

**JOINT STOCK COMPANY
“ACRON”**

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

31 December 2010

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INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

26 April 2011

Moscow, Russian Federation

Joint Stock Company "Acron"
Consolidated Statement of Financial Position at 31 December 2010
(in thousands of Russian Roubles)



	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	14	24,091,097	20,474,634
Exploration rights	15	23,609,870	21,690,111
Leasehold land	13	507,160	516,427
Goodwill	16	1,266,651	1,266,651
Other non-current assets		832,853	893,667
Available-for-sale investments	17	24,398,329	20,594,908
Long-term loans receivable	11	41,970	61,279
Deferred tax assets	30	685,063	582,125
Total non-current assets		75,432,993	66,079,802
Current assets			
Inventories	12	7,164,899	5,858,448
Short-term loans receivable	11	955,885	831,442
Accounts receivable	10	5,924,806	4,310,534
Trading Investments	19	726,753	-
Cash and cash equivalents	9	7,596,926	7,706,149
Other current assets		275,677	145,405
Total current assets		22,644,946	18,851,978
TOTAL ASSETS		98,077,939	84,931,780
EQUITY			
Share capital	24	3,125,018	3,125,018
Treasury shares	24	(52,444)	(46,326)
Retained earnings		26,200,044	21,687,510
Revaluation reserve		16,364,776	13,712,148
Other reserves	24	(741,077)	(248,466)
Cumulative currency translation difference		337,844	294,961
Share capital and reserves attributable to the Company's owners		45,234,161	38,524,845
Non-controlling interest		4,887,351	3,867,909
TOTAL EQUITY		50,121,512	42,392,754
LIABILITIES			
Non-current liabilities			
Long-term borrowings	22	22,719,147	19,812,018
Finance lease liability	23	38,265	49,499
Other long-term liabilities		507,884	259,636
Deferred tax liability	30	5,488,370	4,609,349
Total non-current liabilities		28,753,666	24,730,502
Current liabilities			
Accounts payable	20	1,672,734	1,317,554
Notes payable		658,069	807,733
Current income tax payable		266,357	23,591
Other taxes payable	21	312,232	239,058
Short-term borrowings	22	13,134,375	12,548,564
Advances received		2,673,391	2,499,178
Finance lease liability	23	19,681	21,553
Other current liabilities		465,922	351,293
Total current liabilities		19,202,761	17,808,524
TOTAL LIABILITIES		47,956,427	42,539,026
TOTAL LIABILITIES AND EQUITY		98,077,939	84,931,780

Approved for issue and signed on behalf of the Board of Directors on 26 April 2011.

I.N. Antonov
President

A.V. Milenkov
Finance Director



	Note	2010	2009
Revenue	7	46,737,682	37,541,673
Cost of sales	25	(27,879,936)	(23,938,872)
Gross profit		18,857,746	13,602,801
Transportation expenses		(5,543,344)	(4,106,792)
Selling, general and administrative expenses	26	(4,363,887)	(3,421,673)
Loss on disposal of property, plant and equipment, net		(160,693)	(145,651)
Other operating expenses, net	28	(49,317)	(554,215)
Operating profit		8,740,505	5,374,470
Finance income	27	220,552	192,169
Interest expense		(694,235)	(364,135)
Loss on changes in fair value of derivatives, net	18	(82,928)	-
Share of result of associates	31	-	(214,851)
Gain on disposal of associate	31	-	3,816,368
Profit before taxation		8,183,894	8,804,021
Income tax expense	30	(1,904,443)	(1,547,928)
Net profit for the year		6,279,451	7,256,093
Other comprehensive income/(loss):			
Available-for-sale investments:			
- Gains less losses arising during the year		3,982,803	13,742,424
- Income tax recorded directly in other comprehensive income		(796,561)	(2,748,481)
Currency translation differences		51,832	142,590
Other comprehensive income/(loss) for the year		3,238,074	11,136,533
Total comprehensive income for the year		9,517,525	18,392,626
Net profit is attributable to:			
Shareholders of the Company		5,584,068	7,081,442
Non-controlling interest		695,383	174,651
Net profit for the year		6,279,451	7,256,093
Total comprehensive income is attributable to:			
Shareholders of the Company		8,279,579	16,945,033
Non-controlling interest		1,237,946	1,447,593
Total comprehensive income for the year		9,517,525	18,392,626
Earnings per share, basic and diluted			
(expressed in RUB per share)	29	128.79	162.64

Joint Stock Company "Acron"
Consolidated Statement of Cash Flows for the year ended 31 December 2010
(in thousands of Russian Roubles)



	Note	2010	2009
Cash flows from operating activities			
Profit before taxation		8,183,894	8,804,021
<i>Adjustments for:</i>			
Depreciation and amortization	13, 14	1,495,603	1,379,663
(Reversal)/impairment of property, plant and equipment, net	25	109,862	(55,385)
Provision for impairment of accounts receivable		(30,196)	10,030
Provision for inventory obsolescence		(33,634)	-
Loss on buyback of own debt securities		79,591	-
Share of results of associate	31	-	214,851
Gain on disposal of associate	31	-	(3,816,368)
Gain on disposal of license	15	(163,248)	-
Loss on disposal of land leasehold		47,985	-
Loss on disposal of property, plant and equipment		160,693	145,651
Interest expense		694,235	364,135
Interest income		(360,779)	(165,788)
Dividend income		(44,567)	(41,162)
Foreign exchange effect on non-operating balances		(21,413)	(66,352)
Operating cash flows before working capital changes		10,118,026	6,773,296
(Increase)/decrease in gross trade receivables		(1,464,000)	746,775
Decrease/(Increase) in advances to suppliers		806,418	(428,709)
Increase in other receivables		(667,868)	(810,207)
Increase in inventories		(1,272,817)	(320,047)
Increase in other current assets		(130,270)	(1,999)
Increase/(decrease) in trade payables		174,234	(351,942)
Increase/(decrease) in other payables		493,909	(200,994)
Increase in advances from customers		174,213	275,499
Increase in trading investments		(629,240)	-
Increase in other current liabilities		114,628	246,646
Net change in other non-current assets and liabilities		2,956	178,357
Cash generated from operations		7,720,189	6,106,675
Income taxes paid		(1,749,739)	(1,090,334)
Interest paid		(2,688,013)	(2,160,273)
Net cash generated from operating activities		3,282,437	2,856,068
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,448,935)	(3,734,328)
Exploration and evaluation expenditure		-	(152,000)
Purchase of land leasehold		(50,644)	(51,052)
Proceeds from sale of license	15	327,155	46,499
Loans provided		(520,639)	(472,761)
Proceeds from loans repaid		414,180	559,000
Interest received		93,538	88,231
Dividends received		39,151	40,218
Proceeds from sale of investment in associate	31	-	4,172,527
Income tax on sale of investment in associate	31	-	(757,771)
Proceeds from sale of available-for-sale investments		-	19,315
Purchase of available-for-sale investments		(4,422)	(208,644)
Net cash used in investing activities		(5,150,616)	(450,766)
Cash flows from financing activities			
Acquisition of non-controlling interest		(171,065)	(1,085,620)
Dividends paid to shareholders		(1,012,344)	(433,479)
Dividends paid to non-controlling shareholders		(23,884)	(89,638)
Acquisition of treasury shares	24	(498,729)	-
Proceeds from borrowings		33,323,457	57,932,821
Repayment of borrowings		(29,879,209)	(55,040,746)
Net cash provided from financing activities		1,738,226	1,283,338
Effect of exchange rate changes on cash and cash equivalents		20,730	8,741
Net increase/(decrease) in cash and cash equivalents		(109,223)	3,697,381
Cash and cash equivalents at the beginning of the year		7,706,149	4,008,768
Cash and cash equivalents at the end of the year		7,596,926	7,706,149

