

**JOINT STOCK COMPANY
“DOROGOBUZH”**

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

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

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

- 1 We have audited the accompanying consolidated financial statements of Joint Stock Company "Dorogobuzh" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 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 Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


ZAO PricewaterhouseCoopers Audit



	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	13	4,333,281	4,390,089
Goodwill	14	52,068	52,068
Other non-current assets		261,358	259,998
Investment in associate	15	1,085,000	-
Available-for-sale investments	16	4,715,870	1,266,534
Long-term loans receivable	11	695,724	366,300
Total non-current assets		11,143,301	6,334,989
Current assets			
Inventories	12	1,060,089	1,094,630
Short-term loans receivable	11	188,600	100,354
Accounts receivable	10	1,000,033	797,565
Cash and cash equivalents	9	1,214,795	706,828
Other current assets		20,346	15,433
Total current assets		3,483,863	2,714,810
TOTAL ASSETS		14,627,164	9,049,799
EQUITY			
Share capital	20	1,735,359	1,735,359
Share premium	20	93,794	93,794
Retained earnings		5,134,851	3,530,754
Revaluation reserve		2,938,049	989,452
Share capital and reserves attributable to the Company's owners		9,902,053	6,349,359
TOTAL EQUITY		9,902,053	6,349,359
LIABILITIES			
Non-current liabilities			
Long-term borrowings	19	1,409,768	440,706
Other long-term liabilities		102,503	102,504
Deferred tax liability	26	933,648	457,059
Total non-current liabilities		2,445,919	1,000,269
Current liabilities			
Accounts payable	17	256,435	530,928
Current income tax payable		20,400	597
Other taxes payable	18	52,165	59,044
Short-term borrowings	19	1,203,664	881,412
Advances received		746,528	228,190
Total current liabilities		2,279,192	1,700,171
TOTAL LIABILITIES		4,725,111	2,700,440
TOTAL LIABILITIES AND EQUITY		14,627,164	9,049,799

Approved for issue and signed on behalf of the Board of Directors on 28 May 2010.


 I.N. Antonov
 President


 A.V. Milenkov
 Finance Director



	Note	2009	2008
Revenue	7	9,978,587	9,730,454
Cost of sales	21	(6,310,605)	(4,667,244)
Gross profit		3,667,982	5,063,210
Transportation expenses		(799,517)	(708,130)
Selling, general and administrative expenses	22	(741,363)	(807,239)
(Loss)/gain on disposal of property, plant and equipment, net		(49,821)	3,077
Other operating expenses, net	24	(161,169)	(21,778)
Operating profit		1,916,112	3,529,140
Finance income	23	266,376	296,767
Interest expense		(126,811)	(76,221)
Profit before taxation		2,055,677	3,749,686
Income tax expense	26	(451,580)	(787,416)
Net profit for the year		1,604,097	2,962,270
Other comprehensive income/(loss):			
Available-for-sale investments:			
- Gains less losses arising during the year		2,435,746	(3,986,562)
- Income tax recorded directly in other comprehensive income		(487,149)	1,005,911
Other comprehensive income/(loss) for the year		1,948,597	(2,980,651)
Total comprehensive income/(loss) for the year		3,552,694	(18,381)
Net profit is attributable to:			
Owners of the Company		1,604,097	2,962,270
Net profit for the year		1,604,097	2,962,270
Total comprehensive income/(loss) is attributable to:			
Owners of the Company		3,552,694	(18,381)
Total comprehensive income/(loss) for the year		3,552,694	(18,381)
Earnings per share, basic and diluted (expressed in RR per share)	25	1.83	3.38

Joint Stock Company "Dorogobuzh"
Consolidated Statement of Cash Flows for the year ended 31 December 2009
(in thousands of Russian Roubles)



	Note	2009	2008
Cash flows from operating activities			
Profit before taxation		2,055,677	3,749,686
<i>Adjustments for:</i>			
Depreciation	13	307,917	259,604
Reversal of impairment of accounts receivable		(6,797)	(8,789)
Increase in provision for write-down on inventory		-	4,983
Loss/(gain) on disposal of property, plant and equipment		49,821	(3,077)
Interest expense		126,811	76,221
Interest income	23	(193,624)	(81,345)
Dividend income	23	(2,104)	(463,432)
Foreign exchange effect on non-operating balances		(70,647)	243,065
Operating cash flows before working capital changes		2,267,054	3,776,916
Decrease/(increase) in gross trade receivables		107,029	(174,580)
(Increase)/decrease in advances to suppliers		(127,870)	284,913
(Increase)/decrease in other receivables		(174,796)	58,261
Decrease/(increase) in inventories		34,541	(294,774)
(Decrease)/increase in trade payables		(192,126)	196,966
Decrease in other payables		(99,619)	(85,778)
Increase/(decrease) in advances from customers		518,338	(91,775)
Increase/(decrease) in other current assets		(4,913)	6,127
Net change in other non-current assets and liabilities		(1,361)	24,831
Cash generated from operations		2,326,277	3,710,720
Income taxes paid		(419,343)	(970,313)
Interest paid		(136,886)	(82,163)
Net cash generated from operating activities		1,770,048	2,790,799
Cash flows from investing activities			
Purchase of property, plant and equipment		(321,398)	(1,408,139)
Acquisition of an associate	15	(1,085,000)	-
Proceeds from sale of property, plant and equipment		19,176	116,739
Loans provided		(3,607,124)	(1,093,654)
Proceeds from loans repaid		3,189,454	812,000
Interest received		187,983	35,978
Dividends received		2,104	511,338
Proceeds from sale of available-for-sale investments		1,103	103,338
Purchase of available-for-sale investments		(1,013,607)	(2,075)
Net cash used in investing activities		(2,627,309)	(924,475)
Cash flows from financing activities			
Dividends paid to shareholders		(1,807)	(1,580,400)
Proceeds from borrowings		4,066,805	2,026,546
Repayment of borrowings		(2,705,583)	(1,956,402)
Net cash provided from/(used in) financing activities		1,359,415	(1,510,256)
Effect of exchange rate changes on cash and cash equivalents		5,813	-
Net increase in cash and cash equivalents		507,967	356,068
Cash and cash equivalents at the beginning of the year		706,828	350,760
Cash and cash equivalents at the end of the year		1,214,795	706,828

