# JOINT STOCK COMPANY DOROGOBUZH

## International Financial Reporting Standards
## Consolidated Financial Statements and Auditor's Report

## 31 December 2011

# Contents

# *Independent Auditor's Report*

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

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 2011 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**

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidation 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.

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

**Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

24 May 2012

Moscow, Russian Federation

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*(in millions of Russian Roubles)*

| | Note | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 4,460 | 4,424 |
| Investment in associate | 14 | 1,466 | 1,322 |
| Available-for-sale investments | 15 | 216 | 4,304 |
| Long-term loans receivable | 11 | 11,210 | 3,664 |
| Other non-current assets | 8 | 1,047 | 634 |
| Total non-current assets | | **18,399** | **14,348** |
| **Current assets** | | | |
| Inventories | 12 | 1,472 | 1,240 |
| Short-term loans receivable | 11 | 501 | 378 |
| Accounts receivable | 10 | 2,283 | 1,408 |
| Trading investments | 16 | 1,283 | 1,877 |
| Cash and cash equivalents | 9 | 1,962 | 1,698 |
| Other current assets | 8 | 394 | 25 |
| **Total current assets** | | **7,895** | **6,626** |
| **TOTAL ASSETS** | | **26,294** | **20,974** |
| | | | |
| **EQUITY** | | | |
| Share capital | 20 | 1,735 | 1,735 |
| Share premium | 20 | 94 | 94 |
| Retained earnings | | 16,615 | 7,438 |
| Revaluation reserve | | 157 | 3,377 |
| **Share capital and reserves attributable to the Company's owners** | | **18,601** | **12,644** |
| **TOTAL EQUITY** | | **18,601** | **12,644** |
| | | | |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings | 19 | 5,122 | 5,303 |
| Other long-term liabilities | | 102 | 102 |
| Deferred tax liability | 26 | 428 | 1,128 |
| **Total non-current liabilities** | | **5,652** | **6,533** |
| **Current liabilities** | | | |
| Accounts payable | 17 | 582 | 233 |
| Current income tax payable | | 70 | 106 |
| Other taxes payable | 18 | 49 | 58 |
| Short-term borrowings | 19 | 834 | 457 |
| Advances received | | 506 | 943 |
| **Total current liabilities** | | **2,041** | **1,797** |
| **TOTAL LIABILITIES** | | **7,693** | **8,330** |
| **TOTAL LIABILITIES AND EQUITY** | | **26,294** | **20,974** |

Approved for issue and signed on behalf of the Board of Directors on 24 May 2012.

__________________________
V.Y. Kunitskiy
President

______________________
A.V. Milenkov
Finance Director

*(in millions of Russian Roubles, except for per share amount)*

| | Note | 2011 | 2010 |
|---|---|---|---|
| Revenue | 7 | 16,729 | 11,038 |
| Cost of sales | 21 | (8,450) | (7,089) |
| **Gross profit** | | **8,279** | **3,949** |
| | | | |
| Transportation expenses | | (1,227) | (882) |
| Selling, general and administrative expenses | 22 | (968) | (983) |
| Gain on sale of investments | 15,16 | 4,436 | 425 |
| Other operating (expenses)/income, net | 24 | (169) | 118 |
| **Operating profit** | | **10,351** | **2,627** |
| | | | |
| Finance income | 23 | 999 | 603 |
| Interest expense | | (269) | (384) |
| Share of profit of associate | 14 | 127 | 144 |
| **Profit before taxation** | | **11,208** | **2,990** |
| | | | |
| Income tax expense | 26 | (1,877 | (656) |
| | | | |
| **Net profit for the year** | | **9,331** | **2,334** |
| | | | |
| **Other comprehensive (loss)/income:** | | | |
| Available-for-sale investments: | | | |
| -Gains less losses arising during the year | 15 | 453 | 1,063 |
| - Disposal of available-for-sale investment – reclassification of revaluation to profit and loss | 15 | (4,478) | (515) |
| - Income tax recorded directly in other comprehensive income | 26 | 805 | (110) |
| | | | |
| **Other comprehensive(loss)/ income for the year** | | **(3,220)** | **438** |
| **Total comprehensive income for the year** | | **6,111** | **2,772** |
| | | | |
| **Net profit is attributable to:** | | | |
| Owners of the Company | | 9,331 | 2,334 |
| **Net profit for the year** | | **9,331** | **2,334** |
| | | | |
| **Total comprehensive income is attributable to:** | | | |
| Owners of the Company | | 6,111 | 2,772 |
| **Total comprehensive income for the year** | | **6,111** | **2,772** |
| | | | |
| **Earnings per ordinary share, basic and diluted (expressed in RUB per share)** | 25 | **10.48** | **2.63** |
| | | | |
| **Earnings per preferred share, basic and diluted (expressed in RUB per share)** | 25 | **11.48** | **2.83** |

*(in millions of Russian Roubles)*

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 11,208 | 2,990 |
| *Adjustments for:* | | | |
| Depreciation | 13 | 368 | 330 |
| Reversal of /(provision for) impairment of accounts receivable | | (1) | 2 |
| Provision/(reversal of provision) for inventory obsolescence | 12 | 6 | (8) |
| Loss on disposal of property, plant and equipment | | 7 | 17 |
| Gain from group structure changes | 14 | - | (22) |
| Share of profit of associate | | (127) | (144) |
| Interest expense | | 269 | 384 |
| Interest income | 23 | (840) | (478) |
| Dividend income | 23 | (184) | (102) |
| Gain on sale of investments | | (4,436) | (425) |
| Unrealised foreign exchange effect on non-operating balances | | 25 | (17) |
| **Operating cash flows before working capital changes** | | **6,295** | **2,527** |
| Increase in gross trade receivables | | (187) | (66) |
| (Increase)/ decrease in advances to suppliers | | (46) | 7 |
| Increase in value-added tax receivable | | (139) | (189) |
| Increase in inventories | | (239) | (172) |
| Increase in other current assets | | (369) | (4) |
| Increase/(decrease) in trade payables | | 299 | (25) |
| Increase/(decrease) in other payables | | 39 | (30) |
| (Decrease)/increase in advances from customers | | (437) | 195 |
| Decrease/(increase) in trading investments | | 560 | (1,877) |
| Change in other non-current assets | | (413) | (373) |
| **Cash generated from operations** | | **5,363** | **(7)** |
| Income taxes paid | | (1,816) | (499) |
| Interest paid | | (278) | (287) |
| **Net cash generated from/(used in) operating activities** | | **3,269** | **(793)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (411) | (490) |
| Acquisition of an associate | 14 | (17) | - |
| Disposal of a subsidiary | | - | (17) |
| Loans provided | | (9,968) | (6,288) |
| Proceeds from loans repaid | | 2 302 | 3,133 |
| Interest received | | 337 | 315 |
| Dividends received | | 184 | 101 |
| Proceeds from sale of available-for-sale investments | | 4,735 | 1,385 |
| Purchase of available-for-sale investments | | (194) | - |
| **Net cash used in investing activities** | | **(3,032)** | **(1,861)** |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders | | (147) | (28) |
| Proceeds from borrowings | | 4,612 | 6,576 |
| Repayment of borrowings | | (4,441) | (3,413) |
| **Net cash provided from financing activities** | | **24** | **3,135** |
| Effect of exchange rate changes on cash and cash equivalents | | 3 | 2 |
| **Net increase in cash and cash equivalents** | | **264** | **483** |
| **Cash and cash equivalents at the beginning of the year** | | **1,698** | **1,215** |
| **Cash and cash equivalents at the end of the year** | | **1,962** | **1,698** |