Joint Stock Company "Acron"
Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(in thousands of Russian Roubles)



	Capital and reserves attributable to the Company's owners							
	Share capital (Note 23)	Treasury shares (Note 23)	Retained earnings	Revaluation reserve	Other reserves (Note 23)	Cumulative currency translation difference	Non-controlling interest	Total equity
Balance at 1 January 2009	3,125,018	(46,326)	15,391,110	3,953,534	(248,466)	189,984	2,810,532	25,175,386
Comprehensive income								
Profit for the year	-	-	7,081,442	-	-	-	174,651	7,256,093
<i>Other comprehensive income</i>								
Fair value gains on available-for-sale investments (Note 17)	-	-	-	12,198,263	-	-	1,544,161	13,742,424
Currency translation differences	-	-	-	-	-	104,977	37,613	142,590
Income tax recorded in other comprehensive income (Note 30)	-	-	-	(2,439,649)	-	-	(308,832)	(2,748,481)
Total other comprehensive income	-	-	-	9,758,614	-	104,977	1,272,942	11,136,533
Total comprehensive income	-	-	7,081,442	9,758,614	-	104,977	1,447,593	18,392,626
Dividends declared (Note 24)	-	-	-	-	-	-	(89,638)	(89,638)
Acquisition of non-controlling interest (Note 24)	-	-	(785,042)	-	-	-	(300,578)	(1,085,620)
Balance at 31 December 2009	3,125,018	(46,326)	21,687,510	13,712,148	(248,466)	294,961	3,867,909	42,392,754
Balance at 1 January 2010	3,125,018	(46,326)	21,687,510	13,712,148	(248,466)	294,961	3,867,909	42,392,754
Comprehensive income								
Profit for the year	-	-	5,584,068	-	-	-	695,383	6,279,451
<i>Other comprehensive income</i>								
Fair value gains on available for sale securities (Note 17)	-	-	-	3,315,785	-	-	667,018	3,982,803
Currency translation differences	-	-	-	-	-	42,883	8,949	51,832
Income tax recorded in other comprehensive income (Note 30)	-	-	-	(663,157)	-	-	(133,404)	(796,561)
Total other comprehensive income	-	-	-	2,652,628	-	42,883	542,563	3,238,074
Total comprehensive income	-	-	5,584,068	2,652,628	-	42,883	1,237,946	9,517,525
Dividends declared (Note 24)	-	-	(1,110,429)	-	-	-	(8,545)	(1,118,974)
Acquisition of treasury shares (Note 24)	-	(6,118)	-	-	(492,611)	-	-	(498,729)
Acquisition of non-controlling interest (Note 24)	-	-	38,895	-	-	-	(209,959)	(171,064)
Balance at 31 December 2010	3,125,018	(52,444)	26,200,044	16,364,776	(741,077)	337,844	4,887,351	50,121,512



1 Acron Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron 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 Novgorodskaya and Smolenskaya oblasts of Russia and also in China. Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

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

The Company's registered office is at Novgorod-the-Great, 173012, 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 derivatives, available-for-sale and trading investments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

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

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

3 Summary of Significant Accounting Policies

3.1 Group accounting

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

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

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



3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

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

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

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

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

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

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

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

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

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

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



3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.2 Cash and cash equivalents

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

3.3 Trade and other receivables

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

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

3.4 Value added tax

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

3.5 Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Catalytic agents consumed for the period of more than 12 months are presented within other non-current assets in the amount of RUB 524,463 (2009: RUB 694,239). 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 Summary of Significant Accounting Policies (continued)

3.6 Property, plant and equipment

Property, plant and equipment are recorded at cost, restated where applicable to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

At each reporting date management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated to allocate cost of property, plant and equipment to their residual values on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	<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 profit or loss.

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

3.7 Leasehold land

Leases of land are classified as operating leases. The pre-paid lease payments are amortised over the lease period of 30 years on a straight-line basis.

3.8 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 Summary of Significant Accounting Policies (continued)

3.9 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.

3.10 Income tax

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

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

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

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

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

3.11 Foreign currency transactions

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Rouble (“RUB”). The functional currency of the Company's subsidiary Shandong Hongri Acron Chemical Joint Stock Company Limited (China) is Renminbi (CNY).



3 Summary of Significant Accounting Policies (continued)

3.11 Foreign currency transactions (continued)

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

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

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified from other comprehensive income to profit or loss.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 30.4769, USD 1 = CNY 6.6227 (2009: USD 1 = RUB 30.2442, USD 1 = CNY 6.8282). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.12 Provisions for liabilities and charges

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

3.13 Shareholders' equity

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



3 Summary of Significant Accounting Policies (continued)

3.13 Shareholders' equity (continued)

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.

3.14 Revenue recognition

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

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.

3.15 Mutual cancellations

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

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

3.16 Employee benefits

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

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

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognised contributions of RUB 334,423 as part of labour costs in 2010 (2009: RUB 432,289).



3 Summary of Significant Accounting Policies (continued)

3.17 Financial assets and liabilities

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

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

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Initial recognition of financial instruments. Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss.

