JOINT STOCK COMPANY
"ACRON"

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2002

Contents

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

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

1. We have audited the accompanying consolidated balance sheet of Joint Stock Company "Acron" and its subsidiaries (the "Group") at 31 December 2002 and the related consolidated statements of operations, of cash flow and of changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russian Federation
4 April 2003

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002, unless otherwise stated)

	Note	2002	2001
ASSETS			
Current assets:			
Cash and cash equivalents	6	165,956	82,413
Other current assets and receivables	7	920,014	1,040,300
Trade receivables	8	363,126	220,118
Inventories	9	1,407,956	1,429,900
Total current assets		**2,857,052**	**2,772,731**
Non-current assets:			
Property, plant and equipment, net	10	8,766,483	9,150,073
Negative goodwill	11	(1,651,997)	(1,806,997)
Investment in associated undertakings	12	211,344	-
Available-for-sale investments	13	278,744	201,396
Other assets		10,026	16,849
Total non-current assets		**7,614,600**	**7,561,321**
Total assets		**10,471,652**	**10,334,052**
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Current liabilities:			
Trade accounts payables		301,287	417,159
Taxes payable		18,194	63,623
Short-term debts	14	1,725,541	1,244,908
Advances from customers		373,725	237,387
Other current liabilities		35,194	9,230
Total current liabilities		**2,453,941**	**1,972,307**
Non-current liabilities:			
Long-term debts	14	317,018	521,025
Deferred tax liability	18	1,357,603	1,399,172
Other long term liabilities		-	1,969
Total non-current liabilities		**1,674,621**	**1,922,166**
Total liabilities		**4,128,562**	**3,894,473**
Minority interest		**880,382**	**1,031,111**
Shareholders' equity:			
Share capital	15	3,125,018	3,125,018
Treasury shares	15	(24,683)	(24,683)
Retained earnings		2,362,373	2,308,133
Total shareholders' equity		**5,462,708**	**5,408,468**
Total liabilities, minority interest and shareholders' equity		**10,471,652**	**10,334,052**

O.V. Valters
Chairman of the Board of Directors

N. A. Pavlova
Chief Accountant

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002, unless otherwise stated)

	Note	2002	2001
Sales	4	10,103,446	11,953,597
Cost of sales	16	(7,305,828)	(7,734,966)
Gross income		**2,797,618**	**4,218,631**
Transportation services		(1,117,542)	(1,853,635)
Selling, general and administrative expenses	17	(845,656)	(653,689)
Taxes other than profit tax		(191,870)	(249,513)
Reversal of impairment loss	10	-	79,388
Operating income		**642,550**	**1,541,182**
Finance expense, net	18	(394,576)	(477,650)
Share of results of associate before tax	12	(5,107)	-
Available-for-sales investments - loss	13	(99,046)	(58,503)
Foreign exchange loss		(5,687)	(4,520)
Monetary gain		204,210	222,936
Other non operating losses		(21,225)	(96,572)
Income before taxation		**321,119**	**1,128,358**
Income tax (expense)/credit	19	(266,858)	121,878
Income after taxation		**54,261**	**1,250,236**
Minority interest		38,219	(75,786)
Net income		**92,480**	**1,174,450**
Weighted average number of shares outstanding during the period		7,560	7,560
Basic and diluted earnings per share (in Russian Roubles)	3, 20	**12,232.8**	**155,350.5**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002, unless otherwise stated)

