

AUDIT REPORT
on JSC Dorogobuzh Consolidated Financial
Statements
for the Year 2008

Moscow, 2009

AUDITOR

- (1) **Name:** LLC Baker Tilly Russaudit
- (2) **Domicile:** 95 Prospect Mira, 129085 Moscow, Russia.
- (3) **Phone No.:** + 7 495 788 09 06, +7 495 647 24 20.
Fax No.: +7 495 647 24 22.
- (4) **License:**

for **general audit** No. E006075 issued by Order No. 158 of the Ministry of Finance of the Russian Federation as of June 24, 2004; the License is valid for the period of five years upon the date of its issuance.
- (5) **Certificate of State Registration** No. 015.468 dd. September 8, 1992 issued by the Moscow Registration Chamber; main state registration number (OGRN) 1037700117949.
- (6) **Membership with accredited professional audit associations:**
 - Institute of Professional Auditors, a non-profit partnership;
 - Institute of Professional Accountants of Russia, a non-profit partnership,**as well as:**

Baker Tilly International (an independent member).

AUDITED COMPANY

- (7) **Name:** JSC Dorogobuzh
- (8) **Domicile:** Verkhnedneprovsky settlement, Dorogobuzh District, Smolensk Region, 215753, Russia
- (9) **Certificate of State Registration:**
- Certificate of State Registration No. 6 dd. July 30, 1997 issued by the Head of the Dorogobuzh District Administration.
 - Entry made to the Unified State Register of Legal Entities regarding the legal entity registered prior to July 1, 2002 (certificate of an entry made to the Unified State Register of Legal Entities dd. September 24, 2002, series 67 No. 000520905);

AUDITOR'S REPORT

to the owners and other users

of Consolidated Financial Statements (accounts) of

JSC Dorogobuzh

- (10) We have audited the accompanying financial statements (accounts) of JSC Dorogobuzh for the year 2008 issued on March 20, 2009. These statements have been prepared by Dorogobuzh's executive body on the basis of the accounting and reporting principles and methods established under the laws and regulations of the Russian Federation.
- (11) The consolidated financial statements (accounts) of Dorogobuzh include:
- Consolidated Balance Sheet;
 - Consolidated Profit and Loss Statement;
 - Supplements to the Consolidated Balance Sheet and Profit and Loss Statement;
 - Explanatory Note to consolidated statements.
- (12) These financial statements are the responsibility of JSC Dorogobuzh executive body. Our responsibility is to express an opinion, based on our audit, whether these financial statements are true and fair in all material aspects.
- (13) We conducted our audit in accordance with:
- Federal Law of the Russian Federation No. 307-FZ *On auditing activity* dd December 30, 2008;
 - the Federal Audit Rules (Standards);
 - Internal Audit Rules (Standards) of the Institute of Professional Auditors, a non-profit partnership;
 - Internal Audit Rules (Standards) of LLC Baker Tilly Russaudit.

- (14) The audit was planned and performed to obtain reasonable assurance about whether the financial statements (accounts) are free of material misstatement.
- (15) The audit is performed on a random basis and includes examining, on a test basis, evidence supporting the amounts in the financial statements (accounts), as well as disclosures of financial and economic activity. The audit also includes assessing adherence to the accounting principles and rules used for preparation of consolidated financial statements (accounts), consideration of significant estimates made by management of the audited Company, as well as evaluating the overall representation of the financial statements (accounts).
- (16) We believe that our audit provides a reasonable basis for our opinion on whether these consolidated financial statements (accounts) are true and fair.
- (17) In our opinion, Dorogobuzh's consolidated financial statements (accounts) present fairly, in all material respects, Dorogobuzh's financial position as of December 31, 2008, as well as financial results of its operations for the period between January 1 and December 31, 2008 inclusive, in compliance with the Russian law applicable to consolidated accounting and reporting.