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

Derivative financial instruments. As part of its financing activities the Group is also party to derivative financial instruments including foreign currency and interest rate swap contracts. The Group's policy is to measure these instruments at fair value with resultant gains or losses being reported within the profit and loss. The fair value of derivatives financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group has no derivatives accounted for as hedges.



3 Summary of Significant Accounting Policies (continued)

3.18 Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

3.19 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.

3.20 Segment reporting

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

3.21 Exploration and evaluation expenditure

Expenditures incurred in exploration and evaluation activities (acquisition of rights to explore, including cost related to compliance with license terms; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource) are capitalised. In accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration assets are measured applying the cost model described in IAS 16, Property, Plant and Equipment, after initial recognition. Exploration assets are not depreciated until the production phase. The Group tests exploration assets for impairment when there are facts and circumstances that suggest that the carrying value of the asset may not be recoverable.

3.22 Development expenditure

Development expenditure incurred by or on behalf of the group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the expenditure in respect of the area of interest is classified in assets under construction category and separately disclosed in Note 14. Costs incurred are tested for impairment upon commencement of development phase.

Development expenditure is reclassified as a "mining property" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of development expenditure until they are reclassified as "mining properties".

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates. At 31 December 2010 no impairment of goodwill was required, and none would be required even if the budgeted sales growth rate used in the value-in-use calculations for any CGU had been 5.5% (2009: 5%) lower than management estimates at 31 December 2010. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 6% (2009: 3%) higher than management estimates, the goodwill would still have not been impaired.



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

Impairment of property, plant and equipment and exploration rights. At 31 December 2010 the Group performed an impairment test of property, plant and equipment and exploration rights. The recoverable amount of each cash-generating unit (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 fertilisers for the same period according to the leading industry publications, which are broadly in line with 2010 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs as further disclosed in Note 14. Recoverable amounts of Limited Liability Company Verkhnekamsk Potash Company ("LLC VPC") and Shandong Hongri Acron Joint Stock Company Limited ("Hongri Acron") is are sensitive to changes in discount rates. For LLC VPC any increase in discount rate by over 0.5% (2009: 1.0%) would lead to impairment charge of approximately RUB 2,100,000 (2009: RUB 1,640,000 RR). For Hongri Acron increase in discount rate by 6.4% (2009: 6.6%) would lead to impairment of RR 163,636 (2009: RUB 35,440). Reasonably possible change in other key assumptions does not lead to material impairment charge.

Consolidation of subsidiaries. Although the Company has only 50% interest in JSC Acron-Trans, it has the power to cast the majority of votes at meetings of the board of directors as per charter. Accordingly, the Company has consolidated this entity in these financial statements.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Capitalisation of borrowing costs for exploration rights. Exploration rights represent part of investment projects for development of mineral deposits that necessarily take a substantial time to get ready for intended use. Accordingly, management considers exploration rights as qualifying assets for capitalization of borrowing costs. Refer to Note 15.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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



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

- **IAS 27, Consolidated and Separate Financial Statements** (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group early adopted IAS 27 and changed its accounting policies for purchases of non-controlling interests that do not result in the loss of control. As a result of adoption the difference between the purchase consideration for remaining 50% of AS DBT and the carrying amount of non-controlling interest acquired was recorded as capital transaction directly in equity in the amount of RUB 785,042 in the 2009 financial statements.
- **IFRIC 17, Distribution of Non-Cash Assets to Owners** (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets is recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is currently not relevant to the Group's operations because it does not distribute non-cash assets to owners;
- **Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement** (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment currently does not have any impact on the Group's consolidated financial statements as the Group does not apply hedge accounting;
- **IFRIC 18, Transfers of Assets from Customers** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 does not impact the Group's consolidated financial statements;
- **Improvements to International Financial Reporting Standards** (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IAS 1, IAS 7, IFRS 8, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The improvements do not have a material effect on the Group's consolidated financial statements;



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

- **Group Cash-settled Share-based payment Transactions – Amendments to IFRS 2, Share-based Payment** (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8 and IFRIC 11, the amendments expand on the guidance in IFRIC 11 to address the classifications of group arrangements that were not covered by that interpretation. These amendments are not relevant to the Group;
- **Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS** (effective for annual periods beginning on or after 1 January 2010). The amendments do not have any impact on the Group's consolidated financial statements;
- **The International Financial Reporting Standard for Small and Medium-sized Entities** (issued in July 2009). The Group does not intend to adopt the IFRS for SMEs.

6 New Accounting Pronouncements

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

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011);
- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). The Group is currently assessing the impact of the amended standard on its consolidated financial statements;
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The Group is currently assessing the impact of the amended standards on its consolidated financial statements;
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011);
- Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (issued in October 2009 and effective for annual periods beginning on or after 1 February 2010);
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010);
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010);
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011);
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).

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

7 Segment Information

The Group prepares its segment analysis in accordance with IFRS 8, Operating Segments. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (s) ("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)

During 2010 the Group changed its reporting segments based on the changes in composition of the operating segments, specifically domestic and international distribution, which were combined into a single operating segment – trading. Comparatives were restated to conform to the presentation of current period amounts.

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

- Acron – representing manufacturing and distribution of chemical fertilisers by JSC Acron;
- Dorogobuzh – representing manufacturing and distribution of chemical fertilisers by JSC Dorogobuzh;
- Hongri Acron – representing manufacturing and distribution of chemical fertilisers by Shandong Hongri Acron Chemical Joint Stock Company Ltd.;
- Logistics – representing transportation and logistic services rendered by Estonian ports of the Group and some minor transportation companies in Russia. Constitutes an aggregation of a number of operating segments;
- Trading – representing overseas & domestic distribution companies of the Group;
- Mining – representing primarily mining licences held by subsidiaries of the Group. Constitutes an aggregation of a number of operating segments;
- Other – representing certain logistic (other than included in logistic segment), service, agriculture and management operations.

