JOINT STOCK COMPANY “DOROGOBUZH”

International Financial Reporting Standards Consolidated Financial Statements and Auditor’s Report

31 December 2010

Contents

Independent Auditor's Report

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

1 We have audited the accompanying consolidated financial statements of Joint Stock Company "Dorogobuzh" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

30 May 2011

Moscow, Russian Federation

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(in thousands of Russian Roubles)

	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	13	4,423,796	4,333,281
Goodwill	14	-	52,068
Investment in associate	15	1,321,956	1,085,000
Available-for-sale investments	16	4,304,565	4,715,870
Long-term loans receivable	11	3,664,124	695,724
Other non-current assets		230,568	261,358
Total non-current assets		**13,945,009**	**11,143,301**
Current assets			
Inventories	12	1,239,518	1,060,089
Short-term loans receivable	11	378,286	188,600
Accounts receivable	10	1,408,377	1,000,033
Trading investments	17	1,876,856	-
Cash and cash equivalents	9	2,101,062	1,214,795
Other current assets		24,537	20,346
Total current assets		**7,028,636**	**3,483,863**
TOTAL ASSETS		**20,973,645**	**14,627,164**
EQUITY			
Share capital	21	1,735,359	1,735,359
Share premium	21	93,794	93,794
Retained earnings		7,437,732	5,134,851
Revaluation reserve		3,376,625	2,938,049
Share capital and reserves attributable to the Company's owners		**12,643,510**	**9,902,053**
TOTAL EQUITY		**12,643,510**	**9,902,053**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	20	5,302,980	1,409,768
Other long-term liabilities		102,250	102,503
Deferred tax liability	27	1,127,822	933,648
Total non-current liabilities		**6,533,052**	**2,445,919**
Current liabilities			
Accounts payable	18	233,262	256,435
Current income tax payable		106,070	20,400
Other taxes payable	19	58,322	52,165
Short-term borrowings	20	457,153	1,203,664
Advances received		942,276	746,528
Total current liabilities		**1,797,083**	**2,279,192**
TOTAL LIABILITIES		**8,330,135**	**4,725,111**
TOTAL LIABILITIES AND EQUITY		**20,973,645**	**14,627,164**

Approved for issue and signed on behalf of the Board of Directors on 30 May 2011.

I.N. Antonov
President

A.V. Milenkov
Finance Director

(in thousands of Russian Roubles)

	Note	2010	2009
Revenue	7	11,037,724	9,978,587
Cost of sales	22	(7,088,896)	(6,310,605)
Gross profit		**3,948,828**	**3,667,982**
Transportation expenses		(881,629)	(799,517)
Selling, general and administrative expenses	23	(983,000)	(741,363)
Loss on disposal of property, plant and equipment, net		(17,460)	(49,821)
Other operating income/(expenses), net	25	559,843	(161,169)
Operating profit		**2,626,582**	**1,916,112**
Finance income	24	603,122	266,376
Interest expense		(383,754)	(126,811)
Share of profit of associate		143,628	-
Profit before taxation		**2,989,578**	**2,055,677**
Income tax expense	27	(655,846)	(451,580)
Net profit for the year		**2,333,732**	**1,604,097**
Other comprehensive income:			
Available-for-sale investments:			
- Reversal of fair value gains on sale		(515,173)	-
- Gains less losses arising during the year		1,063,392	2,435,746
- Income tax recorded directly in other comprehensive income		(109,643)	(487,149)
Other comprehensive income for the year		**438,576**	**1,948,597**
Total comprehensive income for the year		**2,772,308**	**3,552,694**
Net profit is attributable to:			
Owners of the Company		2,333,732	1,604,097
Net profit for the year		**2,333,732**	**1,604,097**
Total comprehensive income is attributable to:			
Owners of the Company		2,772,308	3,552,694
Total comprehensive income for the year		**2,772,308**	**3,552,694**
Earnings per ordinary share, basic and diluted (expressed in RUB per share)	26	**2.63**	**1.83**
Earnings per preference share, basic and diluted (expressed in RUB per share)	26	**2.83**	**1.83**

(in thousands of Russian Roubles)

	Note	2010	2009
Cash flows from operating activities			
Profit before taxation		2,989,578	2,055,677
Adjustments for:			
Depreciation	13	329,836	307,917
Provision/(reversal) of impairment of accounts receivable		1,648	(6,797)
Reversal of provision for inventory obsolescence	24	(8,048)	-
Loss on disposal of property, plant and equipment		17,460	49,821
Gain from group structure changes	15	(21,712)	-
Share of profit of associate		(143,628)	
Interest expense		383,754	126,811
Interest income	23	(477,811)	(193,624)
Dividend income	23	(102,255)	(2,104)
Gain on sale of available for sale investments		(425,429)	-
Foreign exchange effect on non-operating balances		(16,203)	(70,647)
Operating cash flows before working capital changes		**2,527,190**	**2,267,054**
(Increase) /decrease in gross trade receivables		(74,257)	107,029
Decrease / (increase) in advances to suppliers		6,817	(127,870)
Decrease / (increase) in other receivables		24,322	(174,796)
(Increase) / decrease in inventories		(171,607)	34,541
Increase in other current assets		(4,191)	(4,913)
Decrease in trade payables		(22,018)	(192,126)
Decrease in other payables		(65,926)	(99,619)
Increase in advances from customers		200,312	518,338
Increase in trading investments		(1,876,856)	-
Net change in other non-current assets and liabilities		27,688	(1,361)
Cash generated from operations		**571,474**	**2,326,277**
Income taxes paid		(498,823)	(419,343)
Interest paid		(287,006)	(136,886)
Net cash generated from operating activities		**(214,355)**	**1,770,048**
Cash flows from investing activities			
Purchase of property, plant and equipment		(489,857)	(321,398)
Acquisition of an associate	15	-	(1,085,000)
Disposal of Subsidiary		(16,540)	-
Proceeds from sale of property, plant and equipment		-	19,176
Loans provided		(6,287,762)	(3,607,124)
Proceeds from loans repaid		3,132,777	3,189,454
Interest received		140,546	187,983
Dividends received		101,448	2,104
Proceeds from sale of available-for-sale investments		1,384,953	1,103
Purchase of available-for-sale investments		-	(1,013,607)
Net cash used in investing activities		**(2,034,435)**	**(2,627,309)**
Cash flows from financing activities			
Dividends paid to shareholders		(27,853)	(1,807)
Proceeds from borrowings		6,575,971	4,066,805
Repayment of borrowings		(3,413,065)	(2,705,583)
Net cash provided from financing activities		**3,135,053**	**1,359,415**
Effect of exchange rate changes on cash and cash equivalents		4	5,813
Net increase in cash and cash equivalents		**886,267**	**507,967**
Cash and cash equivalents at the beginning of the year		**1,214,795**	**706,828**
Cash and cash equivalents at the end of the year		**2,101,062**	**1,214,795**