	Note	2002	2001
Cash flows from operating activities			
Income before taxation		321,119	1,128,358
Adjustments for:			
Depreciation and amortization		466,802	544,011
Provision for bad debts		161,817	61,379
Provision for write-down of inventory		49,661	1,326
Share of losses in associate	12	5,107	-
Reversal of impairment loss	10	-	(79,388)
Loss on disposal of property, plant and equipment		-	19,567
Interest expense		399,039	476,963
Available-for-sales investments - loss		99,046	58,503
Foreign exchange effect on non-operating balances		1,761	19,494
Monetary effect on non-operating balances		(226,960)	(270,240)
Operating cash flows before working capital changes		**1,277,392**	**1,959,973**
(Increase) decrease in gross trade receivables		(217,582)	102,149
Decrease (increase) in other receivables		20,724	(109,418)
(Increase) decrease in inventories		(27,717)	129,897
Decrease in trade payables		(125,649)	(237,651)
Increase in taxes payable other than income tax		1,374	5,697
Increase in advances from customers		136,338	93,413
Increase in other current liabilities		25,964	34,461
Net change in other non-current assets and liabilities		4,856	(2,369)
Cash provided from operations:		**1,095,700**	**1,976,152**
Income taxes paid		(347,540)	(476,963)
Interest paid		(393,892)	(471,359)
Net cash provided from operating activities		**358,351**	**1,027,830**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(330,299)	(732,739)
Proceeds from sale of assets		-	7,253
Acquisition	22	(216,451)	-
Purchase of available-for-sale investments		(176,394)	(122,358)
Net cash used in investing activities:		**(723,144)**	**(847,844)**
Cash flows from financing activities:			
Dividends paid to shareholders		(38,239)	(49,945)
Dividends paid to minority shareholders		(11,167)	-
Net proceeds from (repayment of) long-term borrowings		(135,575)	53,651
(Repayment of) net proceeds from short-term borrowings		646,121	(612,118)
Net cash (used in) provided from financing activities		**461,140**	**(608,412)**
Effect of exchange rate changes on cash and cash equivalents		(3,741)	(11,725)
Effect of inflation on cash flows and cash equivalents		(4,980)	(9,008)
Net increase/(decrease) in cash and cash equivalents		**83,543**	**(449,159)**
Cash and cash equivalents at the beginning of the year		**82,413**	**531,572**
Cash and cash equivalents at the end of the year		**165,956**	**82,413**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002, unless otherwise stated)

	Share capital	Treasury shares (Note 15)	Retained earnings	Total shareholders' equity
Balance at 31 December 2000				
- as previously reported	3,125,018	(24,683)	1,203,072	4,303,407
- effect of adopting IAS 39, net of income tax	-	-	(31,815)	(31,815)
- as restated	3,125,018	(24,683)	1,171,257	4,271,592
Dividends	-	-	(37,574)	(37,574)
Net income for the year	-	-	1,174,450	1,174,450
Balance at 31 December 2001	3,125,018	(24,683)	2,308,133	5,408,468
Dividends	-	-	(38,240)	(38,240)
Net income for the year	-	-	92,480	92,480
Balance at 31 December 2002	**3,125,018**	**(24,683)**	**2,362,373**	**5,462,708**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

1. JSC "ACRON" AND ITS OPERATIONS

Joint Stock Company "Acron" and its subsidiaries' ("the Group") principal activities include the manufacture, distribution and sales of chemical fertilisers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya and Smolenskaya oblasts of Russia. The ultimate parent company is JSC "Acron" ("the Company" or "Acron"). Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Company's registered office is at Novgorod the Great, Russia. In 2002, the Group had an average of 10,077 employees (2001: 10,037).

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with, and comply with, in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB ("IFRS").

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

The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale investments are shown at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of financial instruments, the impairment provisions, deferred profits taxes and the provision for impairment of receivables. Actual results could differ from these estimates.

Accounting for the effect of inflation

The adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation include 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. Corresponding figures, for the year ended 31 December 2001, have also been restated for the changes in the general purchasing power of the RR at 31 December 2002.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate the financial statements, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Year	Indices	Conversion Factor
1998	1,216,400	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,154	1.00

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

The amounts shown in the general price-level financial statements do not purport to represent appraised value, replacement cost or any other measure of the current value of assets or the price at which transactions would take place currently.

The main guidelines followed in restating the financial statements are:

- All amounts, including corresponding figures, are stated in terms of the measuring unit current at 31 December 2002;
- Monetary assets and liabilities held at 31 December 2002 are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002.
- Non-monetary assets and liabilities (those balance sheet items that are not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity are restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to the balance sheet date.
- All items in the statement of operations and cash flows are restated by applying the change in the general price index from the dates when the items were initially transacted to the balance sheet date.
- Gains or losses that arise as a result of holding monetary assets and liabilities for the period are included in the statement of operations as a monetary gain or loss.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Group accounting

Subsidiary undertakings

Subsidiary undertakings, being those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights and / or is able to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity.