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

Joint Stock Company “Dorogobuzh”
Consolidated Statement of Changes in Equity for the year ended 31 December 2009
(in thousands of Russian Roubles)



	Capital and reserves attributable to the Company's owners				Non-controlling interest	Total equity
	Share capital (Note 20)	Share premium (Note 20)	Retained earnings	Revaluation reserve		
Balance at 1 January 2008	1,735,359	93,794	2,220,311	3,970,103	2,819	8,022,386
Comprehensive income						
Profit for the year	-	-	2,962,270	-	-	2,962,270
<i>Other comprehensive income</i>						
Fair value losses on available-for-sale investments (Note 16)	-	-	-	(3,986,562)	-	(3,986,562)
Income tax recorded in other comprehensive income (Note 26)	-	-	-	1,005,911	-	1,005,911
Total other comprehensive income	-	-	-	(2,980,651)	-	(2,980,651)
Total comprehensive income	-	-	2,962,270	(2,980,651)	-	(18,381)
Dividends declared (Note 25)	-	-	(1,651,827)	-	(2,819)	(1,654,646)
Balance at 31 December 2008	1,735,359	93,794	3,530,754	989,452	-	6,349,359
Balance at 1 January 2009	1,735,359	93,794	3,530,754	989,452	-	6,349,359
Comprehensive income						
Profit for the year	-	-	1,604,097	-	-	1,604,097
<i>Other comprehensive income</i>						
Fair value gains on available-for-sale investments (Note 16)	-	-	-	2,435,746	-	2,435,746
Income tax recorded in other comprehensive income (Note 26)	-	-	-	(487,149)	-	(487,149)
Total other comprehensive income	-	-	-	1,948,597	-	1,948,597
Total comprehensive income	-	-	1,604,097	1,948,597	-	3,552,694
Balance at 31 December 2009	1,735,359	93,794	5,134,851	2,938,049	-	9,902,053

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.



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 2009 for Joint Stock Company “Dorogobuzh” (the “Company” or “Dorogobuzh”) and its subsidiaries (together referred to as the “Group” or “Dorogobuzh Group”).

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

The Group’s parent company is JSC “Acron” (Russian Federation). The Group’s ultimate parent is Subero Associates Inc (British Virgin Islands) (2008: Subero Associates Inc). As at 31 December 2009 and 2008 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

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

2 Basis of Preparation of the Financial Statements

Basis of preparation. These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”) under the historical cost convention except as modified by the fair value revaluation of available-for-sale investments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of Russian Roubles (“RR thousands”), unless otherwise stated. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

Accounting for the effect of inflation. Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records in Russia for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

3 Summary of Significant Accounting Policies

3.1 Group accounting

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries except for those acquired as the result of the business combinations under common control.

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



3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

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

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

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

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

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries as the result of business combinations under common control are accounted for using the predecessor values method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

Investments in associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the year as share of result of associates.

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 Summary of Significant Accounting Policies (continued)

3.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

3.3 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective rate of interest. The amount of the provision is recognised in the statement of comprehensive income. The primary factors that the Group considers whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

3.4 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.5 Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Catalytic agents consumed for the period of more than 12 months are presented within other non-current assets in the amount of RR 261,358 (2008: RR 259,997). 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 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.



3 Summary of Significant Accounting Policies (continued)

3.6 Property, plant and equipment (continued)

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:

	<u>Number of years</u>
Buildings	40 to 50
Plant and machinery	10 to 20
Other equipment and motor vehicles	5 to 20

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

Borrowing costs on specific or general funds borrowed to finance the construction of qualifying asset are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.7 Intangible assets

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. The entire Group's other intangible assets have definite useful lives and primarily include capitalised computer software, patents, acquired trademarks and licences. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives, but not exceeding 20 years.

3.8 Borrowings

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

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 Summary of Significant Accounting Policies (continued)

3.9 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. Corporate profit tax rate is 20% (2008: 24%) for Russia, where the most significant Group subsidiaries are registered. With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian Federation can range from 15.5% to 20%, depending on applicable rates set by regional authorities.

Current income tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

3.10 Foreign currency transactions

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

For the Company and its subsidiaries monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective ends of the reporting periods. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

At 31 December 2009 the principal rate of exchange used for translating foreign currency balances was US\$ 1 = 30.2442 (2008: US\$ 1 = 29.3804 RR). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.



3 Summary of Significant Accounting Policies (continued)

3.11 Provisions for liabilities and charges

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

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3.12 Shareholders' equity

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium. Preference shares are non-cumulative and presented as part of share capital in the notes.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

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

3.13 Revenue recognition

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

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

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

3.14 Mutual cancellations

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



3 Summary of Significant Accounting Policies (continued)

3.14 Mutual cancellations (continued)

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

3.15 Employee benefits

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

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

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognised contributions of RR 126,849 as part of labour costs in 2009 (2008: RR 159,743).

3.16 Financial assets and liabilities

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: available-for-sale and loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

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.

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.



3 Summary of Significant Accounting Policies (continued)

3.16 Financial assets and liabilities (continued)

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

3.17 Earnings per share

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

3.18 Segment reporting

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 14. At 31 December 2009 no impairment of goodwill was required, and none would be required even if the budgeted sales growth rate used in the value-in-use calculations for any cash-generating unit (CGU) had been 5% lower than management estimates at 31 December 2009. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 3% higher than management estimates, the goodwill would still have not been impaired (Note 14).

Impairment of property, plant and equipment and exploration rights. At 31 December 2009 the Group performed an impairment test of property, plant and equipment and exploration rights. The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year period and the expected market prices for key fertilizers for the same period according to the leading industry publications, which are broadly in line with 2009 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. Reasonably possible change in key assumptions does not lead to material impairment charge.