(in thousands of Russian Roubles)

	Capital and reserves attributable to the Company's owners					
	Share capital (Note 20)	**Share premium (Note 20)**	**Retained earnings**	**Revaluation reserve**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	**1,735,359**	**93,794**	**3,530,754**	**989,452**	**-**	**6,349,359**
Comprehensive income						
Profit for the year	-	-	1,604,097	-	-	**1,604,097**
Other comprehensive income						
Fair value gain on available-for-sale investments (Note 16)	-	-	-	2,435,746	-	**2,435,746**
Income tax recorded in other comprehensive income (Note 27)	-	-	-	(487,149)	-	**(487,149)**
Total other comprehensive income	-	-	-	1,948,597	-	**1,948,597**
Total comprehensive income	-	-	1,604,097	1,948,597	-	**3,552,694**
Balance at 31 December 2009	**1,735,359**	**93,794**	**5,134,851**	**2,938,049**	**-**	**9,902,053**
Balance at 1 January 2010	**1,735,359**	**93,794**	**5,134,851**	**2,938,049**	**-**	**9,902,053**
Comprehensive income						
Profit for the year	-	-	2,333,732	-	-	**2,333,732**
Other comprehensive income						
Reversal of fair value gains on sale of available-for-sale investments	-	-	-	(515,173)	-	**(515,173)**
Fair value gains on available-for-sale investments (Note 16)	-	-	-	1,063,392	-	**1,063,392**
Income tax recorded in other comprehensive income (Note 27)	-	-	-	(109,643)	-	**(109,643)**
Total other comprehensive income	-	-	-	953,749	-	**953,749**
Total comprehensive income	-	-	2,333,732	438,576	-	**2,772,308**
Dividend declared	-	-	(30,851)	-	-	**(30,851)**
Balance at 31 December 2010	**1,735,359**	**93,794**	**7,437,732**	**3,376,625**	**-**	**12,643,510**

1 Dorogobuzh Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for Joint Stock Company "Dorogobuzh" (the "Company" or "Dorogobuzh") and its subsidiaries (together referred to as the "Group" or "Dorogobuzh Group").

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

The Group's parent company is JSC "Acron" (Russian Federation). The Group's ultimate parent is Subero Associates Inc (British Virgin Islands) (2009: Subero Associates Inc). As at 31 December 2010 and 2009 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

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

2 Basis of Preparation of the Financial Statements

Basis of preparation. These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") under the historical cost convention except as modified by the fair value revaluation of available-for-sale and trading 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 ("RUB 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 in Russia 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 reporting 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 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.

Up to 1 January 2009 the cost of an acquisition was measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction represented 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") was recognised immediately in profit or loss. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

From 1 January 2009 the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The acquisition date is the date on which the acquirer obtains control of the acquiree. In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

As of the acquisition date, the acquirer recognises the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of the consideration transferred measured in accordance with IFRS 3; the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3; and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3.

Should the acquirer make a bargain purchase, which is a business combination in which the amount of share in net assets acquired exceeds the aggregate of the amount of consideration transferred, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date. The gain shall be attributed to the acquirer.

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.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases of non-controlling interests. The Group applies economic entity model to account for transactions with non-controlling shareholders pursuant to early adoption of IAS 27 (Revised) (Note 5). Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as capital transaction directly in equity. Prior to 1 January 2009 the difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it was recorded as goodwill.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries as the result of business combinations under common control are accounted for using the predecessor values 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 or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. 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 (directly or indirectly), 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 profit or loss for the year as share of result of associates.

3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, 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 include 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 statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting 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 statement of comprehensive income. 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 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 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 statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.5 Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Catalytic agents consumed for the period of more than 12 months are presented within other non-current assets in the amount of RUB 227,402 (2009: RUB 261,358). 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 overheads (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.

(in thousands of Russian Roubles)

3 Summary of Significant Accounting Policies (continued)

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 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 statement of comprehensive income. 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.

Land is not depreciated. Depreciation on other items of property, plant and equipment 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 reporting 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 profit and loss.

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 Intangible assets

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. 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 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 an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. The entire 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.

3.8 Borrowings

Borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

3 Summary of Significant Accounting Policies (continued)

3.8 Borrowings (continued)

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

3.9 Income tax

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 end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. Corporate profit tax rate is 20% (2009: 20%) for Russia, where the most significant Group subsidiaries are registered. With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian Federation can range from 15.5% to 20%, depending on applicable rates set by regional authorities.

Current income 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 reporting 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.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. 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 end of the reporting period.

3.10 Foreign currency transactions

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rouble ("RUB").

3 Summary of Significant Accounting Policies (continued)

3.10 Foreign currency transactions (continued)

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 ends of the reporting periods. 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.

Foreign exchange gains and losses on operating items are presented within other operating expenses, foreign exchange gain and losses on finance items are presented within net finance income.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.4769 (2009: USD 1 = RUB 30.2442). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.11 Provisions for liabilities and charges

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

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each end of the reporting period.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting 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 end of the reporting period. 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 end of the reporting period.

3.12 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. Preference shares are non-cumulative and presented as part of share capital in the notes.

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 owners 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 owners.

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

3.13 Revenue recognition

Revenues from sales of chemical fertilisers and related by-products are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

3 Summary of Significant Accounting Policies (continued)

3.13 Revenue recognition (continued)

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales are shown net of VAT, custom duties and discounts, and after eliminating sales within the Group. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Interest income is recognised on a time-proportion basis using the effective interest method.

3.14 Mutual cancellations

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

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as a settlement of receivables. A provision for impairment of bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3.15 Employee benefits

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

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

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognised contributions of RUB 122,904 as part of labour costs in 2010 (2009: RUB 126,849).

3.16 Financial assets and liabilities

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading investments if it has an intention to sell them within a short period after purchase, i.e. within 12 months.

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. All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

3 Summary of Significant Accounting Policies (continued)

3.16 Financial assets and liabilities (continued)

Classification of financial assets (continued)

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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 and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income 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 other comprehensive income 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.

3.17 Earnings per share

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

3.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10% or more of all the segments are reported separately unless they meet all qualitative and quantitative aggregation criteria, in which case they are aggregated in a single reporting segment.