Moscow March 30, 2009

LLC Baker Tilly Russaudit

M.B.Pavlova
Deputy General Director

*(Auditor's Qualification Certificate
No.011191, dated February 29, 1996 (Minutes No.104 dated March 28, 2002)
extended for an unlimited period)*

I.A.Zakharyants
Audit Team Leader

*(Auditor's Qualification Certificate
No. K029077, dated November 12, 2008 (Order No.545, dated November 12,
2008)
extended for an unlimited period)*

CONSOLIDATED BALANCE SHEET OF JSC DOROGOBUZH
as of December 31, 2008

Stated in: RUB '000

OKUD Form No.1

0710001

ASSETS	Code	Opening Balance	Closing Balance
1	2	3	4
I. NON-CURRENT ASSETS			
Intangible assets	110	115 465	115 348
<i>incl. subsidiaries goodwill</i>	<i>111</i>	<i>114 439</i>	<i>114 439</i>
Fixed assets	120	1 225 586	2 257 227
Construction in progress	130	785 391	900 593
Income-bearing investments in tangible assets	135	-	-
Long-term financial investments	140	5 313 657	1 622 209
Deferred tax assets	145	2 713	1 769
Other non-current assets	150	-	-
TOTAL under Section I	190	7 442 812	4 897 146
II. CURRENT ASSETS			
Inventories	210	1 084 292	1 398 580
<i>incl.:</i>			
<i>feedstock, raw materials and similar assets</i>	<i>211</i>	<i>777 231</i>	<i>971 964</i>
<i>rearers and feeders</i>	<i>212</i>	<i>19 761</i>	<i>12 991</i>
<i>cost of work in progress</i>	<i>213</i>	<i>97 481</i>	<i>69 737</i>
<i>finished goods and goods for resale</i>	<i>214</i>	<i>131 794</i>	<i>322 243</i>
<i>goods shipped</i>	<i>215</i>	<i>44 489</i>	<i>1 856</i>
<i>prepaid expenses</i>	<i>216</i>	<i>13 406</i>	<i>19 789</i>
<i>other inventories and costs</i>	<i>217</i>	<i>130</i>	<i>-</i>
Input value added tax	220	71 676	97 062
Accounts receivable (due more than 12 months after the accounting date)	230	666	647
<i>incl. trade receivables</i>	<i>231</i>	<i>666</i>	<i>647</i>
Accounts receivable (due within 12 months after the accounting date)	240	1 249 044	821 389
<i>incl. trade receivables</i>	<i>241</i>	<i>164 582</i>	<i>284 407</i>
Short-term financial investments	250	120 057	566 498
Cash	260	488 012	327 762
Other current assets	270	10 149	35 988
TOTAL under Section II	290	3 023 896	3 247 926
BALANCE-SHEET TOTAL	300	10 466 708	8 145 072

CONSOLIDATED PROFIT AND LOSS STATEMENT OF JSC DOROGOBUZH

for _____ **200 8**

Stated in: RUB '000

OKUD Form No.2

0710002

Item	Code	Reporting Period	Corresponding Prior Period
1	2	3	4
Operating revenue and expenses			
(Net) proceeds from the sale of goods, products, work and services (less value added tax, excise duties and similar charges)	010	10 016 087	7 713 074
Cost of sold goods, products, works and services	020	(4 072 103)	(4 081 820)
Gross profit	029	5 943 984	3 631 254
Sales expenses	030	(1 466 705)	(925 668)
Administrative expenses	040	(744 160)	(677 988)
Sales profit (loss)	050	3 733 119	2 027 598
Other revenue and expenses			
Interest receivable	060	81 824	19 747
Interest payable	070	(76 221)	(117 502)
Revenue from shareholdings	080	463 432	149 045
Other revenues	090	12 558 141	7 184 200
Other expenses	100	(16 865 148)	(5 436 071)
Capitalised revenue (loss)		-	-
Profit (loss) before tax	140	(104 853)	3 827 017
Deferred tax assets	141	(945)	395
Deferred tax liabilities	142	906 875	(467 819)
Current profit tax	150	(803 937)	(450 065)
Net profit (loss) for the accounting period	190	(2 860)	2 909 528
Minority interest		553	(4 462)
Net profit (loss) for the accounting period less minority interest		(2 307)	2 905 066
FOR REFERENCE ONLY			
Permanent tax liabilities (assets)	200	(76 828)	(307)
Basic earnings (loss) per share	201		
Diluted earnings (loss) per share	202		

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
of JSC DOROGOBUZH for 2008**