Associated undertakings

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill (net of accumulated amortisation) on acquisition.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Investments

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

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

3.3 Cash and cash equivalents

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

3.4 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and includes value added taxes. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

3.5 Value added tax

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

3.6 Inventories

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

3.7 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Property, plant and equipment (continued)

Формат: Список

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

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

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.8 Intangible assets

Goodwill

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

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

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

Research and development

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other intangible assets

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

3.9 Borrowings

Borrowings are recognised initially at the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

3.10 Deferred income taxes

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

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

3.11 Foreign currency transactions

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at 31 December 2002, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of operations.

At 31 December 2002, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1=RR 31.78 (31 December 2001: USD 1=30.14). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3.12 Provisions

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Shareholders' equity

Share capital

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

Treasury shares

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

Dividends

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

3.14 Revenue recognition

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

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

3.15 Mutual cancellations, barter transactions

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on the management's estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information.

Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

3.16 Employee benefits

Social costs

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

Pension costs

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

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Earnings per share

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

3.18 Reclassifications

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

4. SEGMENT INFORMATION

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

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

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

Revenue	2002	2001
Overseas	8,483,075	6,922,306
Russia and CIS countries	1,620,371	5,031,291
	10,103,446	**11,953,597**

In 2002 and 2001, the majority of overseas sales were to two trading companies.

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2002 are detailed below. Transactions were entered into with related parties during the ordinary course of business on normal commercial terms.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Balances and transactions with related parties of the Group as at and for the years ended 31 December 2002 and 2001 consist of the following:

i Balances with related parties:

Balance sheet caption	Relationships	2002	2001
Available for sale investments:	Unconsolidated subsidiary	209,656	170,074
Trade receivables, gross	Minority shareholders	34,383	50,201
	Unconsolidated subsidiaries	108,980	100,020
Provision for impairment of trade receivables:	Unconsolidated subsidiary	(67,123)	(31,536)
	Minority shareholders	-	(9,025)
Prepayments:	Shareholder	57,500	134,230
	Unconsolidated subsidiary	72	15,572
	Minority shareholders	17,784	24,387
Provision for impairment of other current assets:	Minority shareholders	-	(5,689)
Trade payables:	Unconsolidated subsidiary	20,987	23,544
Advances from customers:	Unconsolidated subsidiary	28,305	48,002

ii Transactions with related parties:

Statement of operations caption	Relationship	2002	2001
Sales of chemical fertilizers:	Minority shareholders	164,672	130,253
	Unconsolidated subsidiary	120,357	152,570
Purchases of raw materials:	Unconsolidated subsidiary	(4,253)	-
Commission fees	Unconsolidated subsidiary	(38,454)	(16,933)

iii Cross shareholding:

At 31 December 2002 JSC "Dorogobuzh", a 65.41% owned subsidiary of JSC "Acron", owned 662 ordinary shares or 8.05% of the ordinary share capital of the Company (2001: 662 ordinary shares). Shares of JSC "Dorogobuzh" are accounted for as treasury shares, but retain their voting rights.

iv Directors' compensation:

Total directors' compensation included in general and administrative expenses in the statement of operations amounted to RR 62,342 and RR 27,598 for the years ended 31 December 2002 and 2001, respectively.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2002	2001
RR denominated cash on hand and balances with banks	75,566	37,914
Foreign currency denominated balances with bank	90,390	44,499
	165,956	**82,413**

Included in cash balance is RR 11,678 at 31 December 2002 – bank accounts at Mosnarbank pledged as collateral under the loan agreement entered by the Group's related party with the bank (see Note 21).

7. OTHER CURRENT ASSETS AND RECEIVABLES

	2002	2001
Bills of exchange	6,767	18,676
Prepayments	340,256	416,995
VAT recoverable	498,558	408,787
Income tax prepaid	34,136	41,825
Other current assets and receivables	151,470	173,318
Provision for impairment	(111,173)	(19,301)
	920,014	**1,040,300**

8. TRADE RECEIVABLES

	2002	2001
Trade receivables	533,309	320,356
Allowances for doubtful accounts	(170,183)	(100,238)
	363,126	**220,118**

RR 131,447 and RR 268,950 of net trade receivables are denominated in USD at 31 December 2002 and 2001, respectively.