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. At 31 December 2010 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 cash-generating unit (CGU) had been 5.5% (2009: 5%) lower than management estimates at 31 December 2010. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 6% (2009: 3%) higher than management estimates, the goodwill would still have not been impaired.

Impairment of property, plant and equipment. At 31 December 2010 the Group performed an impairment test of property, plant and equipment. 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 5 year period and the expected market prices for key fertilizers for the same period according to the leading industry publications, which are broadly in line with 2010 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates as further disclosed in Note 13. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. Reasonably possible change in other key assumptions does not lead to material impairment charge.

Valuation and impairment of available-for-sale investments. As of 31 December 2010 and 2009 the investments in bonds and shares JSC Acron and JSC Sberbank were determined by reference to the current market value in line with requirements of IAS 39. Although the free float and volume of trades of investments in JSC Acron securities may be not significant, its 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. The Group determines that available-for-sale equity and debt 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. At 31 December 2010 no impairment was required due to significant excess of fair values over the cost, refer to Note 16. The impact on fair value of available-for-sale investment as of 31 December 2010 would be to decrease it by RUB 429,944 (2009: RUB 468,464), were the market quotations to decrease by 10% from actual ones.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2010:

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

5 Adoption of New or Revised Standards and Interpretations (continued)

The Group also early adopted IAS 27 (revised) and IFRS 3 (revised) from 1 January 2009.

- ***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 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The adoption did not have significant effect on these financial statements but will have impact on the future business combinations.

- ***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 requires 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 early adopted IAS 27 and changed its accounting policies for purchases of non-controlling interests that do not result in the loss of control. As a result of adoption the difference between the purchase consideration for remaining 50% of AS DBT and the carrying amount of non-controlling interest acquired was recorded as capital transaction directly in equity in the amount of RUB 785,042 in the 2009 financial statements.

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

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

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

5 Adoption of New or Revised Standards and Interpretations (continued)

- ***Improvements to International Financial Reporting Standards*** (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IAS 1, IAS 7, IFRS 8, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity’s own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The improvements do not have a material effect on the Group’s consolidated financial statements;

- ***Group Cash-settled Share-based payment Transactions – Amendments to IFRS 2, Share-based Payment*** (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8 and IFRIC 11, the amendments expand on the guidance in IFRIC 11 to address the classifications of group arrangements that were not covered by that interpretation. These amendments are not relevant to the Group;

- ***Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS*** (effective for annual periods beginning on or after 1 January 2010). The amendments do not have any impact on the Group’s consolidated financial statements;

- ***The International Financial Reporting Standard for Small and Medium-sized Entities*** (issued in July 2009). The Group does not intend to adopt the IFRS for SMEs.

6 New Accounting Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2010, and have not been early adopted:

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011);

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The Group is currently assessing the impact of the amended standards on its consolidated financial statements;

- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011);

- Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (issued in October 2009 and effective for annual periods beginning on or after 1 February 2010);

6 New Accounting Pronouncements (continued)

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010);

- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010);

- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);

- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011);

- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).

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

7 Segment Information

The Group prepares its segment analysis in accordance with IFRS 8, Operating Segments. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker ("CODM") and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

The development and approval of strategies, market situation analysis, the risk assessment, investment focus, technological process changes, goals and priorities are set and assessed in line with the current segment structure of the Group:

- Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by JSC Dorogobuzh;

- Logistics – representing transportation an logistic services rendered by sea port of the Group in Russia;

- Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit has significant business and risk profile.

Segment financial information reviewed by the CODM includes revenues from sales and EBITDA.

In 2009 the segment information was prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Adjustments are focused on consistent classification of line items for the reporting purposes. Such financial information was different in certain aspects from International Financial Reporting Standards In 2010 the Group has changed the format of the segment information presented to CODM to IFRS. Accordingly the Group restated prior period comparative information.

The CODM evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortization, foreign exchange gain or loss, other non-cash and extraordinary items (EBITDA). Since this term is not a standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

Information for the reportable segments for the year ended 31 December 2010 is set out below:

In thousands of Russian Roubles	**Dorogobuzh**	**Logistics**	**Eliminations**	**Other**	**Total**
Revenue	10,963,181	-	(634,581)	709,114	**11,037,724**
EBITDA	2,600,638	-	-	(15,756)	**2,584,882**

7 Segment Information (continued)

Information for the reportable segments for the year ended 31 December 2009 is set out below:

In thousands of Russian Roubles	Dorogobuzh	Logistics	Eliminations	Other	Total
Revenue	9,899,143	36,595	(416,315)	459,164	**9,978,587**
EBITDA	2,457,999	(5,781)	-	(25,886)	**2,426,332**

Reconciliation of EBITDA to Profit Before Tax:

	2010	2009
Profit Before Tax	2,989,578	2,055,677
Less: Share of profit of associate	(143,628)	-
Add: Interest expense	383,754	126,811
Less: Finance income	(603,122)	(266,376)
Operating Profit	**2,626,582**	**1,916,112**
Depreciation and amortization	329,836	307,917
Foreign currency gains	36,433	118,533
Add: (Gain) / Loss on sale of investments	(425,429)	33,949
Add: Loss on disposal of property, plant and equipment	17,460	49,821
Total consolidated EBITDA	**2,584,882**	**2,426,332**

Entity wide disclosures

In thousands of Russian Roubles	2010	2009
Revenue		
Russia	3,893,423	3,551,312
European Union	2,755,337	2,199,283
Commonwealth of Independent States	2,338,416	2,539,448
Americas	1,712,160	843,817
China	189,271	-
Other regions	149,115	844,727
Total	**11,037,724**	**9,978,587**

The analysis of revenue is based on domicile of the customer.

Revenue from sales of chemical fertilisers account for 94% of total revenues (2009: 86%).

There are no revenues from customers which represent 10% of more of the total revenues.

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 2010 and 2009 are detailed below.

The following turnovers and balances arise from transactions with related parties:

i Balances with related parties

Statement of financial position caption	Notes	Relationship	2010	2009
Trade and other receivables, gross	10	Parent company	10,597	10,259
		Parties under common control	216,399	198,229
Prepayments		Parties under common control	140,482	40,147
Loans issued	11	Parties under common control	3,997,324	865,324
Loans received	20	Parent company	-	950,000
Trade payables		Parties under common control	6,426	5,976
		Parent company	6,171	5,341
Advances from customers		Party under common control	623,176	311,349
Available for sale investments (bonds)*	16	Parent company	-	3,525,201
Investment for trading (bonds) *	17	Parent company	1,299,306	-
Available for sale investments (securities)*	16	Parent company	4,021,508	960,507

* Investments are disclosed at fair value.