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

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

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

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

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

	Acron	Dorogobuzh	Hongri Acron	Logistics	Trading	Eliminations	Other	Total
Revenue	22,751,614	11,037,724	7,024,332	2,005,928	28,687,723	(26,382,460)	1,612,821	46,737,682
EBITDA	6,141,247	2,414,033	862,024	560,944	762,869	-	(405,117)	10,336,000

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

	Acron	Dorogobuzh	Hongri Acron	Logistics	Trading	Eliminations	Other	Total
Revenue	18,913,467	9,978,587	5,523,301	1,224,116	21,622,867	(20,622,597)	901,932	37,541,673
EBITDA	4,783,447	2,435,018	(587,073)	342,658	612,514	-	(311,088)	7,275,476



7 Segment Information (continued)

Reconciliation of EBITDA to Profit Before Tax:

	2010	2009
Profit Before Tax	8,183,894	8,804,021
Less: Gain sale on associate	-	(3,601,517)
Add: Changed in fair value of derivatives; net	82,928	-
Add: Interest expense	694,235	364,135
Less: Finance income	(220,552)	(192,169)
Operating Profit	8,740,505	5,374,470
Depreciation and amortisation	1,495,603	1,379,663
Foreign currency gains	94,227	399,221
Add: (Gain) / Loss on sale of investments	8,220	(23,529)
Add: Gain on disposal of licenses, land and leasehold	(163,248)	-
Add: Loss on disposal of property, plant and equipment	160,693	145,651
Total consolidated EBITDA	10,336,000	7,275,476

Entity wide disclosures

	2010	2009
<u>Revenue</u>		
Russia	7,358,391	7,991,517
European Union	7,529,894	6,121,151
Commonwealth of Independent States	2,589,706	2,893,065
Americas	8,785,225	5,390,781
China	13,438,750	12,028,488
Other regions	7,035,716	3,116,671
Total	46,737,682	37,541,673
<u>Non-current assets</u>		
Russia	42,181,904	36,649,839
China	3,119,792	2,960,628
Canada	1,376,298	1,485,728
Estonia	3,582,957	3,740,263
Europe	36,636	-
USA	10,044	5,032
Total	50,307,631	44,841,490

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 88% of total revenues (2009: 86%).

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

There are not revenues from customers which represent 10% of more of the total revenues.

8 Balances and Transactions with Related Parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2010 and 2009 are detailed below.



8 Balances and Transactions with Related Parties (continued)

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

i Balances with related parties

Statement of financial position

caption	Note	Relationship	2010	2009
Trade receivables, gross	10	Companies under common control	19,022	101,393
Provision for impairment of trade receivables	10	Companies under common control	-	-
Prepayments	10	Companies under common control	785	7,574
Loans issued	11	Companies under common control	830,339	718,733
Other receivables	10	Companies under common control	-	1,913
Trade payables	20	Companies under common control	(16,820)	(21,594)

ii Transactions with related parties

Statement of comprehensive income caption

caption	Note	Relationship	2010	2009
Sales of chemical fertilisers	7	Companies under common control	41,138	108,329
Purchases of raw materials	25	Companies under common control	(216,246)	(230,340)
Charity	28	Companies under common control	(71,700)	(47,606)

In December 2009 the Group acquired the remaining 50% of the share capital of AS DBT from a party under common control for a cash consideration of RUB 1,085,620 (Note 24).

iii Cross shareholding

In December 2010 Acron purchased 803,606 ordinary treasury shares, including 255,786 from JSC Dorogobuzh. At 31 December 2010 JSC Dorogobuzh, a 73.90% subsidiary of the Group (31 December 2009: 72.33%), owned 3,540,060 ordinary shares or 7.42% of the ordinary share capital of the Company (31 December 2009: 4,147,246 ordinary shares or 8.70%). Shares owned by JSC Dorogobuzh are accounted for as treasury shares, but retain their voting rights and dividends.

iv Loans issued

At 31 December 2010 short-term loans to parties under common control totalled RUB 798,075 (2009: RUB 713,718) at interest rates in the range of 8.8% to 10.5%. The loans were unsecured.

At 31 December 2010 long-term loans to parties under common control totalled RUB 32,264 (2009: RUB 5,015). The loans are unsecured.

In 2010 the Group accrued interest income of RUB 84,870 (2009: RUB 83,894).

At 31 December 2010 loans issued to key management personnel totalled of RUB 0 (2009: RUB 6,982).

v Key management personnel compensation

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

Total key management personnel compensation in the amount of RUB 201,348 (2009: RUB 262,928) was recorded in general and administrative expenses. Related state social and pension costs amounted to RUB 2,158 (2009: RUB 6,811).



9 Cash and Cash Equivalents

	2010	2009
Cash on hand and bank balances denominated in RUB	2,193,839	3,917,032
Bank balances denominated in USD	3,848,133	2,477,868
Bank balances denominated in EUR	731,743	411,363
Bank balances denominated in CAD	253,245	4,029
Bank balances denominated in EEK	1,527	72,101
Bank balances denominated in CHF	4,729	-
Bank balances denominated in CNY	563,710	823,756
Total cash and cash equivalents	7,596,926	7,706,149

Cash and cash equivalents include term deposits of RUB 3,154,324 (2009: RUB 5,655,937).

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

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

	2010	2009
A to AAA* rated	686,055	74,939
BB- to BBB+* rated	5,885,495	6,795,680
Chinese banks with top internal credit ratings	574,207	831,317
Unrated	451,169	4,213
Total	7,596,926	7,706,149

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

10 Accounts Receivable

	2010	2009
Trade accounts receivable	1,850,598	386,598
Notes receivable	172,157	75,383
Other accounts receivable	236,360	202,783
Less: impairment provision	(193,867)	(226,699)
Total financial assets	2,065,248	438,065
Advances to suppliers	1,261,483	2,067,901
Value-added tax recoverable	2,466,458	1,656,970
Income tax prepayments	25,377	89,142
Other taxes receivable	113,155	62,735
Less: impairment provision	(6,915)	(4,279)
Total accounts receivable	5,924,806	4,310,534

Included in notes receivable are notes receivable from Sberbank for RUB 127,440 (2009: RUB 68,424) and notes receivable from banks in China for RUB 44,717 (2009: RUB 6,959).

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

As of 31 December 2010, trade and other accounts receivable of RUB 193,867 (2009: RUB 226,699) 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:

	2010	2009
Less than 3 months	-	-
From 3 to 9 months	1,025	2,948
From 9 to 12 months	4,285	4,804
Over 12 months	188,557	218,947
Total gross amount of impaired accounts receivable	193,867	226,699



10 Accounts Receivable (continued)

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

	2010	2009
	Trade and other receivables	Trade and other receivables
Provision for impairment at 1 January	(226,699)	(210,153)
Provision for impairment	(144,106)	(30,813)
Provision used	121,136	3,031
Provision reversed	55,802	11,236
Provision for impairment at 31 December	(193,867)	(226,699)

The Group does not hold any collateral as security.