9. INVENTORIES

Inventories consist of the following:

	2002	2001
Raw materials	1,172,259	1,156,779
Work in progress	19,304	101,869
Finished products	216,393	171,252
	1,407,956	**1,429,900**

Inventories of RR 1,172,259 (2001: RR 1,156,779) are recorded at net realisable value, net of obsolescence provision of RR 180,543 at the year ended 31 December 2002 (2001: RR 130,882). Inventories of RR 965,355 have been pledged as security for borrowings (Note 14).

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings and construction	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2001	15,439,547	15,321,758	258,448	440,981	31,460,734
Additions	51,360	-	47,465	235,255	334,080
Transfers	68,482	156,799	-	(225,281)	-
Disposals	(78,652)	(164,573)	(15,042)	(12,131)	(270,398)
Balance at 31 December 2002	15,480,737	15,313,984	290,871	438,824	31,524,416
Accumulated Depreciation					
Balance at 31 December 2001	(9,110,696)	(13,127,908)	(72,057)	-	(22,310,661)
Depreciation charge for 2002	(322,155)	(365,216)	(26,518)	-	(713,889)
Disposals	161,075	100,052	5,490	-	266,617
Balance at 31 December 2002	(9,271,776)	(13,393,072)	(93,085)	-	(22,757,933)
Net Book Value					
Balance at 31 December 2001	6,328,851	2,193,850	186,391	440,981	9,150,073
Balance at 31 December 2002	**6,208,961**	**1,920,912**	**197,786**	**438,824**	**8,766,483**

During 2001, the Company completed certain assets in construction, which had been previously impaired in 1998. The reversal of impairment loss, totaling RRR 79,388, resulted in a corresponding credit to the consolidated statement of operations in 2001.

Based upon reassessment of the recoverability of property, plant and equipment as at 31 December 2002, management believe that no adjustment should be made to the carrying value of the property, plant and equipment as at 31 December 2002.

11. NEGATIVE GOODWILL

	2002	2001
Gross amount of negative goodwill at 1 January	3,614,226	3,614,226
Acquisition of additional shares of JSC "Dorogobuzh" (Note 22)	92,086	-
Gross amount of negative goodwill at 31 December	3,706,312	3,614,226
Accumulated amortisation		
Balance at 1 January	(1,807,229)	(1,566,281)
Amortisation expense for the year	(247,087)	(240,948)
Balance at 31 December	(2,054,315)	(1,807,229)
Net amount of negative goodwill	**1,651,997**	**1,806,997**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

12. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	2002	2001
Balance at 31 December 2001	-	-
Acquisition (Note 22)	216,451	-
Share of loss before tax	(5,107)	-
Balance at 31 December 2002	**211,344**	-

13. AVAILABLE-FOR-SALE INVESTMENTS

	2002	2001
Balance at 1 January	201,396	137,541
Additions	176,394	122,565
Available-for-sale investments - loss	(99,046)	(58,503)
Disposals	-	(207)
Balance at 31 December	**278,744**	**201,396**

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

In 2002 the Company extended its shareholding in ZAO Moscow Horse Farm No.1 to 81%. Management classified this investment as available for sale, which may be sold in response to needs for liquidity.

14. SHORT-TERM AND LONG-TERM DEBTS

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

	2002	2001
Short-term debts		
Promstroibank	801,891	92,096
Sberbank	731,891	805,840
Mosnarbank	191,759	346,972
	1,725,541	**1,244,908**

Short-term debts denominated in RR totalled RR 1,533,782 and RR 897,936 as of 31 December 2002 and 2001, respectively, at interest rates in the range of 17.1% to 22.5% and of 19% to 25.5%, respectively.

Short-term debts denominated in US dollars totalled US$ 6,000 thousand (RR 191,759) and US$ 10,000 thousand (RR 346,972) as of 31 December 2002 and 2001, respectively, at fixed interest rates of 6.8% and 7.3% (2001: 7.6%).