(in thousands of Russian Roubles)

8 Balances and Transactions with Related Parties (continued)

ii Transactions with related parties

Statement of comprehensive income caption	Notes	Relationship	2010	2009
Sales of chemical fertilizers, other goods and services		Parent company	367,605	69,719
		Parties under common control	6,038,312	4,445,041
Purchases of raw materials		Parent company	(90,226)	(479,175)
		Parties under common control	(18,115)	(16,651)
Purchase of transportation services		Parties under common control	(149,821)	(86,137)
Purchases of securities (bonds, shares)*		Parent company	-	(1,007,442)
Security sale (shares)		Parent company	232,865	-
		Parties under common control	318,017	-
Statement of changes in equity caption				
Dividends accrued		Parent company	100,096	-

* Purchase transaction is disclosed at cost.

iii Loans issued

At 31 December 2010 short-term loans to parent company and parties under common control denominated in RUB totalled RUB 333,200 and (2009: RUB 183,600), at interest rates in the range of 8.25% to 8.8%.The loans were unsecured.

At 31 December 2010 long-term loans to parties under common control totalled RUB 3,664,124 (2009: RUB 681,724), an interest rate 8.8% (2009: from 9.5% to 14.2%). The loans are unsecured.

In 2010 the Group earned interest income of RUB 253,457 (2009: RUB 182,098).

iv Key management personnel compensation

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

Total key management personnel compensation in the amount of RUB 92,454 (2009: RUB 126,150) was recorded in general and administrative expenses.

9 Cash and Cash Equivalents

	2010	2009
Cash on hand and bank balances denominated in RUB	1,034,640	236,451
Bank balances denominated in USD	966,239	833,314
Bank balances denominated in EUR	100,183	145,030
Total cash and cash equivalents	**2,101,062**	**1,214,795**

Cash and cash equivalents include term deposits of RUB 849,903 (2009: RUB 881,443).

Cash on hand and bank balances include restricted cash balance of RUB 402,534 as a guarantee related to credit agreement between HSBC Bank (China) and one of the subsidiaries of the Acron Group in China.

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

	2010	2009
A to AAA* rated	-	-
BB- to BBB+* rated	2,079,759	1,214,795
Unrated	21,303	-
Total	**2,101,062**	**1,214,795**

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

(in thousands of Russian Roubles)

10 Accounts Receivable

	2010	2009
Trade accounts receivable	272,445	205,852
Other accounts receivable	249,855	86,920
Less: impairment provision	(46,765)	(45,266)
Total financial assets	**475,535**	**247,506**
Advances to suppliers	382,886	389,703
Value-added tax recoverable	549,057	360,127
Income tax prepayments	765	2,948
Other taxes receivable	1,680	1,146
Less: impairment provision	(1,546)	(1,397)
Total accounts receivable	**1,408,377**	**1,000,033**

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

As of 31 December 2010, trade and other accounts receivable of RUB 48,311 (2009: RUB 46,663) were individually impaired and an impairment provision was recognised. The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations.

The aging of these receivables is as follows:

	2010	2009
Less than 3 months	-	-
From 3 to 9 months	(921)	(3,319)
From 9 to 12 months	(3,665)	(4,410)
Over 12 months	(43,724)	(38,934)
Total gross amount of impaired accounts receivable	**(48,310)**	**(46,663)**

The movements in the provision for impairment of trade and other accounts receivable are as follows:

	2010		2009	
	Trade receivables	Other debtors	Trade receivables	Other debtors
Provision for impairment at 1 January	**(45,266)**	**(1,397)**	**(46,503)**	**(6,967)**
Provision for impairment	(6,384)	-	(12,034)	(1,064)
Provision used	4,380	(149)	11,166	126
Provision reversed	505	-	2,105	6,508
Provision for impairment at 31 December	**(46,765)**	**(1,546)**	**(45,266)**	**(1,397)**

The Group does not hold any collateral as security.

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

Analysis by credit quality of trade receivables is as follows:

	2010	2009
Current and not impaired – exposure to:		
- Foreign customers	158,478	93,978
- Small individual Russian companies and farms	67,202	66,608
Total current and not impaired	**225,680**	**160,586**

(in thousands of Russian Roubles)

11 Loans Receivable

	2010	2009
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	333,200	183,600
Loans issued to third parties	45,086	5,000
	378,286	**188,600**

Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	3,664,124	681,724
Loans issued to third parties	-	14,000
	3,664,124	**695,724**

Loans receivable contain neither impaired nor overdue assets as of 31 December 2010 and 31 December 2009. No provision for impairment was recognised for loans receivable as of the respective dates.

At 31 December 2010 and 2009 short-term loans totalled RUB 378,286 and RUB 188,600 respectively, at interest rates in the range of 8.0% to 14.2% (2009: 9.5% to 14.2%). The loans were unsecured.

At 31 December 2010 and 2009 long-term loans totalled RUB 3,664,124 and RUB 695,724 respectively, at interest rates in the range of 8.8% to 14.2% (2009: 9.5%-14.2%). The loans were unsecured.

In 2010 the Group accrued interest income on loan receivable of RUB 259,764 (2009: RUB 182,486).

12 Inventories

	2010	2009
Raw materials and spare parts	797,415	816,302
Work in progress	65,291	38,745
Finished products	376,812	205,042
	1,239,518	**1,060,089**

Raw materials are shown net of write-down of RUB 30,837 (2008: 38,885). No inventory was pledged as security at 31 December 2010 and 2009.

13 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2010	**5,873,210**	**5,070,172**	**738,893**	**53,790**	**863,678**	**12,599,743**
Additions	-	-	-	-	489,857	**489,857**
Transfers	83,830	350,813	17,649	38	(452,330)	
Disposals	(306,005)	(194,526)	(9,104)	(12,638)	-	**(522,273)**
Balance at 31 December 2010	**5,561,035**	**5,226,459**	**747,438**	**41,190**	**901,205**	**12,567,327**
Accumulated Depreciation						
Balance at 1 January 2010	**4,099,444**	**4,062,459**	**90,732**	**13,827**	**-**	**8,266,462**
Depreciation charge	98,537	179,042	47,146	5,111	-	**329,836**
Disposals	(304,069)	(140,460)	(8,224)	(14)	-	**(452,767)**
Balance at 31 December 2010	**3,893,912**	**4,101,041**	**129,654**	**18,924**	**-**	**8,143,531**
Net Book Value						
Balance at 1 January 2010	**1,773,766**	**1,007,713**	**648,161**	**39,963**	**863,678**	**4,333,281**
Balance at 31 December 2010	**1,757,123**	**1,125,418**	**617,784**	**22,266**	**901,205**	**4,423,796**

Non-current assets impairment test. Cash-generating units (CGUs) represent the lowest level within the Group at which the cash flows are monitored by management and which are not larger than a segment.