4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Valuation and impairment of available-for-sale investments. As of 31 December 2009 and 2008 the investments in bonds and shares JSC Acron and JSC Sberbank were determined by reference to the current market value in line with requirements of IAS 39. Although the free float and volume of trades of investments in JSC Acron securities may be not significant, its quoted prices are readily and regularly available from exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines that available-for-sale equity and debt investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, in industry and sector performance, or in operating or financing cash flows, or when there are significant adverse consequences of changes in technology. At 31 December 2009 no impairment was required due to significant excess of fair values over the cost, refer to Note 16. The impact on fair value of available-for-sale investment as of 31 December 2009 would be to decrease it by RR 468 464 were the market quotations to decrease by 10% from actual ones.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in an increase in the number of reportable segments presented and changed the manner of segments presentation (Note 7).

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised IAS 23 did not have any effect on the Group's consolidated financial statements as the Group historically applied policy of borrowing costs capitalisation.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group has elected to present a single statement of comprehensive income. These consolidated financial statements have been prepared under the revised requirements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The improvements do not have a material effect on the Group's consolidated financial statements;

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



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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The early adoption did not have significant effect on these financial statements but will have impact on the future business combinations.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group early adopted IAS 27 and changed its accounting policies for purchases of non-controlling interests that do not result in the loss of control. The early adoption did not have significant effect on these financial statements.

Other new or revised standards and interpretations adopted by the Group:

- Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, which are provided in Note 29 and Note 30, there is no impact on earnings per share;
- Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). This amendment is not currently applicable to the Group as it has no such financial instruments;
- Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). Amendment to IFRS 2, Share-based Payment is not currently applicable to the Group as it has no such payments;
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 is not relevant to the Group’s operations because it does not have any agreements for the construction of real estate;
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). This amendment does not impact the Group’s consolidated financial statements;
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 is not relevant to the Group;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 is not relevant to the Group;
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011).



6 New Accounting Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and have not been early adopted:

- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009);
- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009);
- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009);
- Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009);
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009);
- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009);
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The Group is currently assessing the impact of these improvements on its consolidated financial statements;
- Group Cash-settled Share-based payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010);
- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010);
- Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010);
- IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011);
- IFRS 9, Financial Instruments (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010);
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011);
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).

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

7 Segment Information

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, Operating Segments, which replaced IAS 14, Segment Reporting. Comparatives were adjusted to conform to the presentation of current period amounts.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the 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.



7 Segment Information (continued)

The Group is organised on the basis of the following main reporting business segments:

- Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by JSC Dorogobuzh;
- Logistics – representing transportation and logistic services rendered by sea port of the Group in Russia.;
- Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

Segment financial information reviewed by the CODM includes accounts receivable and cash and cash equivalents; loans and borrowings and accounts payable; and EBITDA of the Group’s operating segments, but not their results and other items in the statement of financial position.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Adjustments are focused on consistent classification of line items for the reporting purposes. Such financial information differs in certain aspects from International Financial Reporting Standards.

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

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

<i>In thousands of Russian Roubles</i>	Dorogobuzh	Logistics	Eliminations	Other	Total
Revenue	9,919,410	36,595	(448,069)	512,711	10,020,647
EBITDA	2,530,906	(2,132)	-	(23,916)	2,504,858
Accounts receivable	483,334	3,351	(314,663)	36,229	208,251
Cash and cash equivalents	1,173,509	1,654	-	39,632	1,214,795
Measure of segment assets	1,656,843	5,005	(314,663)	75,861	1,423,046
Accounts payable	(154,824)	(2,271)	314,663	(296,971)	(139,403)
Borrowings and loans	(2,613,432)	-	-	-	(2,613,432)
Measure of segment liabilities	(2,768,256)	(2,271)	314,663	(296,971)	(2,752,835)
Capital expenditure	275,255	-	-	-	275,255

Segment information for the reportable segments for the year ended 31 December 2008 is set out below:

<i>In thousands of Russian Roubles</i>	Dorogobuzh	Logistics	Eliminations	Other	Total
Revenue	9,825,676	82,453	(348,091)	456,049	10,016,087
EBITDA	3,842,231	7,538	-	29,059	3,878,828
Accounts receivable	344,306	2,693	(45,172)	24,918	326,745
Cash and cash equivalents	681,265	4,862	-	20,701	706,828
Measure of segment assets	1,025,571	7,555	(45,172)	45,619	1,033,573
Accounts payable	(303,805)	(1,318)	45,172	(69,265)	(329,216)
Borrowings and loans	(1,322,118)	-	-	-	(1,322,118)
Measure of segment liabilities	(1,625,923)	(1,318)	45,172	(69,265)	(1,651,334)
Capital expenditure	1,408,139	-	-	-	1,408,139

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.



7 Segment Information (continued)

Revenues of the reportable segments reconciled to the consolidated revenues as follows:

<i>In thousands of Russian Roubles</i>	2009	2008
Total revenues for reportable segments	10,020,647	10,016,087
Custom duties (i)	(20,267)	(276,986)
Other differences	(21,793)	(8,647)
Total consolidated revenues	9,978,587	9,730,454

EBITDA of the reportable segments reconciled to the consolidated EBITDA as follows:

<i>In thousands of Russian Roubles</i>	2009	2008
Total EBITDA for reportable segments	2,504,858	3,878,828
Different classification of non-operating items (iv)	(24,980)	(112,956)
Other differences	(53,546)	8,168
Total consolidated EBITDA	2,426,332	3,774,040

EBITDA is a non-IFRS profit measure. Consolidated EBITDA is reconciled to the consolidated IFRS operating profit in Note 29.

Accounts receivable of the reportable segments reconciled to the consolidated accounts receivable as follows:

<i>In thousands of Russian Roubles</i>	2009	2008
Total accounts receivable for the reportable segments	208,251	326,745
Different classification of assets and liabilities (vi)	838,445	583,700
Different doubtful debts allowance (vii)	(46,663)	(112,880)
Total consolidated accounts receivable	1,000,033	797,565

Accounts payable of the reportable segments reconciled to the consolidated accounts payable as follows:

<i>In thousands of Russian Roubles</i>	2009	2008
Total accounts payable for reportable segments	(139,403)	(329,216)
Different classification of assets and liabilities (vi)	(117,032)	(201,712)
Total consolidated accounts payable	(256,435)	(530,928)

The reconciling items are attributable to the following:

- (i) Custom duties: certain segments report their revenues gross of custom duties in management accounts;
- (ii) Different classification of non-operating items: certain expenses are classified as non-operating items in management accounts and are not included in EBITDA as per management accounts.
- (iii) Different classification of assets and liabilities: The difference arose due to different classification of advances, tax and other receivables and payables in management accounts and in IFRS.
- (iv) Different doubtful debts allowance: different doubtful debt provisioning is applied in management accounts and IFRS.