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

As of 31 December 2010, trade receivables of RUB 10,154 (2009: RUB 44,754) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2010	2009
Less than 3 months	303	2,100
From 3 to 9 months	3,499	172
From 9 to 12 months	3,349	16,509
Over 12 months	3,003	25,973
Trade accounts receivable past due not impaired	10,154	44,754

Analysis by credit quality of trade and other receivables is as follows:

	2010		2009	
	Trade receivables	Notes receivable	Trade receivables	Notes receivable
<i>Current and not impaired – exposure to:</i>				
- Notes receivable from top Russian and foreign banks	-	172,157	-	75,383
- Foreign traders and customers	1,760,621	-	232,500	-
- Small individual Russian companies and farms	79,698	-	33,632	-
- Chinese customers	42,618	-	51,796	-
Total current and not impaired	1,882,937	172,157	317,928	75,383

11 Loans Receivable

	2010	2009
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	798,075	713,718
Loans issued to third parties	157,810	117,724
	955,885	831,442
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	32,264	5,015
Loans issued to third parties	9,706	56,264
	41,970	61,279

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

At 31 December 2010 and 2009 short-term loans totalled RUB 955,885 and RUB 831,442, respectively, at interest rates in the range of 8.25 % to 8.8% (2009: 10.5 % to 14.2%). The loans were unsecured.



11 Loans Receivable (continued)

At 31 December 2010 and 2009 long-term loans totalled RUB 41,970 and RUB 61,279, respectively, at interest rates of 8.8% (2009: 8.0% to 14.2%). The loans were unsecured.

In 2010 the Group accrued interest income on loans receivable of RUB 88,028 (2009: RUB 92,773).

At 31 December 2010 and at 31 December 2009 the Group had two counterparties with aggregated loans receivable balances in excess of 80% and 75% of the Group's loans receivable balances, respectively. The loans were issued to parties, with whom the Group had standing business relationship as lending business is not Group's primary activity.

12 Inventories

	2010	2009
Raw materials and spare parts	4,246,033	3,062,590
Work in progress	343,971	202,921
Finished products	2,574,895	2,592,937
	7,164,899	5,858,448

Raw materials are shown net of write-down of RUB 198,652 (2009: RUB 229,787). Finished products are shown net of write-down of RUB 0 (2009: RUB 2,499). No inventory was pledged as security at 31 December 2010 and 2009.

13 Leasehold Land

	2010	2009
Cost		
Balance at 1 January	552,164	490,230
Additions	50,644	51,052
Disposals	(47,991)	(5,817)
Translation difference	(6,077)	16,699
Balance at 31 December	548,740	552,164
Accumulated amortization		
Balance at 1 January	35,737	31,239
Amortization for the year	4,451	3,549
Disposals	-	-
Translation difference	1,392	949
Balance at 31 December	41,580	35,737
Net book value		
Balance at 1 January	516,427	458,991
Balance at 31 December	507,160	516,427

At 31 December 2010, the Group's leasehold land with net book value of RUB 294,652 (2009: RUB 239,142) was held and represent prepayments for land use rights with terms of 27 to 30 years expiring from March 2023 to November 2028. The leasehold land related to location of buildings and production facilities of Shandong Hongri Acron Chemical Joint Stock Company Ltd., the Group's subsidiary in the People's Republic of China.

At 31 December 2010, land use right with a net book value of RUB 206,834 (2009: RUB 196,167) had been pledged as security for long-term loans (Note 22).



14 Property, Plant and Equipment

	Buildings and constructions	Plant and equipment	Transport	Other	Land	Assets under construction	Total
Cost							
Balance at							
1 January 2010	19,881,398	21,856,799	3,079,576	1,086,430	684,531	4,558,301	51,147,035
Additions	-	-	-	-	-	5,448,935	5,448,935
Transfers	150,045	891,921	668,025	666,701	16,743	(2,393,435)	-
Disposals	(326,475)	(605,148)	(48,735)	(60,794)	-	-	(1,041,152)
Translation difference	(50,945)	54,777	(12,925)	2,022	-	(42,648)	(49,719)
Balance at							
31 December 2010	19,654,023	22,198,349	3,685,941	1,694,359	701,274	7,571,153	55,505,099
Accumulated Depreciation							
Balance at							
1 January 2010	12,076,447	16,734,333	819,487	507,970	-	-	30,138,237
Depreciation charge	426,556	790,184	224,503	49,909	-	-	1,491,152
Disposals	(321,281)	(474,732)	(41,730)	(42,716)	-	-	(880,459)
Translation difference	(18,007)	16,075	1,571	63	-	-	(298)
Balance at							
31 December 2010	12,163,715	17,065,860	1,003,831	515,226	-	-	30,748,632
Accumulated Impairment Loss							
Balance at							
1 January 2010	227,999	298,111	-	2,586	-	5,468	534,164
Reclassification	-	-	-	-	-	-	-
Impairment Charge	-	138,057	-	-	-	-	138,057
Reversal	-	(27,584)	-	(611)	-	-	(28,195)
Translation difference	8,883	11,615	-	438	-	408	21,344
Balance at							
31 December 2010	236,882	420,199	-	2,413	-	5,876	665,370
Net Book Value							
Balance at							
1 January 2010	7,576,952	4,824,355	2,260,089	575,874	684,531	4,552,833	20,474,634
Balance at							
31 December 2010	7,253,426	4,712,290	2,682,110	1,176,720	701,274	7,565,277	24,091,097

Included in the 2010 additions to assets under constructions is approximately RUB 289,174 of capitalized borrowing costs in accordance with IAS 23 (R) (2009: RUB 140,264) at the average borrowing rate of 9.33% (2009: 11.25%)

Non-current assets impairment test. Cash-generating units (CGUs) represent the lowest level within the Group at which the goodwill is 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 2010.

In 2010 the impairment charge in the amount of RUB 109,862 arose in a Methanol CGU in Shandong Hongri Acron Chemical Joint Stock Company Limited (included in China operating segment) primarily due to worsening market conditions, decrease in demand and profitability of methanol production which caused management to temporary suspended methanol production. There was no impairment in 2009.