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

(in thousands of Russian Roubles)

13 Property, Plant and Equipment (continued)

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs in 2010 and 2009.

The key assumptions used for value-in-use calculations at 31 December 2010 are as follows:

	OAO Dorogobuzh
EBITDA margin range over the forecast period	17%-33%%
Growth rate beyond five years	3%
Discount rate	16.27%

The key assumptions used for value-in-use calculations at 31 December 2009 are as follows:

	LLC Andrex	**OAO Dorogobuzh**
EBITDA margin range over the forecast period	9%-24%	9%-24%
Growth rate beyond five years	3%	3%
Pre-tax discount rate	16.27%	16.27%

Management determined budgeted EBITDA margin based on past performance and its most realistic 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, reflect specific risks relating to the relevant segments and were estimated on the weighted average cost of capital basis.

	Buildings and constructions	**Plant and equipment**	**Transport**	**Other**	**Assets under construction**	**Total**
Cost						
Balance at 1 January 2009	**5,776,758**	**5,133,872**	**737,671**	**35,515**	**917,342**	**12,601,158**
Additions	-	-	-	-	321,398	**321,398**
Transfers	134,305	162,883	10,297	21,433	(328,918)	**-**
Disposals	(37,853)	(226,583)	(9,075)	(3,158)	(44,852)	**(321,521)**
Balance at 31 December 2009	**5,873,210**	**5,070,172**	**738,893**	**53,790**	**863,678**	**12,599,743**
Accumulated Depreciation						
Balance at 1 January 2009	**4,039,612**	**4,106,356**	**52,478**	**12,623**	**-**	**8,211,069**
Depreciation charge	92,584	165,635	46,484	3,214	-	**307,917**
Disposals	(32,752)	(209,532)	(8,230)	(2,010)	-	**(252,524)**
Balance at 31 December 2009	**4,099,444**	**4,062,459**	**90,732**	**13,827**	**-**	**8,266,462**
Net Book Value						
Balance at 1 January 2009	**1,737,146**	**1,027,516**	**685,193**	**22,892**	**917,342**	**4,390,089**
Balance at 31 December 2009	**1,773,766**	**1,007,713**	**648,161**	**39,963**	**863,678**	**4,333,281**

The assets transferred to the Group upon privatisation did not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. As a result of changes in legislation in 2001, all companies located in the Russian Federation have been granted the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. The purchase price of the land is calculated by reference to the cadastral value applied for property taxes and certain coefficients which are determined by local state authorities. This purchase price may significantly differ from its market value. In accordance with Russian legislation the expiry date for this option is 1 January 2012. At 31 December 2009 major subsidiaries of the Group exercised the option and purchased the land under production plants.

At 31 December 2010 no property, plant and equipment was pledged as security (Note 19).

(in thousands of Russian Roubles)

14 Goodwill

Goodwill Impairment Test. Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	2010	2009
LLC Andrex	-	52,068
Total carrying amount of goodwill	**-**	**52,068**

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

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

In 2010 the Group contributed 100% of its share ownership in LLC Andrex to Baltrans (Note 15).

15 Investment in Associate

	2010	2009
Balance at 1 January	**1,085,000**	**-**
Acquisition	-	1,085,000
Share of profit	143,628	-
Exchange of investments	71,616	-
Fair value gain from Group structure changes	21,712	-
Balance at 31 December	**1,321,956**	**1,085,000**

In 2009 the Group acquired 50% interest in AST DBT through the acquisition of 100% interest on JSC Baltrans from a party under common control for a cash consideration of RUB 1,085,620.

In 2010 JSC Acron, the parent company of the Group, initiated a restructuring of its logistic segment. In doing so the Group and JSC Acron have agreed that the Group contributes the 100% interest it held in LLC Andrex into JSC Baltrans and JSC Acron contributes 85% of AS BCT into JSC Baltrans. This transaction was finalized in December 2010 and as a result of it the Group's interest in JSC Baltrans reduced to 35% and the Group recognized a fair value gain of RUB 21,712 on revaluation of its interest retained in JSC Baltrans.

At 31 December 2010, the Group's interest in its principal associate and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	% interest held	Country of incorporation
JSC Baltrans	4,087,395	3,417,547	1,652,535	140,003	35%	Россия

At 31 December 2009, the Group's interest in its principal associate and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	% interest held	Country of incorporation
AS DBT	811,105	118,643	741,126	151,413	50%	Estonia

(in thousands of Russian Roubles)

16 Available-for-Sale Investments

	2010	2009
Balance at 1 January	4,715,870	1,266,534
Additions	-	1,013,607
Fair value gain recognized directly in other comprehensive income	1,063,392	2,435,746
Disposals	(1,474,697)	(17)
Balance at 31 December	**4,304,565**	**4,715,870**

The Group has investments in the following companies:

Type	Activity	Country of registration	2010	2009
JSC Acron shares	Fertilizers manufacture	Russia	4,021,508	3,525,201
JSC Sberbank shares	Banking	Russia	257,870	206,935
JSC Acron bonds	Fertilizers manufacture	Russia	-	960,507
Other	Miscellaneous	Russia	25,187	23,227
			4,304,565	**4,715,870**

The fair value of investments was determined by reference to the current market value at the close of business on 31 December 2010. The share price quoted by MICEX for JSC Acron shares amounted to RUB 1,136 per share at 31 December 2010 (31 December 2009: RUB 850.01 per share); for Sberbank shares RUB 104.19 per share at 31 December 2010 (31 December 2009: RUB 83.61).

17 Trading Investments

	2010	2009
Corporate bonds	1,621,214	-
Promissory notes	149,451	-
Total debt securities	**1,770,665**	**-**
Corporate shares	106,191	-
Total trading investments	**1,876,856**	**-**

Trading investments are carried at fair value which also reflects any credit risk related write-downs. As trading investments are carried at their fair values based on observable market data using bid prices from MICEX/RTS stock exchange, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt trading securities outstanding at 31 December 2010 is as follows:

	Eurobonds	Corporate bonds	Promissory notes	Total debt securities	Corporate shares	Total
- B1 rated	11,315	1,299,306	-	1,310,621	-	**1,310,621**
- B2 rated	123,062	10,824	-	133,886	-	**133,886**
- B3 rated	55,213	-	-	55,213	-	**55,213**
- Ba1 rated	6,553	-	-	6,553	-	**6,553**
- B rated	91,739	-	-	91,739	-	**91,739**
- Caa2 rated	23,202	-	-	23,202	-	**23,202**
- Unrated	-	-	149,451	149,451	106,191	**255,642**
Total	**311,084**	**1,310,130**	**149,451**	**1,770,665**	**106,191**	**1,876,856**

None of the debt securities are past due or impaired as of 31 December 2010.