<i>In thousands of Russian Roubles</i>	2009	2008
Revenue		
Russia	3,551,312	5,405,048
European Union	2,199,283	1,619,856
Commonwealth of Independent States	2,539,448	1,161,995
Americas	843,817	978,776
China	-	243,839
Other regions	844,728	320,939
Total	9,978,587	9,730,454

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

Revenue from sales of chemical fertilisers account for 86% of total revenues (2008: 84%).

Non-current assets represent non-current assets other than financial instruments and deferred tax assets.

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



8 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2009 and 2008 are detailed below.

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

i Balances with related parties

Statement of financial position caption	Notes	Relationship	2009	2008
Trade and other receivables, gross	10	Parent company	10,259	6,963
		Parties under common control	198,229	206,152
Provision for impairment of trade receivables	10	Parties under common control	-	(40)
Prepayments		Parties under common control	40,147	24,511
Dividends receivable		Parent company	-	-
Loans provided	11	Parties under common control	865,324	412,654
Loans received	19	Parent company	950,000	-
Trade payables	17	Parties under common control	5,976	4,802
		Parent company	5,341	51,174
Advances from customers		Party under common control	311,349	136,250
Available for sale investments (bonds)*	16	Parent company	3,525,201	1,192,999
Available for sale investments (securities)*	16	Parent company	960,507	-

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

ii Transactions with related parties

Statement of comprehensive income caption	Notes	Relationship	2009	2008
Sales of chemical fertilizers, other goods and services	7	Parent company	69,719	99,007
		Parties under common control	4,445,041	4,239,535
Income from participation in other companies		Parent company	-	460,872
Purchases of raw materials	21	Parent company	(479,175)	(91,906)
		Parties under common control	(16,651)	(16,962)
Purchase of transportation services		Parties under common control	(86,137)	(159,244)
Purchases of securities (bonds, shares)*		Parent company	(1,007,442)	-
Security services	22	Parties under common control	-	(67,838)
Statement of changes in equity caption				
Dividends accrued		Parent company	-	908,964
		Parties under common control	-	374,840

* - Purchase transaction is disclosed at cost.

In December 2009 the Group acquired 50% of the share capital of AS DBT from a party under common control for a cash consideration of RR 1,085,620 (Note 15).

iii Loans issued

At 31 December 2009 and 2008 short-term loans to parent company and parties under common control denominated in RR totalled RR 183,600 and RR 90,354, respectively, at interest rates in the range of 9.5% to 14.2%. The loans are unsecured.

At 31 December 2009 long-term loans to parties under common control totalled RR 681,724 (2008: RR 322,300), an interest rates in the range of 9.5% to 14.2% (2008: from 9.5% to 11.3%). The loans are unsecured.

In 2009 the Group accrued interest income of RR 182,098 (2008: RR 55,243)



8 Balances and Transactions with Related Parties (continued)

iv Key management personnel compensation

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

Total key management personnel compensation including general and administrative expenses in profit or loss for the year ended 31 December 2009 amounted to RR 126,150 (31 December 2008: RR 78,736).

9 Cash and Cash Equivalents

	2009	2008
Cash on hand and bank balances denominated in RR	236,451	539,178
Bank balances denominated in US\$	833,314	114,749
Bank balances denominated in Euro	145,030	52,901
Total cash and cash equivalents	1,214,795	706,828

Cash and cash equivalents include term deposits of RR 881,443 (2008: RR 416,144).

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:

	2009	2008
A to AAA* rated	-	265,190
BB- to BBB+* rated	1,214,795	441,561
Unrated	-	77
Total	1,214,795	706,828

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

10 Accounts Receivable

	2009	2008
Trade accounts receivable	205,852	312,881
Other accounts receivable	86,920	37,719
Less: impairment provision	(45,266)	(46,503)
Total financial assets	247,506	304,097
Advances to suppliers	389,703	261,833
Value-added tax recoverable	360,127	211,778
Income tax prepayments	2,948	25,454
Other taxes receivable	1,146	1,370
Less: impairment provision	(1,397)	(6,967)
Total accounts receivable	1,000,033	797,565

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

As of 31 December 2009, trade and other accounts receivable of RR 46,663 (2008: RR 53,470) 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 ageing of these receivables is as follows:

	2009	2008
Less than 3 months	-	-
From 3 to 9 months	(3,319)	(2,933)
From 9 to 12 months	(4,410)	(3,624)
Over 12 months	(38,934)	(46,913)
Total gross amount of impaired accounts receivable	(46,663)	(53,470)



10 Accounts Receivable (continued)

The movements in the provision for impairment of financial accounts receivable are as follows:

	2009		2008	
	Trade receivables	Other debtors	Trade receivables	Other debtors
Provision for impairment at 1 January	(46,503)	(6,967)	(54,596)	(7,663)
Provision for impairment	(12,034)	(1,064)	(12,502)	(6,351)
Provision used	11,166	126	20,595	6,977
Provision reversed	2,105	6,508	-	70
Provision for impairment at 31 December	(45,266)	(1,397)	(46,503)	(6,967)

The maximum exposure to credit risk relating to accounts receivable on the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

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

As of 31 December 2009, trade receivables of RR nil (2008: RR 2,642) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2009	2008
Less than 3 months	-	432
From 3 to 9 months	-	1,710
From 9 to 12 months	-	500
Over 12 months	-	-
Trade accounts receivable past due but not impaired	-	2,642

Analysis by credit quality of trade receivables is as follows:

	2009	2008
<i>Current and not impaired – exposure to:</i>		
- Foreign customers	93,975	60,207
- Small individual Russian companies and farms	153,531	243,890
Total current and not impaired	247,506	304,097

11 Loans Receivable

	2009	2008
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	183,600	90,354
Loans issued to third parties	5,000	10,000
	188,600	100,354
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	681,724	322,300
Loans issued to third parties	14,000	44,000
	695,724	366,300

Loans receivable contain neither impaired nor overdue assets as of 31 December 2009 and 31 December 2008. No provision for impairment was created for loans receivable as of the respective dates.