RUB '000

I. Changes in Shareholders' Equity

Description	Charter Capital	Capital Surplus	Capital Reserves	Retained Profit (Loss)	Total	
Code						
1	2	3	4	5	6	7
Balance as of December 31 of the year preceeding the previous year	010	218 860	695 877	32 880	3 601 900	4 549 517
200 7 (previous year)						
Effect of changes in accounting policy	011	X	X	X	0	0
Effect of fixed assets revaluation	012	X	-	X	-	-
Balance as of January 1 of the previous year	020	218 860	695 877	32 880	3 601 900	4 549 517
Foreign currency translation difference	023	X	-	X	X	-
Net profit	025	X	X	X	2 905 066	2 905 066
Dividends	026	X	X	X	-	-
Allocations to reserve fund	030	X	X	-	-	-
Increase in shareholders' equity resulting from:						
additional share issue	041	-	X	X	X	-
increase in shares' par value	042	-	X	X	X	-
legal entity reorganization	043	-	X	X	-	-
other events	045	-	-	-	16 430	16 430
Decrease in shareholders' equity resulting from						
decrease in shares' par value	051	-	X	X	X	-
decrease in the number of shares	052	-	X	X	X	-
legal entity reorganization	053	-	X	X	-	-
other events	055	-	(16 430)	-	(3 467)	(19 897)
Balance as of December 31 of the previous year	060	218 860	679 447	32 880	6 519 929	7 451 116
200 8 (reporting year)						
Effect of changes in accounting policy	061	X	X	X	-	-
Effect of fixed assets revaluation	062	X	-	X	-	-
Balance as of January 1 of the	100	218 860	679 447	32 880	6 519 929	7 451 116
Foreign currency translation difference	103	X	-	X	X	-
Net profit	105	X	X	X	(2 307)	(2 307)
Dividends	106	X	X	X	(1 646 996)	(1 646 996)

1	2	3	4	5	6	7
Allocations to reserve fund	110	X	X	-	-	-
Increase in shareholders' equity resulting from:						
additional share issue	121	-	X	X	X	-
increase in shares' par value	122	-	X	X	X	-
legal entity reorganization	123	-	X	X		-
other events	125	-		-	3 676	3 676
Decrease in shareholders' equity resulting from:						
decrease in shares' par value	131	-	X	X	X	-
decrease in the number of shares	132	-	X	X	X	-
legal entity reorganization	133	-	X	X	-	-
other events	135	-	(7 388)	(49)	-	(7 388)
Balance as of December 31 of the reporting year	140	218 860	672 059	32 831	4 874 302	5 798 052

II. Reserves

Description		Opening Balance	Allocated	Distributed	Closing Balance
1	Code	3	4	5	6
Statutory reserves					
Capital Reserve					
(reserve description)					
for the previous year		10 943	-	-	10 943
for the reporting year		10 943	-	-	10 943
(reserve description)					
for the previous year					
for the reporting year					
Reserves Formed under Constituent Documents					
Capital Reserve					
(reserve description)					
for the previous year		21 937	-	-	21 937
for the reporting year		21 937	-	(49)	21 888
(reserve description)					
for the previous year					
for the reporting year					
Revaluation Reserves					
(reserve description)					
for the previous year					
for the reporting year					
(reserve description)					
for the previous year					
for the reporting year					
(reserve description)					
for the previous year					
for the reporting year					

1	2	3	4	5	6
Provision for deferred expenses:					
(reserve description)					
for the previous year		-	-	-	-
for the reporting year		-	-	-	-
(reserve description)					
for the previous year					
for the reporting year					

Reference Information

Description		Opening Balance		Closing Balance	
	Code				
1	2	3	4	5	6
1) Net assets		7 454 486		5 800 768	
		From the budget		From extra-budgetary funds	
		reporting year	previous year	reporting year	previous year
		3	4	5	6
2) Received for:					
operating expenses - total		1 649	-		
including:					
capital expenditure on non-current assets					
including:					

Chief Executive Officer of Dorogobuzh

Ivan Antonov

Chief Accountant of Dorogobuzh

N.Sluzhenikina

March 20, 2009

CONSOLIDATED CASH FLOW STATEMENT
of JSC DOROGOBUZH for 2008

RUB '000

Description			Corresponding Prior
1	Code	Reporting Period	Period
1	2	3	4
Opening cash balance	010	487 788	554 018
Cash flow from operating activities			
Trade receipts	020	11 953 676	8 937 976
Other revenues	050	5 878 792	4 487 013
Cash paid in the form of:			
payments for goods, work, services, raw materials and other current assets	150	(6 378 097)	(6 251 800)
payroll	160	(779 667)	(707 675)
dividends and interest	170	(1 717 529)	(118 789)
taxes and similar charges	180	(1 335 681)	(700 860)
other expenses	190	(7 377 634)	(4 622 299)
Net cash flow from operating activities	200	243 860	1 023 566
Cash flow from investment activities			
Disposal of fixed assets or other non-current assets	210	5 218	48 121
Disposal of securities or other financial instruments	220	122 277	42 060
Dividends received	230	511 338	142 599
Interest received	240	58 293	20 606
Repayment of loans issued to other companies	250	812 000	628 710
Purchase of subsidiaries	280	-	-
Purchased fixed assets, income-bearing investment and intangible assets	290	(1 205 704)	(383 862)
Purchased securities and other financial instruments	300	(315)	-
Loans issued to other companies	310	(1 086 669)	(617 522)
Other payments	320	-	-
Net cash flow from investment activities	340	(783 562)	(119 288)
Cash flow from financial activities			
Securities or other equity issued	350	-	-
Loans or borrowings obtained	360	2 392 319	595 904

