urea"	$(NH_2)_2CO$, urea is an organic compound of carbon, nitrogen, oxygen and hydrogen. It is the most widely used nitrogen fertiliser formed by reacting ammonia with carbon dioxide at high pressure (containing 46% nitrogen);
"urea ammonium nitrate" or "UAN"	UAN is a urea-ammonium mixture produced from ammonium nitrate, urea and nitric acid. It is one of the principal nitrogen fertilisers used in agriculture;
"urea-formaldehyde"	Urea-formaldehyde is a transparent thermosetting resin or plastic, made from urea and formaldehyde heated in the presence of a mild base such as ammonia or pyridine;
"urea-formaldehyde concentrate" or "UFC"	UFC is a clear, viscous liquid consisting of formaldehyde, urea and a small amount of water. UFC provides the highest concentration of formaldehyde commercially available;
"urea-formaldehyde resins" or "UFR"	$C_3H_8N_2O_3$, a transparent thermosetting resin made from urea and formaldehyde heated in the presence of an ammonia base. The urea and formaldehyde undergo a condensation reaction in which they combine to form a water-soluble polymer.

ACRON

Joint Stock Company Acron
37(2), Prechistenka
Moscow
119034
Russian Federation

SELLING SHAREHOLDER

Joint Stock Company Dorogobuzh
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Dorogobuzh District
Smolensk Region
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5 August 2008

ADDENDUM TO PRELIMINARY PROSPECTUS DATED 16 JULY 2008

Offering of 30,000 shares in the form of shares and Global Depositary Receipts

This document is an addendum to the preliminary prospectus issued by JSC Acron ("Acron" or the "Company") on 16 July 2008 ("the Preliminary Prospectus"), and must be read with reference to, and in conjunction with, the Preliminary Prospectus. This document updates and, where applicable, supersedes the information in the Preliminary Prospectus but it does not complete the Preliminary Prospectus. Terms not defined herein shall have the same meaning as in the Preliminary Prospectus.

The Securities offered in the Offering have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Company has not registered and will not register under the United States Investment Company Act of 1940 as amended (the "Investment Company Act"), in reliance on the exemption provided by Section 3(c)(7) thereof. Accordingly, the global depository receipts ("GDRs") are being sold in the United States only to certain persons who are both QIBS and QPs (each as defined below) and outside of the United States and the Russian Federation to certain non-US persons in offshore transactions in reliance on Regulation S of the Securities Act ("Regulation S") and the Shares (as defined below) will be offered to certain non-US persons outside the United States in offshore transactions in reliance on Regulation S. No transfer of the Securities that would have the effect of requiring the Company to register as an "investment company" under the Investment Company Act will be permitted. See "Selling and Transfer Restrictions" in the Preliminary Prospectus for further details on these and other restrictions that apply to the Securities.

Investment in the Securities involves a high degree of risk. For a discussion of certain risk factors that should be considered in connection with an investment in the Securities, see *"Risk Factors"* beginning on page 8 of the Preliminary Prospectus. The Securities are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

This document does not constitute a Prospectus for the purposes of the Prospectus Rules issued by the Financial Services Authority. Capitalized terms used but not defined herein shall have the meanings assigned to them in the Preliminary Prospectus.

Description of the Offering

The Offering will be an offering by JSC Dorogobuzh ("**Dorogobuzh**") of 30,000 ordinary shares of Acron (the "**Shares**"), each with a nominal value of RUR 5 per share, in the form of Shares and Global Depositary Receipts ("**GDRs**" and together with the Shares, the "**Securities**"), ten GDRs representing an interest in one Share. The GDRs will be offered to certain persons who are both (i) qualified institutional buyers ("**QIBs**") (as defined in and in reliance on the exemption from the registration requirements of the United States Securities Act of 1933, as amended (the "**Securities Act**"), provided by Rule 144A under the Securities Act) and (ii) qualified purchasers ("**QPs**") within the meaning of Section 2(a)(51) of the Investment Company Act in the United States and to certain persons (other than to, or for the account or benefit of, US persons, as defined in Regulation S ("**non-US persons**")) outside the United States and Russia in offshore transactions in reliance on Regulation S and the Shares will be offered to certain non-US persons outside the United States in offshore transactions in reliance on Regulation S.

Key amendments since the issue of the Preliminary Prospectus

The following are the key changes to the Prospectus since the Preliminary Prospectus was issued. These amendments will be reflected in the final prospectus being prepared in connection with admission to the Official List and to trading on the LSE, and expected to be dated on or about 6 August 2008:

a) Selling Shareholders

Dorogobuzh will be the only Selling Shareholder. Refco Holdings Limited will not sell shares in, or receive any proceeds from, the Offering.

b) Over-allotment option and stabilisation

There will not be an over-allotment option, or any stabilisation of the GDRs.

c) Agreements

Refco Holdings Limited, Granadilla Holdings Limited and the Managers will not enter into the Selling Shareholder Agreement.

d) Lock-up Arrangements

None of the Company, Dorogobuzh, or any of the Company's other shareholders, including those controlled by the Principal Shareholder, are entering into the lock-up arrangements that are described under "Plan of Distribution—Lock-up Arrangements" at page 204 of the Preliminary Prospectus.

JSC Acron