At 31 December 2009 and 2008 short-term loans totalled RR 188,600 and RR 100,354 respectively, at interest rates in the range of 9.5% to 14.2% (2008: 10.5% to 14.2%). The loans were unsecured.

At 31 December 2009 and 2008 long-term loans totalled RR 695,724 and RR 366,300 respectively, at interest rates in the range of 9.5% to 14.2% (2008: 9.5%-11.3%). The loans were unsecured.

In 2009 the Group accrued interest income of RR 182,486 (2008: RR 59,089).



12 Inventories

	2009	2008
Raw materials and spare parts	816,302	687,320
Work in progress	38,745	48,709
Finished products	205,042	358,601
	1,060,089	1,094,630

Raw materials are shown net of write-down of RR 38,885 (2008: 44,106). No inventory was pledged as security at 31 December 2009 and 2008.

13 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2009	5,776,758	5,133,872	737,671	35,515	917,342	12,601,158
Additions	-	-	-	-	321,398	321,398
Transfers	134,305	162,883	10,297	21,433	(328,918)	-
Disposals	(37,853)	(226,583)	(9,075)	(3,158)	(44,852)	(321,521)
Balance at 31 December 2009	5,873,210	5,070,172	738,893	53,790	863,678	12,599,743
Accumulated Depreciation						
Balance at 1 January 2008	4,039,612	4,106,356	52,478	12,623	-	8,211,069
Depreciation charge	92,584	165,635	46,484	3,214	-	307,917
Disposals	(32,752)	(209,532)	(8,230)	(2,010)	-	(252,524)
Balance at 31 December 2009	4,099,444	4,062,459	90,732	13,827	-	8,266,462
Net Book Value						
Balance at 1 January 2009	1,737,146	1,027,516	685,193	22,892	917,342	4,390,089
Balance at 31 December 2009	1,773,766	1,007,713	648,161	39,963	863,678	4,333,281

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

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

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs in 2009 and 2008.

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

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

The key assumptions used for value-in-use calculations at 31 December 2008 are as follows:

	LLC Andrex	OAO Dorogobuzh
EBITDA margin range over the forecast period	9%-24%	9%-24%
Growth rate beyond five years	0%	0%
Pre-tax discount rate	21.5%	21.5%



13 Property, Plant and Equipment (continued)

Management determined budgeted EBITDA margin based on past performance and its most realistic expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax, reflect specific risks relating to the relevant segments and were estimated on the weighted average cost of capital basis.

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2008	5,800,211	4,505,210	62,346	62,224	994,145	11,424,136
Additions	-	-	-	-	1,408,139	1,408,139
Transfers	760	755,648	691,265	37,269	(1,484,942)	-
Disposals	(24,213)	(126,986)	(15,940)	(63,978)	-	(231,117)
Balance at 31 December 2008	5,776,758	5,133,872	737,671	35,515	917,342	12,601,158
Accumulated Depreciation						
Balance at 1 January 2008	3,928,496	4,089,354	40,493	10,577	-	8,068,920
Depreciation charge	122,392	109,381	24,499	3,332	-	259,604
Disposals	(11,276)	(92,379)	(12,514)	(1,286)	-	(117,455)
Balance at 31 December 2008	4,039,612	4,106,356	52,478	12,623	-	8,211,069
Net Book Value						
Balance at 1 January 2008	1,871,715	415,856	21,853	51,647	994,145	3,355,216
Balance at 31 December 2008	1,737,146	1,027,516	685,193	22,892	917,342	4,390,089

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

At 31 December 2009 no property, plant and equipment was pledged as security. (Note 19).

14 Goodwill

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

	2009	2008
LLC Andrex	52,068	52,068
Total carrying amount of goodwill	52,068	52,068

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

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

15 Investment in Associate

	2009	2008
Balance at 1 January	-	-
Acquisition	1,085,000	-
Share of (loss)/profit	-	-
Balance at 31 December	1,085,000	-



15 Investments in Associates (continued)

In December 2009 the Group acquired 50% of the share capital of AS DBT from a party under common control for a cash consideration of RR 1,085,620.

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

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

16 Available-for-Sale Investments

	2009	2008
Balance at 1 January	1,266,534	5,266,912
Additions	1,013,607	2,075
Fair value gain/(loss) recognized directly in equity	2,435,746	(3,986,562)
Disposals	(17)	(15,891)
Balance at 31 December	4,715,870	1,266,534

The Group has investments in the following companies:

Type	Activity	Country of registration	2009	2008
JSC Acron shares	Fertilizers manufacture	Russia	3,525,201	1,192,999
JSC Sberbank shares	Banking	Russia	206,935	56,455
JSC Acron bonds	Fertilizers manufacture	Russia	960,507	-
Other	Miscellaneous	Russia	23,227	17,080
			4,715,870	1,266,534

The fair value of investments was determined by reference to the current market value at the close of business on 31 December 2009. The share price quoted by MICEX for JSC Acron shares amounted to RR 850.01 per share at 31 December 2009 (31 December 2008: RR 295.18 per share); for JSC Acron bonds amounted for 100.5% at 31 December 2009 of nominal price; for Sberbank shares amounted RR 83.61 per share at 31 December 2009 (31 December 2008: RR 22.81).