1	2	3	4
other		-	1 994
Repayment of loans or borrowings (less interest)	390	(2 034 855)	(1 551 333)
Repayment of financial lease	400	-	-
Other expenses			
Net cash flow from financial activities	410	357 464	(953 435)
Net increase (decrease) in cash and cash equivalents	420	(182 238)	(49 157)
Closing cash balance	430	327 762	487 788
Effect of Russian rouble exchange rate movement	440	22 212	-17 073

Chief Executive Officer of Dorogobuzh

Ivan Antonov

Chief Accountant of Dorogobuzh

N.Sluzhenikina

March 20, 2009

**CONSOLIDATED BALANCE SHEET SUPPLEMENT
of JSC DOROGOBUZH for 2008**

RUB '000

Intangible Assets

Item		Opening Balance	Recorded	Disposed of	Closing Balance
	Code				
1	2	3	4	5	6
Intellectual property rights (exclusive rights to intellectual property)	010	1 358	57	-	1 415
including: patent holder rights to an invention, industrial design, useful model	011	-	-	-	-
rights to software or databases	012	-	-	-	-
rights to integral circuit topography	013	-	-	-	-
rights to a trademark, service mark, geographical indication rights	014	1 358	57	-	1 415
plant breeder's rights	015	-	-	-	-
Administrative expenses	020	-	-	-	-
Goodwill	030	114 439	-	-	114 439
Other	040	-	-	-	-

Item		Opening Balance	Closing Balance
	Code		
1	2	3	4
Intangible assets amortization - total	050	332	506
incl:			

Fixed Assets

Item		Opening Balance	Recorded	Disposed of	Closing Balance
	Code				
1	2	3	4	5	6
Buildings	061	741 623	-	(19 701)	721 922
Installations and transmission units	062	478 883	3 728	(2 636)	479 975
Plant and machinery	063	1 508 661	554 114	(71 736)	1 991 039
Vehicles	064	133 055	695 544	(11 101)	817 498
Production and business inventory	065	22 338	2 754	(2 551)	22 541
Working livestock	066	215	-	(213)	2
Producing livestock	067	-	-	-	-
Perennial plants	068	-	-	-	-
Other fixed assets	069	19 459	4 284	(10 898)	12 845
Land plots and natural assets	070	17 988	1 447	(15 946)	3 489
Capital investments in land improvement	071	-	-	-	-
Total	072	2 922 222	1 261 871	(134 782)	4 049 311

Item		Opening Balance	Closing Balance
	Code		
1	2	3	4
Depreciation of fixed assets - total	140	1 696 636	1 792 084
incl.			
buildings and installations	141	618 717	632 722
machines, equipment, and vehicles	142	1 063 906	1 142 148
other	143	14 013	17 214
Leased out fixed assets - total	150	122 318	217 343
including			
buildings	151	37 733	478
other	152	15 891	-
	153	68 694	216 865
Suspended fixed assets	160	9 678	10 035
Leased fixed assets - total	161	21 633	70 588
including:			
Real estate pending state registration	165	-	-
	Code	Opening Balance	Opening Balance of the prior year
For Reference	2	3	4
Effect from revaluation of fixed assets	171	-	-
historical (replacement) cost	172	-	-
depreciation	173	-	-
	Code	Opening Balance	Closing balance
	2	3	4
Changes in fixed assets' value resulting from additional construction, modernization, revamping, partial demolition	180	255 913	644 309

Income-Bearing Investments in Tangible Assets

Item		Opening Balance	Recorded	Disposed of	Closing Balance
1	Code 2				
Assets to be transferred under lease arrangements	190	-	-	-	-
Assets to be transferred under rent arrangements	200	-	-	-	-
Other	210	-	-	-	-
Total	220	-	-	-	-

		Opening Balance	Closing Balance
1	Code 2		
Depreciation of income-bearing investments in tangible assets	230	-	-

R&D Expenses

Description		Opening Balance	Recorded	Disposed of	Closing Balance
1	Code 2				
Total	310	280	-	(133)	147
including					