## *Consolidated Statement of Changes in Equity for the year ended 31 December 2011*

*(in millions of Russian Roubles)*

| | Capital and reserves attributable to the Company's owners | | | | |
|---|---|---|---|---|---|
| | **Share capital (Note 20)** | **Share premium (Note 20)** | **Retained earnings** | **Revaluation reserve** | **Total equity** |
| **Balance at 1 January 2010** | **1,735** | **94** | **5,135** | **2,938** | **9,902** |
| **Comprehensive income** | | | | | |
| Profit for the year | - | - | 2,334 | - | **2,334** |
| *Other comprehensive income* | | | | | |
| Reversal of fair value gains on sale of available-for-sale investments | - | - | - | (515) | **(515)** |
| Fair value gain on available-for-sale investments (Note 15) | - | - | - | 1,063 | **1,063** |
| Income tax recorded in other comprehensive income (Note 26) | - | - | - | (110) | **(110)** |
| Total other comprehensive income | - | - | - | 438 | **438** |
| Total comprehensive income | - | - | 2,334 | 438 | **2,772** |
| Dividends declared (Note 20) | - | - | (31) | - | **(31)** |
| **Balance at 31 December 2010** | **1,735** | **94** | **7,438** | **3,377** | **12,644** |
| **Balance at 1 January 2011** | **1,735** | **94** | **7,438** | **3,377** | **12,644** |
| **Comprehensive income** | | | | | |
| Profit for the year | - | - | 9,331 | - | **9,331** |
| *Other comprehensive ( loss)/ income* | | | | | |
| Fair value gains on available-for-sale investments (Note 15) | - | - | - | 453 | **453** |
| Disposal of investment in JSC Acron (Note 15) | - | - | - | (4,478) | **(4,478)** |
| Income tax recorded in other comprehensive income (Note 26) | - | - | - | 805 | **805** |
| Total other comprehensive loss | - | - | - | (3,220) | **(3,220)** |
| Total comprehensive income | - | - | 9,331 | (3,220) | **6,111** |
| Dividends declared (Note 20) | - | - | (154) | - | **(154)** |
| **Balance at 31 December 2011** | **1,735** | **94** | **16,615** | **157** | **18,601** |

## 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 2011 for Joint Stock Company Dorogobuzh (the "Company") 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 Smolensk region of Russia. The Company was incorporated as an open 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) (2010: Subero Associates Inc). As at 31 December 2011 and 2010 the Group was ultimately controlled by Mr. Viacheslav Kantor.

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

## 2 Basis of Preparation of the Consolidated 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 millions of Russian Roubles ("RUB"), 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.

## 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

## 3 Summary of Significant Accounting Policies (continued)

### 3.1 Group accounting (continued)

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 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 consolidated 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 consolidated 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.

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 consolidated 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.

*(in millions of Russian Roubles)*

## 3 Summary of Significant Accounting Policies (continued)

### 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. 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.

### 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 consolidated 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.

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and the estimated period during which these assets will bring economic benefit to the Group.

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

The entire Group's 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 Summary of Significant Accounting Policies (continued)

### 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.

***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.

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 translation

Functional currency of each of the Group’s consolidated entities is the currency of the Russian federation, which is 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.

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.

## 3 Summary of Significant Accounting Policies (continued)

### 3.10 Foreign currency translation (continued)

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 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 32.1961 (2010: USD 1 = RUB 30.4769). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

### 3.11 Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

### 3.12 Provisions for liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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 consolidated 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reassessed annually and changes in provisions resulting from the passage of time are reflected in the consolidated statement of comprehensive income each year within interest expense. Other changes in provisions related to a change in the expected repayment plan, in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period of the change and reflected in the consolidated statement of comprehensive income.

### 3.13 Shareholders' equity

***Share capital.*** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium. 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 consolidated financial statements are authorised for issue.

### 3.14 Revenue recognition

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

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

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.

## 3 Summary of Significant Accounting Policies (continued)

### 3.15 Mutual cancellations

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

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

### 3.16 Employee benefits

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

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

***Pension costs.*** In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group.

### 3.17 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****.* 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.

***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.

## 3 Summary of Significant Accounting Policies (continued)

### 3.17 Financial assets and liabilities (continued)

***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.

### 3.18 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.

### 3.19 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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Impairment of property, plant and equipment.*** The Group performs impairment testing of property plant and equipment if there are indicators that potential impairment may exist. In 2011 and 2010 there were no impairment indicators; therefore the Group did not perform an impairment test of property, plant and equipment.

***Valuation and impairment of available-for-sale and trading investments.*** As of 31 December 2011 and 2010 the investments in bonds and shares JSC Acron and shares JSC Sberbank were determined by reference to the current market value in line with requirements of IAS 39, Financial Instruments: Recognition and Measurement. Although the free float and volume of trades of investments in JSC Acron securities is not significant, its quoted prices are readily and regularly available from the stock exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines that available-for-sale 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 judgment. In making this judgment, 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 2011 and 2010 no impairment was required.

## 5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. This amendment does not have a material effect on the Group's consolidated financial statements;

- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment is not relevant to the Group;

- 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). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment does not have a material effect on the Group's consolidated financial statements;

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow the previous GAAP carrying value to be used as the deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as the deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of the revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose the carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in the classification of financial assets or changes in the business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify the measurement of the fair value of award credits. These amendments do not have a material effect on the Group's consolidated financial statements;

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendment is not currently applicable to the Group.