17 Accounts Payable

	2009	2008
Trade accounts payable	137,090	329,216
Dividends payable	7,937	11,247
Total financial payables	145,027	340,463
Payables to employees	95,336	184,584
Accrued liabilities and other creditors	16,072	5,881
Total accounts payable and accrued expenses	256,435	530,928

18 Other Taxes Payable

	2009	2008
Value-added tax payable	19,895	1,767
Payroll taxes	18,042	42,386
Property and other taxes payable	14,228	14,891
	52,165	59,044



19 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2009	2008
Credit lines	-	1,322,118
Term loans	2,613,432	-
	2,613,432	1,322,118

The Group's borrowings mature as follows:

	2009	2008
Borrowings due:		
- within 1 year	1,203,663	881,412
- between 1 and 5 years	1,409,769	440,706
	2,613,432	1,322,118

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

	2009	2008
Borrowings denominated in:		
- Russian Roubles	950,000	-
- US Dollars	1,663,432	1,322,118
	2,613,432	1,322,118

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 2009 and 31 December 2008 the fair value of borrowings was not significantly lower than their carrying amounts.

At 31 December 2009 the Group did not have any unused credit lines available under the long-term loan facilities.

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

	2009	2008
Short-term borrowings		
Russian rubles		
Loans with fixed interest rates of 13% to 14% per annum	750,000	-
US\$		
Loans with fixed interest rates of 8% per annum	453,664	-
Loans with floating interest rates of LIBOR + 2.75% to LIBOR + 3.75% per annum	-	881,412
Total short-term borrowings	1,203,664	881,412

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

	2009	2008
Long-term borrowings		
Russian rubles		
Loans with fixed interest rates of 14% per annum	200,000	-
US\$		
Loans with floating interest rates of LIBOR + 3.6% to LIBOR + 8% per annum	1,209,768	440,706
Total long-term borrowings	1,409,768	440,706

The loan agreements for a total of RR 1,209,768 (2008: RR 1,322,118) 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.



20 Share Capital

The total authorised number of ordinary shares is 721,182,860 shares (2008: 721,182,860) with a par value of 0.25 RR per share.

The total authorised number of preferred shares is 154,256,400 shares (2008: 154,256,400) with a par value of 0.25 RR per share.

All authorised shares have been issued and fully paid.

Total number of outstanding shares comprises (par value is expressed in roubles per 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 2008	721,182,860	1,379,569	93,794	154,256,400	355,790
At 31 December 2009	721,182,860	1,379,569	93,794	154,256,400	355,790

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

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

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

In 2009 the Group declared no dividends in respect of the preferred shares. As a result, in accordance with Russian legislation, preferred shareholders gained voting rights at the shareholders meetings following the shareholder meeting on 20 April 2009, when the decision of non-payment of dividends was approved. As of the date of the issue of these consolidated financial statements preferred shareholders had no voting rights as the annual shareholder meeting in May 2010 approved dividend distribution for 2009 in the amount of 0.2 roubles per preferred share, which were subsequently paid in full (Note 31).

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 accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2009, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 3,580,115 (2008: net loss of RR 8,516) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 8,500,705 (2008: RR 6,496,195). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

In 2008 dividends were declared in respect of 2007 financial year in the amount of RR 1.88 per ordinary share and RR 1.88 per preferred share. No interim dividends for 2008 were declared during the year.



21 Cost of Sales

	2009	2008
Change in inventories of finished goods and work in progress	163,523	(182,535)
Staff costs	517,226	615,826
Materials and components used	2,186,350	1,503,244
Fuel and energy	609,174	497,725
Natural gas	1,960,084	1,395,663
Depreciation and amortization	307,917	259,604
Production overheads	44,937	9,520
Repairs and maintenance	443,173	500,888
Social expenditure	78,221	67,309
	6,310,605	4,667,244

22 Selling, General and Administrative Expenses

	2009	2008
Staff costs	385,738	472,545
Reversal of bad debt provision	(6,807)	(5,978)
Business trips expenses	13,492	17,176
Audit, legal and consulting services	13,165	21,431
Taxes other than income tax	57,511	56,292
Bank services	68,405	27,453
Insurance	6,667	4,164
Buildings maintenance and rent	55,575	68,694
Security	80,105	74,863
Telecommunication costs	11,976	10,596
Representation expenses	6,803	6,473
Other expenses	48,733	53,530
	741,363	807,239

23 Finance Income, net

	2009	2008
Interest income from loans issued	193,624	81,345
Dividend income	2,104	463,432
Foreign exchange gain	459,577	16,294
Foreign exchange loss	(388,928)	(264,304)
	266,376	296,767

24 Other Operating Expenses, net

	2009	2008
Other expenses	(8,687)	(33,405)
Loss on sale of investments	(33,949)	-
Foreign exchange gain	561,876	124,587
Foreign exchange loss	(680,409)	(112,960)
	(161,169)	(21,778)



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 preference 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).

	2009	2008
Weighted average number of ordinary shares outstanding	721,182,860	721,182,860
Weighted average number of preference shares outstanding	154,256,400	154,256,400
Dividends to ordinary shareholders	-	1,361,825
Dividends to preference shareholders	-	290,002
Total dividends for the year	-	1,651,827
Profit attributable to ordinary shareholders	1,321,448	2,440,305
Profit attributable to preference shareholders	282,649	521,965
Profit for the year	1,604,097	2,962,270
Basic and diluted earnings per ordinary share (in Russian roubles)	1.83	3.38
Basic and diluted earnings per preference share (in Russian roubles)	1.83	3.38

26 Income Taxes

	2009	2008
Income tax expense – current	462,140	803,566
Deferred tax credit – origination and reversal of temporary differences	(10,560)	(16,150)
Income tax charge	451,580	787,416

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

	2009	2008
Profit before taxation	2,055,677	3,749,686
Theoretical tax charge at statutory rate of 20% thereon (2008: 24%)	411,135	899,925
Tax effect of non deductible expenses and non taxable income:		
Non taxable profit	(420)	(111,224)
Tax effect of items which are not deductible or assessable for taxation purposes	40,865	48,703
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	-	(49,988)
Income tax charge	451,580	787,416

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% (2008: 20%).