For Reference	Code	Opening Balance	Closing Balance
	2	3	4
R&D in progress	320		

Unproductive R&D expenses recorded as non-operating expenses	Code	Reporting Period	Corresponding Prior Period
	2	3	4

Natural Resources Development

Description		Opening Balance	Recorded	Disposed of	Closing Balance
1	Code 2				
Natural resources development - total					
including:					

For Reference	Code	Opening Balance	Closing Balance
	2	3	4
Expenses for subsoil resources development, pending exploration, reserve evaluation, and/or hydrogeological survey or simialr activities			
Unproductive expenses for subsoil resources development recorded as non-operating expenses			

Financial Investments

Description		Long-Term		Short-Term	
		Opening Balance	Closing Balance	Opening Balance	Closing Balance
1	Code	3	4	5	6
Interest in charter (share) capital of other entities - total	510	5 257 629	1 255 909	-	-
including subsidiaries and associates	511	-	-	-	-
State and municipal securities	515	-	-	-	-
Securities of other entities - total	520	1 028	-	130	-
including debt securities (bonds and bills of exchange)	521	-	-	-	-
Loans issued	525	55 000	366 300	119 927	100 354
Deposits	530	-	-	-	466 144
Other	535	-	-	-	-
Total	540	5 313 657	1 622 209	120 057	566 498
Of the total amount, quoted financial instruments					
Interest in charter (share) capital of other entities - total	550	5 257 352	1 255 128	-	-
including subsidiaries and associates	551	-	-	-	-
State and municipal securities	555	-	-	-	-
Securities of other entities - total	560	-	-	-	-
including debt securities (bonds and bills of exchange)	561	-	-	-	-
Other	565	-	-	-	-
Total	570	5 257 352	1 255 128	-	-
For Reference					
Effect of mark-to-market revaluation for quoted financial instruments	580	5 235 771	1 233 818	-	-
For debt securities, difference between historical cost and nominal value posted to financial result of the reporting period	590	-	-	-	-

Accounts Receivable and Payable

Description		Opening Balance	Closing Balance
	Code		
1	2	3	4
Accounts receivable			
short-term - total	610	1 249 044	821 389
including:			
trade receivables	611	164 582	284 407
advances paid	612	640 115	295 494
other	613	444 347	241 488
long-term - total	620	666	647
including:			
trade receivables	621	666	647
advances paid	622	-	-
other	623	-	-
Total	630	1 249 710	822 036
Accounts payable			
short-term - total	640	1 628 190	1 506 517
including:			
trade payables	641	138 860	290 763
advances received	642	328 295	260 021
taxes payable	643	143 303	34 243
loans	644	17 934	884 577
borrowings	645	926 435	1 119
other	646	73 363	35 794
long-term - total	650	68 729	440 706
including:			
loans and borrowings	651	68 729	440 706
other	655	-	-
Total	660	1 696 919	1 947 223

Operating Expenses Breakdown

Description		Reporting Period	Corresponding Prior Period
	Code		
1	2	3	4
Cost of materials	710	4 980 358	4 404 849
Payroll	720	852 387	824 446
Social charges	730	183 450	174 197
Amortization	740	146 709	103 232
Other expenses	750	289 152	227 644
Total for expense items	760	6 452 056	5 734 368
Movements (increase [+], decrease [-]) of:			
production in progress	765	-27 744	24 591
deferred expenses	766	6 383	-3 083
provision for deferred expenses	767	-	-

Guarantees

Description		Opening Balance	Closing Balance
	Code		
1	2	3	4
Received - total	810	900 000	20 877
including:			
bills of exchange			
Assets pledged	820	-	-
of which:			
fixed assets		-	-
securities and other financial instruments		-	-
other		-	-
Issued - total	830	-	81 052
including:			
bills of exchange	831	-	-
Assets pledged	840	-	-
of which:			
fixed assets	841	-	-
securities and other financial instruments	842	-	-
other	843	-	-

Government Subsidies

Description		Reporting Period		Corresponding Prior Period	
наименование	Code				
1	2	3	4	5	6
Received from the state budget in the reporting year	910	-	-	-	-
including					
		Opening Balance	Received in the Reporting Period	Repaid in the Reporting Period	Closing Balance
Loans from the state budget - total	920	-	-	-	-
including					

Chief Executive Officer of Dorogobuzh

Ivan Antonov

Chief Accountant of Dorogobuzh

N.Sluzhenikina

March 20, 2009