## 6 New Accounting Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and have not been early adopted:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, with earlier application permitted).
- 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).
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).
- IFRS 10, Consolidated financial statements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013 with earlier application permitted).
- IFRS 11, Joint arrangements (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- IFRS 12, Disclosure of interests in other entities (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- IFRS 13, Fair Value Measurement (issued in May 2011, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).
- Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013).
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).
- Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

The Group is currently assessing the impact of the new standards, amendments to standards and interpretations on its consolidated financial statements, however they 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 whereby "Dorogobuzh" is the only operating and reportable segment, representing manufacturing and distribution of chemical fertilisers by JSC Dorogobuzh. "Other" represents represents certain logistic, service and management operations.

*(in millions of Russian Roubles)*

## 7 Segment Information (continued)

The Group's segment is a strategic business unit that focus on different customers. It is managed as one business unit due to its significant business and risk profile.

Segment financial information is presented and reviewed by the CODM based on the IFRS and includes revenues from sales and the measure of operating profit adjusted by depreciation and amortisation, foreign exchange gain or loss, other non-cash and extraordinary items (EBITDA).

The CODM evaluates performance of the segment based on 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 2011 is set out below:

| | Dorogobuzh | Eliminations | Other | Total |
|---|---|---|---|---|
| Revenue | 16,657 | (715) | 787 | **16,729** |
| EBITDA | 6,195 | - | (22) | **6,173** |

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

| | Dorogobuzh | Eliminations | Other | Total |
|---|---|---|---|---|
| Revenue | 10,963 | (634) | 709 | **11,038** |
| EBITDA | 2,601 | - | (16) | **2,585** |

Reconciliation of EBITDA to Profit Before Tax:

| | 2011 | 2010 |
|---|---|---|
| Profit Before Tax | 11,208 | 2,990 |
| Less: Share of profit of associate | (127) | (144) |
| Add: Interest expense | 269 | 384 |
| Less: Finance income | (999) | (603) |
| **Operating Profit** | **10,351** | **2,627** |
| Depreciation and amortization | 368 | 330 |
| Foreign currency (gains)/losses | (117) | 36 |
| Add: Gain on sale of investments | (4,436) | (425) |
| Add: Loss on disposal of property, plant and equipment | 7 | 17 |
| **Total consolidated EBITDA** | **6,173** | **2,585** |

| | 2011 | 2010 |
|---|---|---|
| Revenue | | |
| Russia | 5,049 | 3,893 |
| Americas | 4,760 | 1,712 |
| Commonwealth of Independent States | 4,012 | 2,338 |
| European Union | 2,173 | 2,755 |
| Other regions | 678 | 151 |
| China | 57 | 189 |
| **Total** | **16,729** | **11,038** |

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

Revenue from sales of chemical fertilisers account for 96% of total revenues (2010: 94%).

In 2011 revenues from customers which represent 10% of more of the total revenues were from Agronova Europe AG and Agronova International Inc., in the amount of RUB 6,743 (2010: RUB 1,763) and RUB 186 (2010: RUB 1,498) respectively.

## 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 2011 and 2010 are detailed below.

*(in millions of Russian Roubles)*

## 8 Balances and Transactions with Related Parties (continued)

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

### i Balances with related parties

| Consolidated statement of financial position caption | Notes | Relationship | 2011 | 2010 |
|---|---|---|---|---|
| Trade and other receivables, gross | | Parent company | 11 | 10 |
| | | Parties under common control | 358 | 14 |
| Interest receivable | 10 | Parties under common control | 692 | 202 |
| Investments in associate | 14 | Parties under common control | 1,466 | 1,322 |
| Prepayments | | Parties under common control | 161 | 140 |
| Loans receivable | 11 | Parties under common control | 11,655 | 3,997 |
| Trade payables | | Parent company | (65) | (6) |
| | | Parties under common control | (30) | (6) |
| Advances from customers | | Parties under common control | (281) | (623) |
| Trading investments (bonds) | 16 | Parent company | 1,016 | 1,299 |
| Available for sale investments (securities)* | 15 | Parent company | - | 4,022 |

* Available for sale investments (AFS) are disclosed at fair value.

### ii Transactions with related parties

| Consolidated statement of comprehensive income caption | Notes | Relationship | 2011 | 2010 |
|---|---|---|---|---|
| Sales of chemical fertilizers, other goods and services | | Parent company | 108 | 368 |
| | | Parties under common control | 11,188 | 6,038 |
| Share profit in associate | | Parties under common control | 127 | 144 |
| Purchases of raw materials** | | Parent company | (75) | (90) |
| | | Parties under common control | (675) | (462) |
| Purchase of transportation services** | | Parties under common control | (889) | (600) |
| Purchases of securities (bonds, shares)* | | Parent company | 7 | - |
| Sales of securities (bonds, shares) | 15 | Parent company | 434 | 233 |
| | | Parties under common control | - | 318 |
| Maintenance of social infrastructure | 24 | Parties under common control | (205) | - |
| Dividend income | | Parent company | 175 | 100 |
| **Consolidated statement of changes in equity caption** | | | | |
| Dividends declared | | Parent company | 27 | 1 |
| | | Parties under common control | 21 | 4 |

* Purchase transaction is disclosed at cost.

** Included in purchases of raw materials and transportation services are agency fees of 165 RUB (2010: 74 RUB) and 244 RUB (2010: 75 RUB) correspondingly.

As at 31 December 2011 and 2010, included in other assets certain bank deposits of the Group which are restricted as guarantees to the banks related to credit agreement between HSBC Bank (China), Raiffeisen Bank International AG and one of the subsidiaries of a JSC Acron in China in the amount of RUB 1,121 (2010: RUB 403).

These deposits are classified as other current and non-current assets in the consolidated Group financial statements based on their respective maturities. As at 31 December 2011 such bank deposits in the amount of RUB 354 were classified as short-term (2010: nil) and RUB 767 - as long-term (2010: RUB 403).

### iii Cross shareholding

At 31 December 2011 the Company, a 85.54% subsidiary of the JSC Acron (2010: 73.90%), did not own shares of JSC Acron (2010: 3,540,060 shares or 7.42%).

### iv Loans issued

At 31 December 2011 short-term loans to parent company and parties under common control denominated in RUB totalled RUB 459 and (2010: RUB 333), at interest rates in the range of 8.25% to 8.8% (2010: 8.25% to 8.8%).The loans were unsecured.

At 31 December 2011 long-term loans to parties under common control totalled RUB 11,196 (2010: RUB 3,664), interest rates in the range of 8.8% to 9.0% (2010: 8.8% to 9.0%). The loans are unsecured.