18 Accounts Payable

	2010	2009
Trade accounts payable	111,700	137,090
Dividends payable	8,208	7,937
Total financial payables	**119,908**	**145,027**
Payables to employees	105,034	95,336
Accrued liabilities and other creditors	8,320	16,072
Total accounts payable and accrued expenses	**233,262**	**256,435**

(in thousands of Russian Roubles)

19 Other Taxes Payable

	2010	2009
Value-added tax payable	24,558	19,895
Payroll taxes	20,575	18,042
Property and other taxes payable	13,189	14,228
	58,322	**52,165**

20 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2010	2009
Credit lines	-	-
Term loans	5,760,133	2,613,432
	5,760,133	**2,613,432**

The Group's borrowings mature as follows:

	2010	2009
Borrowings due:		
- within 1 year	457,153	1,203,663
- between 1 and 5 years	5,302,980	1,409,769
	5,760,133	**2,613,432**

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

	2010	2009
Borrowings denominated in:		
- RUB	-	950,000
- USD	5,760,133	1,663,432
	5,760,133	**2,613,432**

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 2010 the fair value of borrowings was on RUB 305,677 lower than their carring amounts, at 31 December 2009 the fair value of borrowings was not significantly lower than their carrying amounts.

At 31 December 2010 unused credit lines available under the long-term loan facilities were RUB 232,340 (31 December 2009: nil). The terms and conditions of unused credit lines are consistent with other borrowings disclosed in Note 20.

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

	2010	2009
Short-term borrowings		
Russian rubles		
Loans with fixed interest rates of 13% to 14% per annum	-	750,000
US$		
Loans with fixed interest rates of 8% per annum	-	453,664
Loan with fixed interest rate 6.75% per annum	457,153	-
Total short-term borrowings	**457,153**	**1,203,664**

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

	2010	2009
Long-term borrowings		
Russian rubles		
Loans with fixed interest rates of 14% per annum	-	200,000
US$		
Loans with fixed interest rate of 5.95% to 6.75% per annum	4,358,196	
Loans with floating interest rates of LIBOR + 3.6% to LIBOR + 8% per annum	944,784	1,209,768
Total long-term borrowings	**5,302,980**	**1,409,768**

(in thousands of Russian Roubles)

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

The loan agreements for a total of RUB 3,992,473 (2009: RUB 1,209,768) contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, and impose restrictions on total debt, EBITDA/net interest expense ratio and debt/EBITDA ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks and stipulate acceleration clauses in case of the borrower's failure to fulfil or appropriately fulfil its obligations to the bank.

The loan agreements for a total of RUB 1,767,660 (2009: RUB 0) 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 contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its 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.

21 Share Capital

The total authorised number of ordinary shares is 721,182,860 shares (2009: 721,182,860) with a par value of 0.25 RUB per share.

The total authorised number of preferred shares is 154,256,400 shares (2009: 154,256,400) with a par value of 0.25 RUB per share.

All authorised shares have been issued and fully paid.

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

	Ordinary shares			Preferred shares	
	Number of shares authorised issued and paid	**Share Capital**	**Share premium**	**Number of shares authorised issued and paid**	**Share Capital**
At 31 December 2009	**721,182,860**	**1,379,569**	**93,794**	**154,256,400**	**355,790**
At 31 December 2010	**721,182,860**	**1,379,569**	**93,794**	**154,256,400**	**355,790**

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

Class A preferred shares carry no voting rights and are entitled to a minimum annual dividend of 10% of the Company's net statutory profit after taxes. Preferred shares have priority over ordinary shares in the event of liquidation. Preferred shares are non-cumulative.

Preferred shares carry no voting rights except on resolutions regarding liquidation or reorganisation of the Company, changes to dividend levels of preferred shares, or the issuance of additional preferred shares. Such resolutions require approval by two thirds of preferred shareholders. The preferred shares have no rights of redemption or conversion.

The share capital is shown in the amount of the historical contribution adjusted for inflation since the date of privatisation until 31 December 2002.

In 2010 no dividends were declared in respect of 2009 financial year per ordinary share and RUB 0.20 per preferred share.

(in thousands of Russian Roubles)

22 Cost of Sales

	2010	2009
Change in inventories of finished goods and work in progress	(198,316)	163,523
Staff costs	820,093	517,226
Materials and components used	2,109,485	2,186,350
Fuel and energy	689,665	609,174
Natural gas	2,210,722	1,960,084
Depreciation and amortization	329,836	307,917
Production overheads	57,592	44,937
Repairs and maintenance	982,546	443,173
Social expenditure	87,273	78,221
	7,088,896	**6,310,605**

23 Selling, General and Administrative Expenses

	2010	2009
Staff costs	475,734	385,738
Provision for/reversal of bad debt provision	3,577	(6,807)
Business trips expenses	18,539	13,492
Audit, legal and consulting services	23,322	13,165
Taxes other than income tax	63,793	57,511
Bank services	88,049	68,405
Insurance	14,891	6,667
Buildings maintenance and rent	58,418	55,575
Security	82,800	80,105
Telecommunication costs	14,904	11,976
Representation expenses	6,515	6,803
Other expenses	132,458	48,733
	983,000	**741,363**

24 Finance Income/(expenses), net

	2010	2009
Interest income	477,811	193,624
Dividend income	102,255	2,104
Foreign exchange gain	404,022	459,577
Foreign exchange loss	(380,966)	(388,928)
	603,122	**266,376**

25 Other Operating Income/(expenses), net

	2010	2009
Other income	170,847	(8,687)
Gain/ (loss) on disposal of investments	425,429	(33,949)
Foreign exchange gain	338,166	561,876
Foreign exchange loss	(374,599)	(680,409)
	559,843	**(161,169)**

(in thousands of Russian Roubles)

26 Earnings per Share

Earnings per share are calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary and preferred shares outstanding during the period, excluding the average number of ordinary shares purchased by the Company or its subsidiaries and held as treasury shares (see Note 21).