14 Property, Plant and Equipment (continued)

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

	AS DBT, LLC Andrex, JSC Dorogobuzh, JSC Acron	Shandong Hongri Acron Chemical JSC Limited
EBITDA margin range over the forecast period	17-33%	9-15%
Growth rate beyond five years	3%	2.5%
Discount rate	9.9-13.1%	9.6%

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

	AS DBT, LLC Andrex, JSC Dorogobuzh, JSC Acron	Shandong Hongri Acron Chemical JSC Limited
EBITDA margin range over the forecast period	13-27%	4-18%
Growth rate beyond five years	3%	2.5%
Discount rate	12.6-15.5%	9.6%

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	Land	Assets under construction	Total
Cost							
Balance at							
1 January 2009	17,884,332	20,968,060	2,309,636	1,035,892	-	4,956,324	47,154,244
Additions	-	-	-	-	684,531	3,049,797	3,734,328
Transfers	1,821,217	726,598	812,114	92,179	-	(3,452,108)	-
Disposals	(208,763)	(457,503)	(45,088)	(59,182)	-	-	(770,536)
Translation difference	384,612	619,644	2,914	17,541	-	4,288	1,028,999
Balance at							
31 December 2009	19,881,398	21,856,799	3,079,576	1,086,430	684,531	4,558,301	51,147,035
Accumulated Depreciation							
Balance at							
1 January 2009	11,580,276	15,798,421	706,908	443,485	-	-	28,529,090
Depreciation charge	393,641	755,112	150,422	76,939	-	-	1,376,114
Disposals	(201,125)	(357,069)	(38,815)	(27,876)	-	-	(624,885)
Translation difference	303,655	537,869	972	15,422	-	-	857,918
Balance at							
31 December 2009	12,076,447	16,734,333	819,487	507,970	-	-	30,138,237
Accumulated Impairment Loss							
Balance at							
1 January 2009	95,993	462,971	-	6,970	-	5,307	571,241
Reclassification	129,185	(125,194)	-	(3,991)	-	-	-
Reversal	(1,055)	(53,724)	-	(606)	-	-	(55,385)
Translation difference	3,876	14,058	-	213	-	161	18,308
Balance at							
31 December 2009	227,999	298,111	-	2,586	-	5,468	534,164
Net Book Value							
Balance at							
1 January 2009	6,208,063	4,706,668	1,602,728	585,437	-	4,951,017	18,053,913
Balance at							
31 December 2009	7,576,952	4,824,355	2,260,089	575,874	684,531	4,552,833	20,474,634



14 Property, Plant and Equipment (continued)

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

At 31 December 2010, buildings, machinery and equipment with a net book value of RUB 586,933 (2009: RUB 774,956) had been pledged as security for long-term loans (Note 22).

The Group incurs expenses directly related to the development of deposits. These expenses were capitalised in accordance with the Group accounting policy and included within assets under construction.

Development expenditure comprises of:

	2010	2009
Balance at 1 January	921,860	465,789
Additions	2,879,801	484,293
Disposals/Transfers	(38,914)	(28,222)
Balance at 31 December	3,762,747	921,860

Leased assets

The following amounts were included in the financial statements in respect of property, plant and equipment where the Group is a lessee under a finance lease:

	2010	2009
Cost of transport	146,000	146,000
Accumulated depreciation	(65,861)	(45,004)
Carrying amount of transport	80,139	100,996

15 Exploration and Evaluation Licences and Expenditure

In May 2008 the Group's subsidiary, LLC Verkhnekamsk Potash Company, following an auction process, acquired a license for the exploration and development of the Talitsky section of the Verkhnekamsk potash deposit, located in Perm region, Russian Federation. The license expires in April 2028.

In accordance with the conditions of the license, the Group has the following commitments:

- to finalise the geological exploration by 15 April 2012;
- to commence construction of an exploration complex by 15 June 2014;
- to commence the extraction of potash salt by 15 June 2016.

The Group accounted for the license at cost of RUB 16,828,767, and additionally capitalised borrowing costs of RUB 1,790,666 at 8.8% (2009: RUB 1,886,805 at 11.25%). In 2010 the Group also capitalised exploration and evaluation expenses including costs related to compliance with mining terms in the amount of RUB 293,000 (2009: RUB 152,000). No exploration and evaluation expenses were recognised in profit or loss.

During 2008 the Group's subsidiary (101109718 Saskatchewan Ltd.) acquired 26 permits to explore for potash deposits in the Canadian province of Saskatchewan for RUB 1,456,863. Duration of the permits is 5 years. Following exploration results the Group will have preferential right for purchase of exploitation licenses. During 2010 the Group sold two licenses with net book value of RUB 163,907 for RUB 327,155.



15 Exploration and Evaluation Licences and Expenditure (continued)

	2010	2009
Cost		
Balance at 1 January	21,690,111	19,624,441
Additions	2,083,666	2,065,670
Disposals	(163,907)	-
Balance at 31 December	23,609,870	21,690,111
Accumulated Amortization		
Balance at 1 January	-	-
Additions	-	-
Disposals	-	-
Balance at 31 December	-	-
Net Book Value		
Balance at 1 January	21,690,111	19,624,441
Balance at 31 December	23,609,870	21,690,111

Exploration and evaluation expenditure comprise of:

	2010	2009
Apatite-nepheline deposits	530,843	237,843
Potash deposits	21,757,206	19,966,540
Permits for exploration	1,321,821	1,485,728
	23,609,870	21,690,111

Exploration and evaluation expenditure impairment test 2010

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, beginning from projected start of operating activities. 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. The key assumptions used for value-in-use calculations at 31 December 2010 are as follows:

	101109718 Saskatchewan Ltd	JSC North-Western Phosphorous Company	LLC Verkhnekamsk Potash Company
EBITDA margin range over the forecast period	43-47%	19-51%	53- 66%
Growth rate beyond forecast period	1%	-	1%
Discount rate	12.9%	10.7%	13.1%

During 2010 management renegotiated the terms and condition of mining license to postpone several milestone commitments which are stated above. As the result, management re-evaluated its projections for EBITDA margin, growth rate and discount rate for JSC North-Western Phosphorous Company and LLC Verkhnekamsk Potash Company.

Management determined budgeted EBITDA margin based on peers 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.

Exploration and evaluation expenditure impairment test 2009

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, beginning from projected start of operating activities. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.



15 Exploration and Evaluation Licences and Expenditure (continued)

Exploration and evaluation expenditure impairment test 2009 (continued)

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs. The key assumptions used for value-in-use calculations at 31 December 2009 are as follows:

	101109718 Saskatchewan Ltd	JSC North-Western Phosphorous Company	LLC Verkhnekamsk Potash Company
EBITDA margin range over the forecast period	43-47%	47-68%	65-74%
Growth rate beyond forecast period	1%	1%	1%
Discount rate	12.9%	16.7%	17.0%

Management determined budgeted EBITDA margin based on peers 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.