*(in millions of Russian Roubles)*

## 8 Balances and Transactions with Related Parties (continued)

In 2011 the Group earned interest income of RUB 589 (2010: RUB 253) as follows:

| | Relationship | 2011 | 2010 |
|---|---|---|---|
| Interest income | Parent company | 10 | 92 |
| | Parties under common control | 579 | 161 |
| **Total** | | **589** | **253** |

### v Key management personnel compensation

Total key management personnel compensation in the amount of RUB 102 (2010: RUB 92) was recorded in general and administrative expenses. Related state social and pension costs amounted to RUB 1 (2010: RUB 1).

## 9 Cash and Cash Equivalents

| | 2011 | 2010 |
|---|---|---|
| Cash on hand and bank balances denominated in RUB | 644 | 1,035 |
| Bank balances denominated in USD | 1,265 | 563 |
| Bank balances denominated in EUR | 53 | 100 |
| **Total cash and cash equivalents** | **1,962** | **1,698** |

Cash and cash equivalents include term deposits of RUB 1,249 (2010: RUB 850).

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:

| | 2011 | 2010 |
|---|---|---|
| A to AAA* rated | 37 | - |
| BB- to BBB+* rated | 1,636 | 1,677 |
| Unrated | 289 | 21 |
| **Total** | **1,962** | **1,698** |

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

## 10 Accounts Receivable

| | 2011 | 2010 |
|---|---|---|
| Trade accounts receivable | 459 | 272 |
| Interest receivable | 753 | 250 |
| Less: impairment provision | (46) | (47) |
| **Total financial assets** | **1,166** | **475** |
| | | |
| Advances to suppliers | 429 | 383 |
| Value-added tax receivable | 688 | 549 |
| Income tax prepayments | - | 1 |
| Other taxes receivable | 1 | 1 |
| Less: impairment provision | (1) | (1) |
| **Total accounts receivable** | **2,283** | **1,408** |

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

As of 31 December 2011, trade and other accounts receivable of RUB 47 (2010: RUB 48) 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:

| | 2011 | 2010 |
|---|---|---|
| Less than 3 months | - | - |
| From 3 to 9 months | (1) | (1) |
| From 9 to 12 months | (4) | (3) |
| Over 12 months | (42) | (44) |
| **Total gross amount of impaired accounts receivable** | **(47)** | **(48)** |

*(in millions of Russian Roubles)*

## 10 Accounts Receivable (continued)

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Trade receivables** | **Other debtors** | **Trade receivables** | **Other debtors** |
| **Provision for impairment at 1 January** | **(47)** | **(1)** | **(46)** | **(1)** |
| Provision for impairment | - | - | (6) | - |
| Provision used | - | - | 1 | - |
| Provision reversed | 1 | - | 4 | - |
| **Provision for impairment at 31 December** | **(46)** | **(1)** | **(47)** | **(1)** |

The Group does not hold any collateral as security.

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

As of 31 December 2011, trade and other accounts receivables of RUB 32 (2010: RUB 66) were past due but not impaired. The aging analysis of these receivables from past due is as follows:

| | **2011** | **2010** |
|---|---|---|
| Less than 3 months | - | - |
| From 3 to 9 months | 24 | 22 |
| From 9 to 12 months | 3 | 1 |
| Over 12 months | 5 | 43 |
| **Trade and other accounts receivable past due not impaired** | **32** | **66** |

Analysis by credit quality of trade receivables is as follows:

| | **2011** | **2010** |
|---|---|---|
| *Current and not impaired – exposure to:* | | |
| - Foreign customers | 262 | 158 |
| - Small individual Russian companies and farms | 119 | 28 |
| **Total current and not impaired** | **381** | **186** |

Included in interest receivable RUB 692 (2010: RUB 202) is interest on loans issued to parties under common control (Note 8). Based on management assessment the risk of default associated with these receivables is considered low, due to all notes receivable are issued to parties under common control of Acron Group that has a long standing credit history of in Russia and worldwide.

## 11 Loans Receivable

| | **2011** | **2010** |
|---|---|---|
| **Short-term loans receivable** | | |
| Loans issued to related parties (refer to Note 8) | 459 | 333 |
| Loans issued to third parties | 42 | 45 |
| | **501** | **378** |
| **Long-term loans receivable** | | |
| Loans issued to related parties (refer to Note 8) | 11,196 | 3,664 |
| Loans issued to third parties | 14 | - |
| | **11,210** | **3,664** |

Loans receivable contain neither impaired nor overdue assets as of 31 December 2011 and 31 December 2010. No provision for impairment was recognised for loans receivable as of the respective dates.

At 31 December 2011 and 2010 short-term loans totalled RUB 501 and RUB 378 respectively, at interest rates in the range of 8.25% to 8.8% (2010: 8.25% to 8.8%). The loans were unsecured.

At 31 December 2011 and 2010 long-term loans totalled RUB 11,210 and RUB 3,664 respectively, at interest rates in the range of 8.8% to 9.0% (2010: 8.8% to 9.0%). The loans were unsecured.

The major part of loans receivable in RUB 11,655 (2010: RUB 3,997) is issued to parties under common control of Acron Group (Note 8). Based on management assessment the risk of default associated with these receivables is considered low as the parent company has long standing credit history in Russia and worldwide.

In 2011 the Group accrued interest income on loan receivable of RUB 593 (2010: RUB 260).

*(in millions of Russian Roubles)*

## 12 Inventories

| | 2011 | 2010 |
|---|---|---|
| Raw materials and spare parts | 1,143 | 798 |
| Work in progress | 56 | 65 |
| Finished products | 273 | 377 |
| | **1,472** | **1,240** |

Raw materials and spare parts are shown net of write-down of RUB 37 (2010: RUB 31). No inventory was pledged as security at 31 December 2011 and 2010.