	2010	2009
Weighted average number of ordinary shares outstanding	721,182,860	721,182,860
Weighted average number of preferred shares outstanding	154,256,400	154,256,400
Dividends to ordinary shareholders		-
Dividends to preferred shareholders	(30,851)	-
Total dividends for the year	**(30,851)**	**-**
Profit attributable to ordinary shareholders	1,897,103	1,321,448
Profit attributable to preferred shareholders	436,629	282,649
Profit for the year	**2,333,732**	**1,604,097**
Basic and diluted earnings per ordinary share (in RUB)	**2.63**	**1.83**
Basic and diluted earnings per preferred share (in RUB)	**2.83**	**1.83**

27 Income Taxes

	2010	2009
Income tax expense – current	570,425	462,140
Deferred tax charge/(credit) – origination and reversal of temporary differences	85,421	(10,560)
Income tax charge	**655,846**	**451,580**

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

	2010	2009
Profit before taxation	2,989,578	2,055,677
Theoretical tax charge at statutory rate of 20% thereon (2009: 20%)	597,916	411,135
Tax effect of non deductable expenses and non taxable income:		
Non taxable profit	(20,451)	(420)
Tax effect of items which are not deductible or assessable for taxation purposes	78,381	40,865
Income tax charge	**655,846**	**451,580**

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 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 20% (2009: 20%).

	1 January 2009	Charged)/credited to profit or loss	(Charged)/credited to OCI	31 December 2009
Tax effects of taxable temporary differences :				
Property, plant and equipment	284,169	(9,707)	-	274,462
Investments available for sale	217,688	(7,354)	487,149	697,483
Inventories	32,132	(17,758)	-	14,374
Other temporary differences	3,545	(3,202)	-	343
Tax effects of deductable taxable temporary differences :				
Accounts receivable	(23,906)	1,362	-	(22,544)
Accounts payable	(36,069)	26,099	-	(9,970)
Other liabilities	(20,500)	-	-	(20,500)
Recognised net deferred tax liability	**457,059**	**(10,560)**	**487,149**	**933,648**

(in thousands of Russian Roubles)

27 Income taxes (continue)

	31 December 2009	(Charged)/credited to profit or loss	Charged)/credited to equity	31 December 2010
Tax effects of taxable temporary differences :				
Property, plant and equipment	274,462	9,563	-	284,025
Investments available for sale	697,483	340	109,643	807,466
Inventories	14,374	19,702	-	34,076
Other temporary differences	343	56,131	-	56,474
Tax effects of deductable taxable temporary differences :				
Accounts receivable	(22,544)	(330)	-	(22,874)
Accounts payable	(9,970)	(875)	-	(10,845)
Other liabilities	(20,500)	-	-	(20,500)
Recognised net deferred tax liability	**933,648**	**84,533**	**109,643**	**1,127,822**

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RUB 5,402 (2009: RUB 4,862). The Group controls timing of the reversal of those temporary differences.

Substantially all deferred tax liabilities presented in the statement of financial position are expected to be realised within a period exceeding 12 months from the reporting date.

Substantially all deferred tax assets presented in the statement of financial position are expected to be realised within a period exceeding 12 months from the reporting date.

28 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2010 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RUB 40,153 (2009: RUB 298,602).

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.

As at 31 December 2010 and 2009, the Group has not issued any financial guarantees to third parties in respect of borrowings from non-group companies.

ii Legal proceedings

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

iii Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and interest rates, as well as periodic volatility in the RUB exchange rate.

In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase in household incomes, lower refinancing rates, stabilization of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's activities which can 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 program seeks to minimize potential adverse effects on the financial performance of the Group.

28 Contingencies, Commitments and Operating Risks (continued)

iv Taxation

Russian Federation

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

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

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

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

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

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future.

Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Management estimates that the Group has no possible obligations from exposure to other than remote tax risks (2009: no obligations).

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 2010 no provision for potential tax liabilities had been recorded (2009: no provision).

v Environmental matters

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

29 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RUB 59,930 (2009: RUB 44,463), which were settled via non-cash transactions during the years ended 31 December 2010 and 2009, respectively. These transactions primarily represent cancellation of mutual balances with customers within the operating cycle.

(in thousands of Russian Roubles)

30 Financial and Capital Risk Management

30.1 Financial risk management

Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2010:

	2010			
	Loans and receivables	**Available-for-sale assets**	**Trading assets**	**Total**
ASSETS				
Cash and cash equivalents (Note 9)				
- Cash on hand and bank balances	2,101,062	-	-	2,101,062
Trade and other receivables (Note 10)				
- Trade receivables	272,445	-	-	272,445
- Other financial receivables	249,855	-	-	249,855
Loans receivable (Note 11)				
- Short term loans receivable	378,286	-	-	378,286
- Long term loans receivable	3,664,124	-	-	3,664,124
Trading investments (Note 17)	-	-	1,876,856	1,876,856
Available-for-sale investments (Note 16)				
- Corporate shares and bonds	-	4,304,565	-	4,304,565
TOTAL FINANCIAL ASSETS	**6,665,772**	**4,304,565**	**1,876,856**	**12,847,193**

	2009			
	Loans and receivables	**Available-for-sale assets**	**Trading Assets**	**Total**
ASSETS				
Cash and cash equivalents (Note 9)				
- Cash on hand and bank balances	1,214,795	-	-	**1,214,795**
Trade and other receivables (Note 10)		-	-	
- Trade receivables	205,852	-	-	**205,852**
- Other financial receivables	86,920	-	-	**86,920**
Loans receivable (Note 11)				
- Short term loans receivable	188,600	-	-	**188,600**
- Long term loans receivable	695,724	-	-	**695,724**
Available-for-sale investments (Note 16)				
- Corporate shares and bonds	-	4,715,870	-	**4,715,870**
TOTAL FINANCIAL ASSETS	**2,391,891**	**4,715,870**	-	**7,107,761**

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 minimise 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.

(in thousands of Russian Roubles)

30 Financial and Capital Risk Management (continued)

30.1 Financial risk management (continued)

***(a) Market risk* (continued)**

(i) Foreign currency risk (continued)

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 minimise foreign currency exposure.