26 Income taxes (continue)

	1 January 2008	Charged)/credited to profit or loss	(Charged)/credited to equity	31 December 2008.
Tax effects of taxable temporary differences :				
Property, plant and equipment	284,630	(461)	-	284,169
Investments available for sale	1,241,576	(17,977)	(1,005,911)	217,688
Inventories	14,033	18,099	-	32,132
Other temporary differences	1,224	2,321	-	3,545
Tax effects of deductible taxable temporary differences :				
Accounts receivable	(30,796)	6,890	-	(23,906)
Accounts payable	(20,719)	(15,350)	-	(36,069)
Other liabilities	(10,828)	(9,672)	-	(20,500)
Recognised net deferred tax liability	1,479,120	(16,150)	(1,005,911)	457,059
	31 December 2008	(Charged)/credited to profit or loss	Charged)/credited to equity	31 December 2009
Tax effects of taxable temporary differences :				
Property, plant and equipment	284,169	(9,707)	-	274,462
Investments available for sale	217,688	(7,354)	487,149	697,483
Inventories	32,132	(17,758)	-	14,374
Other temporary differences	3,545	(3,202)	-	343
Tax effects of deductible taxable temporary differences :				
Accounts receivable	(23,906)	1,362	-	(22,544)
Accounts payable	(36,069)	24,562	-	(9,970)
Other liabilities	(20,500)	-	-	(20,500)
Recognised net deferred tax liability	457,059	(10,560)	487,149	933,648

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 4,862 (2008: RR 5,278). The Group controls timing of the reversal of those temporary differences.

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

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

27 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2009 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 298,602 (2008: RR 110,112).

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 2009 and 2008, the Group has not issued any financial guarantees to third parties in respect of borrowings from non-group companies.

ii Legal proceedings

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



27 Contingencies, Commitments and Operating Risks (continued)

iii Operating environment of the Group

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

- (i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- (ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.
- (iii) The official US\$ exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 30.24 at 31 December 2009. This increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- (iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Following a sharp deterioration in global economic environment in the fourth quarter of 2008, prices for nitrogen and complex fertilizers, as predominantly manufactured and sold by the Group have declined significantly from the peak levels of 2008 and average levels for 2008, while remaining broadly in line with 2007 average prices, and above 2006 average prices. Average prices for key fertilizers according to the leading industry publications for 2009 ranged for nitrogen fertilizers from 26% to 33% of the maximum 2008 price, 44% to 52% of 2008 average price, 68% to 86% of the 2007 average price, and 95% to 116% of the 2006 average price. For complex fertilizers prices ranged from 27% to 41% of the maximum 2008 price, 35% to 51% of the 2008 average price, 80% to 114% of the 2007 average price, and 133% to 155% of the 2006 average price for complex fertilizers. Wholesale financing has become much less available since August 2008. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The borrowers and debtors of the Group may also be affected by the tighter liquidity situation which could in turn impact their ability to repay amounts owed. Deteriorating operating conditions for customers may also have an impact on the ability of management to forecast cash flow and assess of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group. It believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

iv Taxation

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

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



27 Contingencies, Commitments and Operating Risks (continued)

iv Taxation (continued)

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

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

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

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2009 no provision for potential tax liabilities had been recorded (2008: no provision).

v Environmental matters

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

28 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RR 44,463 (2008: RR 14,082), which were settled via non-cash transactions during the years ended 31 December 2009 and 2008, respectively. 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

The following table provides a reconciliation of financial assets with these measurement categories:

	2009			2008		
	Loans and receivables	Available-for-sale assets	Total	Loans and receivables	Available-for-sale assets	Total
ASSETS						
Cash and cash equivalents (Note 9)						
- Cash on hand and bank balances	1,214,795	-	1,214,795	706,828	-	706,828
Trade and other receivables (Note 10)						
- Trade receivables	205,852	-	205,852	312,881	-	312,881
- Other financial receivables	86,920	-	86,920	37,719	-	37,719
Loans receivable (Note 11)						
- Short term loans receivable	188,600	-	188,600	100,354	-	100,354
- Long term loans receivable	695,724	-	695,724	366,300	-	366,300
Available-for-sale investments (Note 16)						
- Corporate shares and bonds	-	4,715,870	4,715,870	-	1,266,534	1,266,534
TOTAL FINANCIAL ASSETS	2,391,891	4,715,870	7,107,761	1,524,082	1,266,534	2,790,616

All financial liabilities of the Group belong to other measurement category and are carried at amortised cost.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities. The Group does not currently hedge foreign exchange exposure using financial instruments. Group entities are prohibited from borrowing and investing in foreign currencies on a speculative basis.

Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian rouble. Credit lines denominated in various currencies allow the Group to be flexible in reaction to foreign currency rate shocks and minimise foreign currency exposure.



29 Financial and Capital Risk Management (continued)

29.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

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

At 31 December 2009	US Dollar	EURO
Monetary financial assets:		
Cash and cash equivalents	833,314	145,030
Accounts receivable	93,969	-
	927,283	145,030
Monetary financial liabilities:		
Accounts payable and other liabilities	(575)	-
Borrowings and notes payable	(1,663,431)	-
	(1,664,006)	-
Net position	(736,724)	145,030
At 31 December 2008		
	US Dollar	EURO
Monetary financial assets:		
Cash and cash equivalents	114,749	52,901
Accounts receivable	37,372	22,834
	152,121	75,735
Monetary financial liabilities:		
Accounts payable and other liabilities	-	(6,382)
Borrowings and notes payable	(1,322,118)	-
	(1,322,118)	(6,382)
Net position	(1,169,997)	69,353

The above analysis includes only monetary assets and liabilities.

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

	2009	2008
<i>Impact on post-tax profit and on equity of:</i>		
US Dollar strengthening by 25%	(184,626)	(292,499)
US Dollar weakening by 25%	184,626	292,499
Euro strengthening by 25%	36,262	17,338
Euro weakening by 25%	(36,262)	(17,338)

The Group relies on export sales to generate foreign currency earnings. As the Group sales outside the Russian Federation a significant portion of its production, it is exposed to foreign currency risk arising primarily on volatility of US dollar rate, in which major export sales are denominated.

Since the Group does not hold any foreign currency denominated equity securities and other financial instruments revalued through equity, the effect of a change in the exchange rate on equity would be the same as that on the post-tax profit.