## 13 Property, Plant and Equipment

| | Buildings and constructions | Plant and equipment | Transport | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 January 2011** | **5,651** | **5,226** | **748** | **41** | **901** | **12,567** |
| Additions | - | - | - | - | 411 | **411** |
| Transfers | 94 | 157 | 44 | 1 | (296) | **-** |
| Disposals | (37) | (31) | (8) | (2) | - | **(78)** |
| **Balance at 31 December 2011** | **5,708** | **5,352** | **784** | **40** | **1,016** | **12,900** |
| **Accumulated Depreciation** | | | | | | |
| **Balance at 1 January 2011** | **3,894** | **4,101** | **129** | **19** | **-** | **8,143** |
| Depreciation charge | 100 | 215 | 50 | 3 | - | **368** |
| Disposals | (33) | (31) | (6) | (1) | - | **(71)** |
| **Balance at 31 December 2011** | **3,961** | **4,285** | **173** | **21** | **-** | **8,440** |
| **Net Book Value** | | | | | | |
| **Balance at 1 January 2011** | **1,757** | **1,125** | **619** | **22** | **901** | **4,424** |
| **Balance at 31 December 2011** | **1,747** | **1,067** | **611** | **19** | **1,016** | **4,460** |

| | Buildings and constructions | Plant and equipment | Transport | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 January 2010** | **5,873** | **5,070** | **739** | **54** | **864** | **12,600** |
| Additions | - | - | - | - | 490 | **490** |
| Transfers | 84 | 351 | 18 | - | (453) | **-** |
| Disposals | (306) | (195) | (9) | (13) | - | **(523)** |
| **Balance at 31 December 2010** | **5,651** | **5,226** | **748** | **41** | **901** | **12,567** |
| **Accumulated Depreciation** | | | | | | |
| **Balance at 1 January 2010** | **4,099** | **4,062** | **91** | **14** | **-** | **8,266** |
| Depreciation charge | 99 | 179 | 47 | 5 | - | **330** |
| Disposals | (304) | (140) | (9) | - | - | **(453)** |
| **Balance at 31 December 2010** | **3,894** | **4,101** | **129** | **19** | **-** | **8,143** |
| **Net Book Value** | | | | | | |
| **Balance at 1 January 2010** | **1,774** | **1,008** | **648** | **40** | **864** | **4,334** |
| **Balance at 31 December 2010** | **1,757** | **1,125** | **619** | **22** | **901** | **4,424** |

***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.

In 2011 and 2010 there were no indicators of impairment for major CGUs, therefore no impairment testing was performed for non-current assets.

At 31 December 2011 and 2010 no property, plant and equipment was pledged as security (Note 18).

## 14 Investment in Associate

| | 2011 | 2010 |
|---|---|---|
| **Balance at 1 January** | **1,322** | **1,085** |
| Acquisition of shares | 17 | - |
| Share of profit | 127 | 144 |
| Exchange of investments | - | 71 |
| Fair value gain from Group structure changes | - | 22 |
| **Balance at 31 December** | **1,466** | **1,322** |

*(in millions of Russian Roubles)*

## 14 Investment in Associate (continued)

In 2010 as the restructuring of the Group logistic segment, the Group contributes the 100% interest it held in LLC Andrex, a sea port in Kaliningrad, into LLC Balttrans and JSC Acron contributes 85% of AS BCT, a sea port in Estonia, into LLC Balttrans. This transaction was finalized in December 2010 and as a result of it the Group's interest in LLC Balttrans reduced to from 100% to 35% and the Group recognized a fair value gain of RUB 22 on revaluation of its interest retained in LLC Balttrans.

In 2011 LLC Balttrans purchased the remaining 15% interest in AS BCT for a cash consideration of RUB 42 (1,000,000 Euro). As the result of this acquisition the share ownership of the Group in LLC Balttrans did not change.

At 31 December 2011 and 2010, the Group's interest in the associate and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

2011:

| Name | Total assets | Total liabilities | Revenue | Profit | % interest held | Country of incorporation |
|---|---|---|---|---|---|---|
| LLC Balttrans | 3,840 | 2,760 | 2,033 | 362 | 35% | Russia |

2010:

| Name | Total assets | Total liabilities | Revenue | Profit | % interest held | Country of incorporation |
|---|---|---|---|---|---|---|
| LLC Balttrans | 4,087 | 3,418 | 1,653 | 140 | 35% | Russia |

## 15 Available-for-Sale Investments

| | 2011 | 2010 |
|---|---|---|
| **Balance at 1 January** | 4,304 | 4,716 |
| Additions | 194 | - |
| Fair value gain recognized directly in other comprehensive income | 453 | 1,063 |
| Disposal of shares of JSC Acron | (4,702) | - |
| Disposals | (33) | (1,475) |
| **Balance at 31 December** | **216** | **4,304** |

The Group has investments in the following companies:

| Type | Activity | Country of registration | 2011 | 2010 |
|---|---|---|---|---|
| JSC Acron shares | Fertilizers manufacture | Russia | - | 4,021 |
| JSC Sberbank shares | Banking | Russia | 196 | 258 |
| Other | Miscellaneous | Russia | 20 | 25 |
| | | | **216** | **4,304** |

In 2011 the Group disposed of its entire interest in parent company JSC Acron through sale of 342,000 shares to a related party for RUB 434 and 3,303,901 shares on the open market for RUB 4,268 recognizing the net gain on disposal of RUB 4,478 in the statement of comprehensive income.

In 2011 the Group also recognised a RUB 8 loss on disposal of portion of Sberbank shares (2010: nil).

In 2010 the Group sold all of its investments in JSC Acron bonds realising a gain on sale of RUB 515.

The fair value of investments was determined by reference to the current market value at the close of business on 31 December 2011. The share price quoted by MICEX for JSC Acron shares amounted to 1,136 roubles per share at 31 December 2010, for Sberbank shares 79.32 roubles per share at 31 December 2011 (31 December 2010: 104.19 roubles per share).

## 16 Trading Investments

| | 2011 | 2010 |
|---|---|---|
| Corporate bonds | 1,283 | 1,621 |
| Promissory notes | - | 150 |
| **Total debt securities** | 1,283 | 1,771 |
| Corporate shares | - | 106 |
| **Total trading investments** | **1,283** | **1,877** |

*(in millions of Russian Roubles)*

## 16 Trading Investments (continued)

Trading investments are carried at fair value which also reflects any credit risk related write-downs. Trading investments are carried at their fair values based on observable market data using bid prices from MICEX/RTS stock exchange.

In 2011 the group realized a net loss of RUB 34 on trading investments (2010: net gain of RUB 90).

Analysis by credit quality of trading securities outstanding at 31 December 2011 and 2010 is as follows:

2011:

| | Eurobonds | Corporate bonds | Promissory notes | Total debt securities | Corporate shares | Total |
|---|---|---|---|---|---|---|
| - B1 rated | - | 1,016 | - | 1,016 | - | **1,016** |
| - B2 rated | 108 | - | - | 108 | - | **108** |
| - B3 rated | 32 | - | - | 32 | - | **32** |
| - B rated | 54 | - | - | 54 | - | **54** |
| - Caa2 rated | 12 | - | - | 12 | - | **12** |
| - Unrated | 27 | 34 | - | 61 | - | **61** |
| **Total** | **233** | **1,050** | **-** | **1,283** | **-** | **1,283** |

2010:

| | Eurobonds | Corporate bonds | Promissory notes | Total debt securities | Corporate shares | Total |
|---|---|---|---|---|---|---|
| - B1 rated | 12 | 1,299 | - | 1,311 | - | **1,311** |
| - B2 rated | 123 | 11 | - | 134 | - | **134** |
| - B3 rated | 55 | - | - | 55 | - | **55** |
| - Ba1 rated | 6 | - | - | 6 | - | **6** |
| - B rated | 92 | - | - | 92 | - | **92** |
| - Caa2 rated | 23 | - | - | 23 | - | **23** |
| - Unrated | - | - | 150 | 150 | 106 | **256** |
| **Total** | **311** | **1,310** | **150** | **1,771** | **106** | **1,877** |

None of the securities are past due or impaired as of 31 December 2011 and 2010.