16 Goodwill

	Note	2010	2009
Carrying amount at 1 January		1,266,651	1,271,673
Adjustment identified in the course of finalisation of the purchase price allocation	31		(5,022)
Carrying amount at 31 December		1,266,651	1,266,651
Gross book value at 31 December		1,266,651	1,266,651
Carrying amount at 31 December		1,266,651	1,266,651

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

	2010	2009
LLC Andrex	52,068	52,068
JSC Dorogobuzh	971,533	971,533
AS DBT	243,050	243,050
Total carrying amount of goodwill	1,266,651	1,266,651

17 Available-for-Sale Investments

	2010	2009
Balance at 1 January	20,594,908	6,659,501
Additions	4,421	208,644
Fair value gain recognised directly in other comprehensive income	3,982,803	13,742,424
Disposals	(183,803)	(15,661)
Balance at 31 December	24,398,329	20,594,908

The Group has investments in the following companies:

Name	Activity	Country of registration	2010	2009
JSC Silvinit	Potash mining	Russia	17,435,000	14,835,600
JSC Apatit	Apatite concentrate mining	Russia	6,559,121	5,226,653
Sberbank	Banking	Russia	257,870	206,935
Other			146,338	325,720
			24,398,329	20,594,908

Fair value of all investments was determined by reference to the current market value at the close of business on 31 December 2010. At 31 December 2010 the share price quoted by RTS and MICEX for JSC Apatit and JSC Silvinit amounted to USD 335 and USD 902 for 1 share, respectively. At 31 December 2009 the share price quoted by RTS and MICEX for JSC Apatit and JSC Silvinit amounted to USD 269 and USD 773 for 1 share, respectively.



18 Derivatives Financial Assets and Liabilities

In July 2010, the Group entered into two interest rate swap contracts with a combined non deliverable nominal amount of USD 400 million as the result of these the Group pays monthly USD fixed 0.9025% and 0.905% and receives variable interest which is determined based on the monthly USD LIBOR. The contractual settlement date of contracts is 12 July 2013. At 31 December 2010 the fair value of both contracts was RUB 57,568. The total impact the revaluing these contracts included in the statement of operations for 2010 was RUB 93,167 loss.

In September 2010 the Group transacted a USD/RUB cross currency swap agreement whereby the Group pays USD fixed 5.10% based on the nominal amount of USD 9,691 thousand and receives Russian roubles fixed 8.75% interest based on the nominal amount of RUB 300,000. The swap will mature on 22 September 2011. At 31 December 2010 the fair value of the contract was RUB 7,542. The total impact the revaluing these contracts included in profit or loss for 2010 was RUB 10,198 gain.

19 Trading Investments

	2010	2009
Eurobonds	420,285	-
Corporate bonds	101,239	-
Promissory notes	149,451	-
Total debt securities	670,975	-
Corporate shares	55,748	
Total trading investments	726,723	-

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

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

	Eurobonds	Corporate bonds	Pro-missory notes	Total
- B1 rated	15,087			15,087
- B2 rated	130,969			130,969
- B3 rated	73,659			73,659
- Ba1 rated	13,105			13,105
- B rated	122,048			122,048
- Caa2 rated	23,203			23,203
- Unrated	42,214	101,239	149,451	292,904
- Balances renegotiated in 2010	-	-	-	-
Total debt securities	420,285	101,239	149,451	670,975

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

20 Accounts Payable

	2010	2009
Trade accounts payable (refer to Note 8)	876,345	702,111
Dividends payable	25,587	12,117
Total financial payables	901,932	714,228
Payables to employees	446,612	290,696
Accrued liabilities and other creditors	324,190	312,630
Total accounts payable and accrued expenses	1,672,734	1,317,554



21 Other Taxes Payable

	2010	2009
Value-added tax payable	103,679	81,440
Payroll taxes	70,666	45,516
Property and other taxes payable	137,888	112,102
	312,233	239,058

22 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2010	2009
Bonds issued	5,780,275	6,047,494
Credit lines	8,884,919	20,673,272
Term loans	21,188,328	5,639,816
	35,853,522	32,360,582

The Group's borrowings mature as follows:

	2010	2009
Borrowings due:		
- within 1 year	13,134,375	12,548,564
- between 1 and 5 years	19,005,764	19,812,018
- after 5 years	3,713,383	-
	35,853,522	32,360,582

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

	2010	2009
Borrowings denominated in:		
- RUB	7,920,138	10,327,094
- EUR	1,635,137	1,927,033
- USD	24,259,612	18,467,611
- CNY	2,038,635	1,638,844
	35,853,522	32,360,582

Bank loans denominated in CNY were collateralised by buildings, machinery and equipment with a net book value of RUB 586,933 (2009: RUB 774,956) (Note 14) and land use right with a net book value of RUB 206,834 (2009: RUB 196,167) (Note 13). The loans obtained from banks in China are secured by guarantees issued by third parties totalled RUB 1,196,490 (2009: RUB 730,836).

With the exception of interest rate and cross currency swap agreements (Note 18), the Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2010 the fair value of borrowings was RUB 392 714 lower than the their carrying amount (RUB 689,382 lower than their carrying amounts at 31 December 2009).

At 31 December 2010 unused credit lines available under the long-term loan facilities were RUB 8,557,944 (31 December 2009: nil). The terms and conditions of unused credit lines are consistent with other borrowings disclosed in Note 22.



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

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

	2010	2009
Short-term borrowings		
RUB		
Loans with fixed interest rates of 8.75% to 10% per annum	310,000	8 000
Bond Issue with fixed interest rate of 13.85% to 14.05% per annum	2,743,049	-
EUR		
Loans with floating interest rates of EURIBOR + 1.3% per annum	-	282 479
USD		
Loans with fixed interest rate of 3.6% to 8% per annum	4,182,284	2,528,917
Loans with floating interest rates of LIBOR + 5.1% to LIBOR + 5.6% per annum	3,860,407	8,090,324
CNY		
Loans with fixed interest rates of 4.62% to 8.5% per annum	2,038,635	1 395 232
Add: current portion of long-term debt		243 612
Total short-term borrowings	13,134,375	12 548 564

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

	2010	2009
Long-term borrowings		
RUB		
Loans with fixed interest rates of 8.85% to 11% per annum	1,829,863	4,271,600
Bonds with coupon payments of 13.85% to 14.05% per annum	3,037,226	6,047,494
EUR		
Loans with floating interest rates of EURIBOR + 1.3% to +1.35%	1,635,137	1,644,554
USD		
Loans with fixed interest rates of 7.75% to 8.25% per annum	9,227,552	5,292,735
Loans with floating interest rates of LIBOR + 4% to LIBOR + 5.6% per annum	6,989,369	1,345,867
Loans with floating interest rates of LIBOR + 8%		1,209,768
CNY		
Loans with fixed interest rates of 6.2% to 7.4% per annum	-	243,612
Less: current portion of long-term debt	-	(243,612)
Total long-term borrowings	22,719,147	19,812,018

The loan agreements for a total of RUB 17,368,926 (2009: RUB 11,794,156) contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, and impose restrictions on total debt, EBITDA/net interest expense ratio and debt/EBITDA ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks and stipulate acceleration clauses in case of the borrower's failure to fulfil or appropriately fulfil its obligations to the bank.