Inventories in circulation (Note 9) have been pledged as collateral on short-term debts.

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

Long-term debts	2002	2001
Menatep – St. Petersburg	317,018	492,245
Promstroibank	-	28,780
	317,018	**521,025**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

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

At 31 December 2002, long-term loan received from Menatep – St. Petersburg denominated in Russian roubles at interest rate of 24% (2001: 24%) is secured by means of export transactions passports in the amount of US$ 20,000 thousand. The repayment of the loan received from bank Menatep – St. Petersburg is scheduled for March 2004, however, in 2002 RR 110,500 was repaid ahead of maturity. Russian rouble denominated loan from Promstroibank at interest of 22% is due in 2003 and was reclassified to short-term debt as at 31 December 2002.

Long-term debts are repayable as follows:

	2002	**2001**
1 to 2 years	317,018	158,290
2 to 3 years	-	362,735
3 to 4 years	-	-
4 to 5 years	-	-
Over 5 years	-	-
	317,018	**521,025**

15. SHAREHOLDERS' EQUITY

Total number of outstanding shares comprises:

	No. of outstanding shares (ordinary shares)	**No. of treasury shares**	**Total share capital**	**Less: Treasury share capital**	**Outstanding share capital**
At 31 December 2000	8,222	(662)	3,125,018	(24,683)	3,100,335
Sale of treasury shares	-	-	-	-	-
At 31 December 2001	8,222	(662)	3,125,018	(24,683)	3,100,335
Sale of treasury shares	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
At 31 December 2002	8,222	(662)	3,125,018	(24,683)	3,100,335

The authorised number of ordinary shares are 8,222 (2001: 8,222), with a nominal value per share of 29 RR. All authorised shares have been issued and fully paid. Treasury shares represent ordinary shares of the Company held by the Company's subsidiary (see Note 5).

A dividend was declared in 2002 in respect of 2001 to holders of ordinary shares of RR 4,040 per ordinary share (2001: RR 4,570 per ordinary share).

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2002, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 450,174. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

16. COST OF SALES

The components of cost of sales were as follows:

	2002	2001
Change in inventories of finished goods and work in progress	84,919	60,094
Labour costs	1,125,552	859,959
Materials and components used	3,640,887	4,085,219
Fuel and energy	1,019,678	1,023,618
Natural gas	521,153	335,632
Depreciation	713,889	784,960
Production overheads	92,190	195,793
Amortisation of negative goodwill	(247,087)	(240,948)
Overhaul costs	164,293	334,591
Social expenditure	145,540	253,468
Works performed by third parties	44,814	42,580
	7,305,828	**7,734,966**

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2002	2001
Wages and salaries expense	283,903	234,160
Bad and doubtful debt provision charge	161,817	84,047
Business trips expenses	79,064	40,559
Research and development costs	3,375	3,692
Marketing services	14,290	15,632
Legal and consultancy costs	55,829	48,885
Bank services	20,132	6,585
Insurance	17,217	17,976
Buildings maintenance and rent	72,568	47,441
Commission fees	50,435	94,281
Security	70,974	53,604
Telecommunication costs	8,453	6,827
Other expenses	7,599	-
	845,656	**653,689**

18. FINANCE EXPENSE, NET

	2002	2001
Interest expense	399,039	477,658
Interest income	(4,463)	(8)
	394,576	**477,650**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

19. INCOME TAXES

	2002	2001
Income tax expense – current	308,427	570,543
Deferred tax charge – statutory revaluation of tax base	15,343	-
Deferred tax credit – change in tax rate	-	(641,287)
Deferred tax credit – origination and reversal of temporary differences	(56,912)	(51,134)
Income tax charge / (credit)	**266,858**	**(121,878)**

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

	2002	2001
Income before taxation	321,119	1,128,358
Theoretical tax charge at statutory rate of 24% thereon (2001: 35%)	77,069	394,925
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-temporary elements of monetary gain	214,590	350,672
Non-deductible social expenditure	34,930	88,714
Other non-deductible expenses	167,996	100,719
Amortisation of negative goodwill	(59,301)	(84,332)
Inflation effect on deferred tax balance at beginning of the year	(183,769)	(331,289)
Effect of reduction in tax rate	-	(641,287)
Statutory revaluation of tax base	15,343	-
Income tax charge / (credit)	**266,858**	**(121,878)**

Most companies of the Group were subject to tax rates of 24% on taxable profits for 2002. Deferred tax asset/ liabilities are measured at the rate of 24% as at 31 December 2002 (24% as at 31 December 2001).