## 17 Accounts Payable

| | 2011 | 2010 |
|---|---|---|
| Trade accounts payable | 411 | 112 |
| Dividends payable | 3 | 8 |
| **Total financial payables** | **414** | **120** |
| Payables to employees | 159 | 105 |
| Accrued liabilities and other creditors | 9 | 8 |
| **Total accounts payable and accrued expenses** | **582** | **233** |

## 18 Other Taxes Payable

| | 2011 | 2010 |
|---|---|---|
| Value-added tax payable | 11 | 24 |
| Payroll taxes | 24 | 21 |
| Property and other taxes payable | 14 | 13 |
| | **49** | **58** |

## 19 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

| | 2011 | 2010 |
|---|---|---|
| Credit lines | 1,288 | - |
| Term loans | 4,668 | 5,760 |
| | **5,956** | **5,760** |

*(in millions of Russian Roubles)*

## 19 Short-Term and Long-Term Borrowings (continued)

At 31 December 2011 and 2010 all of the Group’s borrowings are denominated in U.S. dollars and mature as follows:

| | 2011 | 2010 |
|---|---|---|
| Borrowings due: | | |
| - within 1 year | 834 | 457 |
| - between 1 and 5 years | 5,122 | 5,303 |
| | **5,956** | **5,760** |

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 2011 the fair value of the borrowings was RUB 339 lower than their carrying amounts (2010: RUB 306).

At 31 December 2011 unused credit lines available under the long-term loan facilities were RUB 3,644 (2010: RUB 232). The terms and conditions of unused credit lines are consistent with other borrowings disclosed in Note 19.

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

| **Short-term borrowings** | **2011** | **2010** |
|---|---|---|
| **USD** | | |
| Loans with fixed interest rates of 5.2% to 6.75% per annum | 805 | 457 |
| Loan with variable interest rate of 1M LIBOR+3.8% per annum | 29 | - |
| **Total short-term borrowings** | **834** | **457** |

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

| **Long-term borrowings** | **2011** | **2010** |
|---|---|---|
| **USD** | | |
| Loans with fixed interest rate of 6.2% to 6.75% per annum | 3,220 | 4,358 |
| Loans with floating interest rates of 1M LIBOR+3.8% | 1,902 | 945 |
| **Total long-term borrowings** | **5,122** | **5,303** |

Out of the total borrowings, the loan agreements for a total of RUB 5,313 (2010: RUB 3,992) 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.

Out of the total borrowings, the loan agreements for a total of RUB 5,956 (2010: RUB 5,760) 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 agreements also contain 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 borrower with the banks to ensure repayment of the borrowings.

## 20 Share Capital

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

The total authorised number of ordinary shares is 721,182,860 shares (2010: 721,182,860).

The total authorised number of preferred shares is 154,256,400 shares (2010: 154,256,400).

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 2010** | **721,182,860** | **1,380** | **94** | **154,256,400** | **356** |
| **At 31 December 2011** | **721,182,860** | **1,380** | **94** | **154,256,400** | **356** |

*(in millions of Russian Roubles)*

## 20 Share Capital (continued)

Preferred shares carry has 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.

Preferred shares 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.

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 2011 no dividends were declared in respect of 2010 financial year per ordinary share (2010: nil) and rouble 1 per preferred share (2010: 0.20 rouble).

## 21 Cost of Sales

| | **2011** | **2010** |
|---|---|---|
| Change in inventories of finished goods and work in progress | 113 | (198) |
| Staff costs | 1,101 | 820 |
| Materials and components used | 2,296 | 2,109 |
| Fuel and energy | 773 | 690 |
| Natural gas | 2,673 | 2,211 |
| Depreciation and amortization | 368 | 330 |
| Production overheads | 32 | 58 |
| Repairs and maintenance | 998 | 982 |
| Social expenditure | 96 | 87 |
| | **8,450** | **7,089** |

## 22 Selling, General and Administrative Expenses

| | **2011** | **2010** |
|---|---|---|
| Staff costs | 526 | 476 |
| Provision for/Reversal of bad debt provision | (1) | 2 |
| Business trips expenses | 23 | 18 |
| Audit, legal and consulting services | 33 | 23 |
| Taxes other than income tax | 93 | 64 |
| Bank services | 68 | 88 |
| Insurance | 17 | 15 |
| Buildings maintenance and rent | 39 | 58 |
| Security | 93 | 83 |
| Telecommunication costs | 17 | 15 |
| Representation expenses | 8 | 6 |
| Other expenses | 52 | 135 |
| | **968** | **983** |

## 23 Finance Income, net

| | **2011** | **2010** |
|---|---|---|
| Interest income | 840 | 478 |
| Dividend income | 184 | 102 |
| Foreign exchange gain | 886 | 404 |
| Foreign exchange loss | (911) | (381) |
| | **999** | **603** |

## 24 Other Operating (Expense)/income, net

| | **2011** | **2010** |
|---|---|---|
| Other(loss)/income | (279) | 172 |
| Foreign exchange gain | 789 | 338 |
| Foreign exchange loss | (672) | (375) |
| Loss on disposal of property, plant and equipment | (7) | (17) |
| | **(169)** | **118** |

Included in 2011 other loss RUB 205 of expenses related to maintenance of social infrastructure (2010: nil).