(ii) Interest rate risk

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

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



29 Financial and Capital Risk Management (continued)

29.1 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

The Group has no interest-bearing assets at floating rates, and the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2009 and 2008 borrowings at variable rates amounted to RR 1,209,768 and RR 1,322,118, respectively (Note 19).

At 31 December 2009, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RR 25,606 (2008: RR 945) 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 stakes and bonds of JSC Acron and JSC Sberbank, which are classified on the consolidated statement of financial position as available-for-sale as of 31 December 2009 and 31 December 2008, respectively (Note 16). Monitoring of the fair value of the stakes is performed on a regular basis to assess risk of impairment of the stakes. No impairment of these investments were recognised as of 31 December 2009 and 31 December 2008.

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 RR 3,352,398 (2008: RR 1,524,082) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents and debt securities. The amount does not include equity investments. The Group has no significant concentrations of credit risk.

Cash and cash equivalents. Cash and short-term deposits are placed in major multinational, Russian banks with independent credit ratings and Chinese banks with top internal credit ratings. All bank balances and term deposits are neither past due nor impaired. See analysis by credit quality of bank balances and term deposits in Note 9.



29 Financial and Capital Risk Management (continued)

29.1 Financial risk management (continued)

(b) Credit risk (continued)

Trade receivables and loans receivable. Trade receivables and loans receivable are subject to a policy of active credit risk management which focuses on an assessment of ongoing credit evaluation and account monitoring procedures. The objective of the management of receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risk at an acceptable level.

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers or borrowers. The credit quality of each new customer is 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 2009 and 31 December 2008 the Group had the following counterparties with aggregated receivables balances of in excess of 10% of the Group's gross accounts receivable balances: “Smolenskaya regional company” advances issued in amount RR 104,676 (31 December 2008: RR 111,923); JSC “Uralcali Berezniki Permsky” advances issued in amount RR 85,275 (31 December 2008: nil); Agranova International Inc. trade receivable in amount RR 85,534 (31 December 2008: 60,207).

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 10).

(c) Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

Weekly liquidity planning is performed by the corporate treasury function and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

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 (Refer also Note 4 for Going Concern Critical Judgement).

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2009						
Term loans * (Note 19)	66,178	1,981,962	834,714	-	-	2,882,854
Trade payables (Note 17)	137,090	-	-	-	-	137,090
Dividends and other distributions to shareholders (Note 25)	-	7,937	-	-	-	7,937
Total future payments, including future principal and interest payments	203,268	1,989,899	834,714	-	-	3,027,881



29 Financial and Capital Risk Management (continued)

29.1 Financial risk management (continued)

(c) Liquidity risk (continued)

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2008						
Credit lines * (Note 19)	13,091	902,408	442,747	-	-	1,358,246
Trade payables (Note 17)	329,216	-	-	-	-	329,216
Dividends and other distributions to shareholders (Note 25)	-	11,247	-	-	-	11,247
Total future payments, including future principal and interest payments	342,307	913,655	442,747	-	-	1,698,709

* The table above shows undiscounted cash outflows for financial liabilities (including interest together with the borrowings) based on conditions existing as of 31 December 2009 and 31 December 2008, respectively.

The Group controls the minimum required level of cash balances available for short-term payments in accordance with the financial policy of the Group. Such cash balances are represented by current cash balances on bank accounts and bank deposits. Group's policy for financing its working capital is aimed at maximum reliance on own operating cash flows, availability of short-term bank and other external financing to maintain sufficient liquidity.

Unused credit lines available under long-term loan facilities were nil (31 December 2008: nil).

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 2009, the Group's strategy, which was unchanged from 2008, was to maintain the gearing ratio at the level not exceeding 150%.

The gearing ratio as of 31 December 2009 and 31 December 2008 is shown in the table below:

	2009	2008
Long-term borrowings	1,409,768	440,706
Short-term borrowings	1,203,664	881,412
Total debt	2,613,432	1,322,118
Shareholders' equity	9,902,053	6,349,359
Gearing ratio, %	26.4%	20.8%

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

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



29 Financial and Capital Risk Management (continued)

29.2 Capital risk management (continued)

In 2009, the Group’s strategy, which was unchanged from 2008, was to maintain EBITDA/net interest expense ratio at the level not be lower than 4:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortization adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 19).

The ratio of EBITDA/net interest expense as of 31 December 2009 and 31 December 2008 is shown in the table below:

	2009	2008
Operating profit	1,916,112	3,529,140
Add: depreciation and amortization (Note 21)	307,917	259,604
Add: foreign exchange gain/(loss) (Note 24)	118,533	(11,629)
Add: (gain)/loss on disposal of investments	33,949	-
Add: loss/(gain) on disposal of property, plant and equipment	49,821	(3,077)
EBITDA	2,426,332	3,774,040
Interest income (Note 23)	(193,624)	(81,345)
Interest expense	126,811	76,221
Net interest expense	(66,813)	(5,124)
EBITDA/Net interest expense	36:1	737:1

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. Since EBITDA is not standard IFRS measure Dorogobuzh Group’s definition of EBITDA may differ from that of other companies.

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. Available-for-sale investments are carried in the statement of financial position at their fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised as one of the three categories:

Level 1: quoted price in an active market;

Level 2: valuation technique with inputs observable in markets;

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

All available-for-sales financial instruments of the Group were included in level 1 category in the amount of RR 4,715,870 (2008: RR 1,266,534). There are no other financial instruments which fair value was determined based on inputs other than level 1 category.



30 Fair Value of Financial Instruments (continued)

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 2009 and 2008 the fair value of borrowings was not materially different from their carrying amounts.

31 Subsequent Events

Subsequent to 31 December 2009 and prior to the date of these consolidated financial statements, the Group has obtained additional bank loans of RR 2,947,257 and repaid existing loans of RR 470,307. The Group also originated loans to JSC Acron, its parent company, of RR 2,360,000.

In May 2010 Annual Shareholder Meeting of the Company approved dividend distribution for 2009 in the amount of 0.2 roubles per preferred share and no dividend for ordinary shares.