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

At 31 December 2010	**USD**	**EUR**
Financial assets:		
Cash and cash equivalents	966,239	100,183
Accounts receivable	158,480	
	1,124,719	100,183
Financial liabilities:		
Accounts payable and other liabilities	(5,547)	-
Borrowings	(5,760,133)	-
	(5,765,680)	
Net position	**(4,640,961)**	**100,183**

At 31 December 2009	**USD**	**EUR**
Financial assets:		
Cash and cash equivalents	833,314	145,030
Accounts receivable	93,969	-
	927,283	145,030
Financial liabilities:		
Accounts payable and other liabilities	(575)	-
Borrowings	(1,663,431)	-
	(1,664,006)	-
Net position	**(736,724)**	**145,030**

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

	2010	**2009**
Impact on post-tax profit and on equity of:		
USD strengthening by 25%	(1,160,240)	(184,626)
USD weakening by 25%	1,160,240	184,626
EUR strengthening by 25%	25,046	36,262
EUR weakening by 25%	(25,046)	(36,262)

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 USD, in which major export sales are denominated.

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.

30 Financial and Capital Risk Management (continued)

30.1 Financial risk management (continued)

***(a) Market risk* (continued)**

(ii) Interest rate risk (continued)

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

Group's operating cash flows are substantially independent of changes in market interest rates.

The Group interest rate risk arises from long-term credit lines. Long-term credit lines expose the Group's cash flow to an interest rate risk. At 31 December 2010 and 2009 borrowings at variable rates amounted to RUB 944,784 and RUB 1,209,768, respectively (Note 19).

At 31 December 2010, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RUB 6,608 (2009: 25,606) 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 equity and debt securities price risk, since it has an investment in equity shares and bonds of JSC Acron and JSC Sberbank, which are classified on the consolidated statement of financial position as available-for-sale as of 31 December 2010 and 31 December 2009, respectively (Note 16). Monitoring of the fair value of these investments is performed on a regular basis to assess risk of impairment. No impairment of these investments were recognised as of 31 December 2010 and 31 December 2009.

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 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 of RUB 6,665,772 (2009: RUB 3,352,398) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents and debt securities. The amount does not include 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. 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.

(in thousands of Russian Roubles)

30 Financial and Capital Risk Management (continued)

30.1 Financial risk management (continued)

(b) Credit risk (continued)

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 analysed before the Group provides it with the standard terms of goods supply and payments. The credit quality of new borrowers is analysed before the Group provides it with the loan. 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 2010 and 31 December 2009 the Group had no counterparties with aggregated receivables balances of in excess of 10% of the Group's gross accounts receivable balances.

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.

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 9), trading investments (Note 17) and available-for-sale investments (Note 16). Management estimates that the liquidity portfolio cash, bank deposits, trading, and available-for-sale investments can be realised in cash within a day in order to meet unforeseen liquidity requirements. Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting 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 2010						
Term loans* (Note 20)	86,585	710,983	3,385,343	2,402,368	-	**6,585,279**
Trade payables (Note 18)	104,008	7,692	-	-	-	**111,700**
Dividends and other distributions to shareholders (Note 26)	-	8,208	-	-	-	**8,208**
Total future payments, including future principal and interest payments	**190,593**	**726,883**	**3,385,343**	**2,402,368**	**-**	**6,705,187**

	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**
As of 31 December 2009					
Credit lines * (Note 20)	66,178	1,981,962	834,714	-	-
Trade payables (Note 18)	137,090	-	-	-	-
Dividends and other distributions to shareholders (Note 26)	-	7,937	-	-	-
Total future payments, including future principal and interest payments	**203,268**	**1,989,899**	**834,714**	**-**	**-**

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2010 and 31 December 2009, respectively.

(in thousands of Russian Roubles)

30 Financial and Capital Risk Management (continued)

30.1 Financial risk management (continued)

(c) Liquidity risk (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.

As of 31 December 2010 unused credit lines available under long-term loan facilities were RUB 232,350 (31 December 2009: nil).

30.2 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 statement of financial position. 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 2010, the Group's strategy, which was unchanged from 2009, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as of 31 December 2010 and 31 December 2009 is shown in the table below:

	2010	**2009**
Long-term borrowings	5,302,980	1,409,768
Short-term borrowings	457,153	1,203,664
Total debt	**5,760,133**	**2,613,432**
Shareholders' equity	**12,643,510**	**9,902,053**
Gearing ratio, %	**45.9%**	**26.4%**

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 2009 the Group changed its capital management policy with regard to calculation of EBITDA to adjust for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments.

In 2010, the Group's strategy, which was unchanged from 2009, 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 adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 20).

The ratio of EBITDA/net interest expense as of 31 December 2010 and 31 December 2009 is shown in the table below:

	2010	**2009**
Operating profit	2,626,582	1,916,112
Add: Depreciation and amortization (Note 22)	329,836	307,917
Add: Foreign exchange gain/(loss) (Note 25)	36,433	118,533
Add: (Gain)/loss on disposal of investments	(425,429)	33,949
Add: Loss/(gain)on disposal of property, plant and equipment	17,460	49,821
EBITDA	**2,584,882**	**2,426,332**
Interest income (Note 24)	(477,811)	(193,624)
Interest expense	383,754	126,811
Net interest expense	**(94,057)**	**(66,813)**
EBITDA/Net interest expense	**26:1**	**36:1**

30 Financial and Capital Risk Management (continued)

30.2 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 20) and imposed by the statutory legislation of the Russian Federation. Since EBITDA is not standard IFRS measure Dorogobuzh Group's definition of EBITDA may differ from that of other companies.

31 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. **Trading,** available-for-sale investments are carried in the consolidated statement of financial position at their fair value.

Effective from 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value. This requires disclosure of fair value measurements by three levels, depending on fair value measurements.

The level in the fair value hierarchy into which the fair values are categorised as one of the three categories:

Level 1: quoted price in an active market;

Level 2: valuation technique with inputs observable in markets;

Level 3: valuation technique with significant non-observable inputs.

All available-for-sales and trading financial instruments of the Group were included in level 1 category in the amount of RUB 6,181,421 (2009: RUB 4,715,870).

There are no other financial instruments which fair value was determined based on inputs other than level 1 category.

Cash and cash equivalents are carried at amortized cost which approximates current fair value.

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 and loans receivable approximate 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 2010 the fair value of borrowings was on RUB 305,677 lower than their carrying amounts, at 31 December 2009 the fair value of borrowings was not significantly lower than their carrying amounts.

32 Subsequent Events

Subsequent to 31 December 2010 the Group received new bank loans in the amount RUB 1,073,171 as well as paid off RUB 1,120,501 on existing credit facilities.

In April 2011 the Board of Directors of JSC Dorogobuzh recommended shareholders dividend distribution for 2010 in the amount of 1 roubles per preference share and no dividend for ordinary shares.

In the first quarter of 2011, the Group reduced its ownership in JSC Acron from 7.2% to 4.6% through sale of 1,355,847 company shares on the open market for RUB 1,707,000