*(in millions of Russian Roubles)*

## 25 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 20).

| | 2011 | 2010 |
|---|---|---|
| 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 preferred shareholders | (154) | (31) |
| **Total dividends for the year** | **(154)** | **(31)** |
| | | |
| Profit attributable to ordinary shareholders | 7,560 | 1,897 |
| Profit attributable to preferred shareholders | 1,771 | 437 |
| Profit for the year | **9,331** | **2,334** |
| Basic and diluted earnings per ordinary share (in RUB) | **10.48** | **2.63** |
| Basic and diluted earnings per preferred share (in RUB) | **11.48** | **2.83** |

## 26 Income Taxes

| | 2011 | 2010 |
|---|---|---|
| Income tax expense – current | 1,772 | 570 |
| Deferred tax charge – origination and reversal of temporary differences | 105 | 86 |
| **Income tax charge** | **1,877** | **656** |

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

| | 2011 | 2010 |
|---|---|---|
| **Profit before taxation** | **11,208** | **2,990** |
| Theoretical tax charge at statutory rate of 20% thereon (2010: 20%) | 2,242 | 598 |
| Tax effect of non deductable expenses and non taxable income: | | |
| Non taxable profit | (37) | (20) |
| Effect of 4.5% tax incentive granted to Dorogobuzh, by regional authorities | (498) | - |
| Tax effect of items which are not deductible for taxation purposes | 170 | 78 |
| **Income tax charge** | **1,877** | **656** |

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% (2010: 20%).

| | 31 December 2010 | (Charged)/ credited to profit or loss | Credited to other comprehensive income | 31 December 2011 |
|---|---|---|---|---|
| **Tax effects of taxable temporary differences:** | | | | |
| Property, plant and equipment | 284 | (13) | - | 271 |
| Investments available for sale | 807 | 92 | (805) | 94 |
| Inventories | 34 | (12) | - | 22 |
| Other temporary differences | 57 | 28 | - | 85 |
| | | | | |
| **Tax effects of deductable taxable temporary differences:** | | | | |
| Accounts receivable | (23) | 12 | - | (11) |
| Accounts payable | (11) | (1) | - | (12) |
| Other liabilities | (20) | (1) | - | (21) |
| | | | | |
| **Recognised net deferred tax liability** | **1,128** | **105** | **(805)** | **428** |

*(in millions of Russian Roubles)*

**26 Income taxes (continued)**

| | 31 December 2009 | (Charged)/ credited to profit or loss | Charged to other comprehensive income | 31 December 2010 |
|---|---|---|---|---|
| **Tax effects of taxable temporary differences:** | | | | |
| Property, plant and equipment | 274 | 10 | - | 284 |
| Investments available for sale | 697 | - | 110 | 807 |
| Inventories | 14 | 20 | - | 34 |
| Other temporary differences | - | 57 | - | 57 |
| **Tax effects of deductable taxable temporary differences:** | | | | |
| Accounts receivable | (23) | - | - | (23) |
| Accounts payable | (10) | (1) | - | (11) |
| Other liabilities | (20) | - | - | (20) |
| **Recognised net deferred tax liability** | **932** | **86** | **110** | **1,128** |

Substantially all deferred assets and liabilities presented in the statement of financial position are expected to be realised after more than 12 months from the reporting date.

## 27 Contingencies, Commitments and Operating Risks

### i Contractual commitments and guarantees

As at 31 December 2011 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RUB 14 (2010: RUB 40).

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 2011 and 2010, the Group had certain bank deposits restricted as guarantees to the banks related to credit agreement between HSBC Bank (China), Raiffeisen Bank International AG and one of the subsidiaries of a JSC Acron in China in the amount of RUB 1,121 (2010: RUB 403) (Note 8).

### 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. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

In 2010 and at the beginning of 2011, 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 RUB against major foreign currencies, and increased liquidity levels in the banking sector.

Starting from the second half of 2011 the volatility in the currency, equity and commodities markets has increased following the uncertainties in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments.

Debtors of the Group may also become adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed or fulfill the obligations undertaken.

Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

## 27 Contingencies, Commitments and Operating Risks (continued)

### iii Operating environment of the Group

Management is unable to predict all developments in the economic environment which could have an impact on the industry and 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. The Group believes it is taking all necessary measures to support the sustainability and growth of it’s business in the current circumstances.

### 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.

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 enacted during the current period is effective for new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also allows the tax authorities to make transfer pricing adjustments and to 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 of 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. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice.

Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that may be challenged by the tax authorities, the impact of which cannot be reliably estimated; however, it may be significant to the financial condition or the overall operations of the Group.

As at 31 December 2011 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2011 no provision for potential tax liabilities had been recorded (2010: no provision).

Management estimates that the Group has no possible obligations from exposure to other than remote tax risks (2010: no obligations).

### iv 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.

*(in millions of Russian Roubles)*

## 28 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RUB 29 (2010: RUB 60). These transactions primarily represent cancellation of mutual balances with customers within the operating cycle.

## 29 Financial and Capital Risk Management

### 29.1 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 2011 and 31 December 2010:

| | **2011** | | | |
|---|---|---|---|---|
| | **Loans and receivables** | **Available-for-sale assets** | **Held for trading assets** | **Total** |
| **ASSETS** | | | | |
| ***Cash and cash equivalents (Note 9)*** | | | | |
| - Cash on hand and bank balances | 1,962 | - | - | **1,962** |
| ***Trade and other receivables (Note 10)*** | | | | |
| - Trade receivables | 413 | - | - | **413** |
| - Interest receivable | 753 | - | - | **753** |
| ***Loans receivable (Note 11)*** | | | | |
| - Short term loans receivable | 501 | - | - | **501** |
| - Long term loans receivable | 11,210 | - | - | **11,210** |
| ***Trading investments (Note 16)*** | - | - | 1,283 | **1,283** |
| ***Available-for-sale investments (Note 15)*** | | | | |
| - Corporate shares and bonds | - | 216 | - | **216** |
| ***Other non-current assets*** | | | | |
| - Restricted deposits (Note 8) | 767 | - | - | **767** |
| ***Other current assets*** | | | | |
| - Restricted deposits (Note 8) | 354 | - | - | **354** |
| **TOTAL FINANCIAL ASSETS** | **15,960** | **216** | **1,283** | **17,459** |

| | **2010** | | | |
|---|---|---|---|---|
| | **Loans and receivables** | **Available-for-sale assets** | **Held for trading assets** | **Total** |
| **ASSETS** | | | | |
| ***Cash and cash equivalents (Note 9)*** | | | | |
| - Cash on hand and bank balances | 1,698 | - | - | **1,698** |
| ***Trade and other receivables (Note 10)*** | | - | - | |
| - Trade receivables | 225 | - | - | **225** |
| - Interest receivable | 250 | - | - | **250** |
| ***Loans receivable (Note 11)*** | | | | |
| - Short term loans receivable | 378 | - | - | **378** |
| - Long term loans receivable | 3,664 | - | - | **3,664** |
| ***Trading investments (Note 16)*** | - | - | 1,877 | **1,877** |
| ***Available-for-sale investments (Note 15)*** | | | | |
| - Corporate shares and bonds | - | 4,304 | - | **4,304** |
| ***Other non-current assets*** | | | | |
| - Restricted deposits(Note 8) | 403 | - | - | **403** |
| **TOTAL FINANCIAL ASSETS** | **6,618** | **4,304** | **1,877** | **12,799** |

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.