	31 December 2001	Differences recognition and reversals	31 December 2002
Tax effects of taxable temporary differences:			
Property, plant and equipment	(1,499,741)	19,414	(1,480,327)
Inventories	(38,970)	11,919	(27,051)
Tax effects of deductible temporary differences:			
Account payable	93,328	(48,890)	44,438
Investments	14,041	23,771	37,812
Accounts receivable	32,170	35,355	67,525
Total net deferred tax liability)	(1,399,172)	41,569	(1,357,603)

The Company has not recognised deferred tax liability in respect of RR 151,868 (2001: RR 176,968) temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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20. EARNINGS PER SHARE

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

	2002	2001
Weighted average number of shares outstanding	8,222	8,222
Adjusted for weighted average number of treasury shares	(662)	(662)
Weighted average number of shares outstanding	7,560	7,560
Net income	92,480	1,174,450
Basic and diluted earnings per share (in Russian roubles)	**12,232.8**	**155,350.5**

21. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

i Contractual commitments and guarantees

The Group has capital commitments in relation to property, plant and equipment contracted for but not recognised in the financial statements at the 31 December 2002 and 2001 for amount of RR 39,507 and RR 38,062 respectively.

At 31 December 2002 the Group has guaranteed drawn down loan of RR 539,847 denominated in US dollars to related parties (31 December 2001: nil). In relation to this, the assignment of sales in the amount of $US 23 mln. has been pledged as collateral.

ii Taxation

Russian tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

iii Insurance policies

The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering export shipments.

iv Environmental matters

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

v Legal proceedings

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

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

21. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (continued)

vi Operating environment

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

22. ACQUISITIONS

In April 2002, the Company acquired 74% of Closed Joint Stock Company "Firma Proekt" for RR 216,451 (US$ 6,400 thousand). The assets acquired consist of 21% of JSC "Sibirskaya Neftegazovaya Kompanya". JSC "Sibirskaya Neftegazovaya Kompanya" is a development stage enterprise performing the geological explorations and developing the gas fields.

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

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

23. PRINCIPAL SUBSIDIARIES

The principal subsidiaries and the degree of control exercised by the JSC "Acron" are as follows:

Entity	Country of Incorporation	Activity	2002 % share	2001 % share
JSC "Dorogobuzh"	Russia	Fertiliser production	66	59
JSC "Nordic Russia Holding"	Russia	Holding Co.	51	51
Acronagrotrans Ltd. (1)	British Virgin Islands	Transportation	8	8
"Florntex", OOO	Russia	Trade	100	-

(1) Effective from 1 January 2002 the Company ceased to consolidate Acronagrotrans Ltd as the Company ceased to control over this entity.

24. SIGNIFICANT NON-CASH TRANSACTIONS

Included in sales are non-cash transactions amounting to RR 52,078 (2001: RR 157,354) representing approximately, 1,7 % and 5.4% of accounts receivable and 1,5 % and 8.1% of accounts payable were settled via non-cash transactions during the years ended 31 December 2002 and 2001, respectively. The transactions primarily represent the sale of products in exchange for raw materials and services or cancellation of mutual balances with customers and suppliers within the operating cycle.

25. FINANCIAL RISKS

i Credit risk

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

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

ii Foreign exchange risk

The Group exports 87% (2001: 77%) of its production to overseas and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 8) and liabilities (see Note 14) give rise to foreign exchange exposure.

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

iii Interest rate risk

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

iv Fair values

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

The estimated fair value of financial assets and liabilities carried at amortized costs is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. Fair value of these financial assets and liabilities did not materially differ from their carrying amount at 31 December 2002 and 2001.