## 29 Financial and Capital Risk Management (continued)

### 29.1 Financial risk management (continued)

***(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 entity's 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 entity.

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. 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 expressed in thousands USD and EUR:

| **At 31 December 2011** | **USD** | **EUR** |
|---|---|---|
| **Financial assets:** | | |
| Cash and cash equivalents | 1,265 | 53 |
| Accounts receivable | 261 | - |
| | **1,526** | **53** |
| **Financial liabilities:** | | |
| Accounts payable and other liabilities | - | (125) |
| Borrowings | (5,956) | - |
| | (5,956) | (125) |
| **Net position** | **(4,430)** | **(72)** |

| **At 31 December 2010** | **USD** | **EUR** |
|---|---|---|
| **Financial assets:** | | |
| Cash and cash equivalents | 563 | 100 |
| Accounts receivable | 159 | - |
| | **722** | **100** |
| **Financial liabilities:** | | |
| Accounts payable and other liabilities | (6) | - |
| Borrowings | (5,760) | - |
| | (5,766) | - |
| **Net position** | **(5,044)** | **100** |

The Group relies on export sales to generate foreign currency earnings. As the Group sells 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.

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.

| | **2011** | **2010** |
|---|---|---|
| *Impact on post-tax profit and on equity of:* | | |
| USD strengthening by 10% | (368) | (394) |
| USD weakening by 10% | 368 | 394 |

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.

## 29 Financial and Capital Risk Management (continued)

### 29.1 Financial risk management (continued)

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

***(ii) Interest rate risk***

Interest rate risk arises from movements in interest rates which could affect the Group’s financial results or the value of the Group’s equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group’s interest rate management is to protect the net interest result. Interest risk management is carried out by the corporate finance and corporate treasury functions of the Group.

All entities of the Group obtain any required financing through the corporate treasury function of the Group in the form of loans. Generally, the same concept is adopted for deposits of cash generated by the units.

Monitoring of current market interest rates and analysis of the Group’s interest-bearing position is performed by 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.

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 2011 and 2010 borrowings at variable rates amounted to RUB 1,902 and RUB 945 respectively (Note 19).

At 31 December 2011, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RUB 21 (2010: RUB 7) 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 and trading as of 31 December 2011 and 31 December 2010, respectively (Note 15). 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 2011 and 31 December 2010.

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 17,243 (2010: RUB 8,495) resulting from financial assets is equal to the carrying amount of the Group’s financial assets, including loans receivable, cash and cash equivalents, debt securities and restricted deposits. 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 and 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 millions of Russian Roubles)*

## 29 Financial and Capital Risk Management (continued)

### 29.1 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 2011 the Group had only one counterparty - Agronova Europe AG, with aggregated receivables balances of in excess of 10% of the Group’s gross accounts receivable balances (2010: none). The total aggregate amount of these balances was RUB 262 (2010: nil) or 11% of the gross amount of trade and other receivables (2010: nil).

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 borrowings, 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 16) and available-for-sale investments (Note 15). Management estimates that the liquidity portfolio comprising 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 | Total |
|---|---|---|---|---|---|
| **As of 31 December 2011** | | | | | |
| Term loans* (Note 19) | 66 | 699 | 844 | 3,789 | **5,398** |
| Credit lines* (Note 19) | 340 | 46 | 371 | 679 | **1,436** |
| Trade payables (Note 17) | 411 | - | - | - | **411** |
| Restricted deposits (Note 27) | 354 | - | 767 | - | **1,121** |
| **Total future payments, including future principal and interest payments** | **1,171** | **745** | **1,982** | **4,468** | **8,366** |

| | Demand and less than 3 months | From 3 to 12 months | From 12 months to 2 years | From 2 years to 5 years | Total |
|---|---|---|---|---|---|
| **As of 31 December 2010** | | | | | |
| Credit lines * (Note 19) | 87 | 711 | 3,385 | 2,402 | **6,585** |
| Trade payables (Note 17) | 104 | 8 | - | - | **112** |
| Dividends and other distributions to shareholders (Note 25) | - | 8 | - | - | **8** |
| Restricted deposits (Note 27) | - | - | 403 | - | **403** |
| **Total future payments, including future principal and interest payments** | **191** | **727** | **3,788** | **2,402** | **7,108** |

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2011 and 31 December 2010, respectively.

*(in millions of Russian Roubles)*

## 29 Financial and Capital Risk Management (continued)

### 29.1 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 2011 unused credit lines available under long-term loan facilities were RUB 3,644 (2010: RUB 232).

### 29.2 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 2011, the Group's strategy, which was unchanged from 2011, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as of 31 December 2011 and 31 December 2010 is shown in the table below:

| | **2011** | **2010** |
|---|---|---|
| Long-term borrowings | 5,122 | 5,303 |
| Short-term borrowings | 834 | 457 |
| **Total debt** | **5,956** | **5,760** |
| **Shareholders' equity** | **18,601** | **12,644** |
| **Gearing ratio, %** | **32.0%** | **45.6%** |

The Group also maintains an optimal capital structure by maintaining certain capital requirements based on the minimum level of EBITDA/net interest expense ratio.

In 2011, the Group's strategy, which was unchanged from 2010, was to maintain EBITDA/net interest expense ratio at the level not lower than 4:1. Refer to Note 7 for definition of EBITDA. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 19).

The ratio of EBITDA/net interest expense as of 31 December 2011 and 31 December 2010 is shown in the table below:

| | **2011** | **2010** |
|---|---|---|
| **EBITDA (Note 7)** | **6,173** | **2,585** |
| Interest income (Note 23) | (840) | (478) |
| Interest expense | 269 | 384 |
| **Net interest expense** | **(571)** | **(94)** |
| **EBITDA/Net interest expense** | **11:1** | **28:1** |

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 19) and imposed by the statutory legislation of the Russian Federation.

## 30 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.

This Group discloses the value of financial instruments that are measured in the consolidated statement of financial position at fair value by three levels in accordance with IFRS 7.

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-sale and trading financial instruments of the Group were included in level 1 category in the amount of RUB 1,499 (2010: RUB 6,181).

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 2011 the fair value of borrowings was RUB 339 lower than their carrying amounts (2010: RUB 306).

## 31 Subsequent Events

Subsequent to 31 December 2011 the Group received new bank loans in the amount RUB 2,845 as well as paid off RUB 293 on existing credit facilities.