The loan agreements for a total of around RUB 3,657,228 (2009: RUB 4,964,053) contain a covenant, that requires the borrower to maintain a required level of cash flows through the accounts opened with the lending bank. The loan agreement also contains a number of covenants and acceleration clause in case of the borrower's failure to fulfil its obligations under the loan agreements which include restrictions on material transactions with assets. Also, these covenants permit the respective banks to directly debit the accounts opened by the debtors with the banks to ensure repayment of the borrowings.

In September 2009 the Group placed through an offering to the public under an open subscription RUB denominated 14.05% non-convertible bonds with a face value of RUB 3,500,000 to be redeemed in September 2013. The holders of this bonds issue were granted an option to redeem the bonds in September 2011.



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

In November 2009 the Group placed through an offering to the public under an open subscription RUB denominated 13.85% non-convertible bonds with a face value of RUB 3,500,000 to be redeemed in November 2013. The holders of this bonds issue were granted an option to redeem the bonds in May 2012. At the time of offering, bonds for RUB 960,000 were purchased by the Company's subsidiary, JSC Dorogobuzh.

These bonds have been admitted to the quotation list B and are traded on MICEX. The fair value of the outstanding bonds balance at 31 December 2010 was RUB 6,190,480 with reference to MICEX Stock Exchange quotations as of this date (2009: RUB 6,134,781)

23 Finance Lease Liabilities

The finance lease liabilities carry the effective rate of interest of 15.95% and are effectively collateralised by the leased assets, as the assets revert to the lessor in the event of default.

Finance lease liabilities minimum lease payments:

	2010	2009
Not later than 1 year	20,551	22,776
Later than 1 year and not later than 5 years	47,022	67,573
More than 5 years	-	-
Future finance charges on finance lease	(9,627)	(19,297)
Present value of finance lease liabilities	57,946	71,052

The present value of finance lease liabilities matures as follows:

	2010	2009
Not later than 1 year	19,681	21,553
Later than 1 year and not later than 5 years	38,265	49,499
More than 5 years	-	-
	57,946	71,052

24 Share Capital

The total authorised number of ordinary shares is 47,687,600 shares (2009: 47,687,600) with a par value of RUB 5 per share. All authorised shares have been issued and fully paid.

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

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
At 31 December 2009	47,687,600	(4,147,256)	3,125,018	(46,326)	3,078,692
Acquisition of treasury shares		(547,820)		(6,118)	(6,118)
At 31 December 2010	47,687,600	(4,695,076)	3,125,018	(52,444)	3,072,574

In 2010 the Group acquired 547,820 shares of the Company for RUB 498,729 paid in cash. The transaction was recorded in other reserves in the statement of changes of equity.

A dividend was declared in 2010 in respect of 2009 to holders of ordinary shares of RUB 25 per ordinary share (2009: 0)

During 2010, the Group increased its shareholding in JSC Dorogobuzh to 73.90% (2009: 72.33%). The total purchase consideration comprised RUB 171,066 paid in cash. During 2009 JSC Dorogobuzh increased its shareholding in the Company through acquisition of 105,646 shares from the Company. This did not have impact on total amount of treasury shares held by the Group. Shares owned by JSC Dorogobuzh are accounted for as treasury shares, but retain their voting rights and dividends. As the result of this transaction, the non controlling interest decreased by RUB 209,959 .

In 2009 one of the subsidiaries of the Group distributed dividend in the amount of RUB 182,935, which included RUB 93,927 attributable to the Group and RUB 89,638 attributable to the non-controlling interest.



24 Share Capital (continued)

In December 2009 the Group completed acquisition of AS DBT from a party under common control for a cash consideration of RUB 1,085,620. This acquisition was accounted for under IAS 27 (Revised), which the Group early adopted from 1 January 2009. The Group applied economic entity model to account for this transactions with non-controlling shareholder. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired was recorded as capital transaction directly in equity.

25 Cost of Sales

	2010	2009
Change in inventories of finished goods and work in progress	123,098	239,405
Staff costs	2,948,859	2 766 430
Materials and components used	10,240,377	9 523 124
Fuel and energy	3,385,905	2,746,195
Natural gas	6,426,651	5,338,145
Depreciation and amortization	1,491,152	1,379,663
Impairment loss	109,862	(55,385)
Production overheads	300,179	155,343
Repairs and maintenance	2,554,902	1,592,540
Social expenditure	298,951	253,412
	27,879,936	23,938,872

26 Selling, General and Administrative Expenses

	2010	2009
Staff costs	1,718,818	1,399,630
Provision for bad debts	(30,196)	10,030
Business trips expenses	232,901	89,208
Research and development costs	53,540	15,952
Taxes other than income tax	377,298	335,908
Marketing services	124,060	71,181
Audit, legal and consulting services	419,893	342,876
Bank services	327,897	272,246
Insurance	64,027	44,527
Buildings maintenance and rent	210,238	150,801
Security	237,142	163,486
Telecommunication costs	60,377	45,872
Representation expenses	65,903	67,555
Commission fees	33,497	155,364
Idle capacity costs	106,591	-
Other expenses	361,901	257,037
	4,363,887	3,421,673

27 Finance Income/(expenses), net

	2010	2009
Interest income from loans provided and term deposits	360,779	165,788
Dividend income	44,567	41,162
(Loss) from buyout of own debt securities	(79,591)	-
Foreign exchange gain	1,930,614	4,764,883
Foreign exchange loss	(2,035,817)	(4,779,664)
	220,552	192,169

28 Other Operating Income/(expenses), net

	2010	2009
Gain (loss) on disposal of investments	(8,220)	23,529
Gain on sale of license	163,248	-
Charity expenses	(120,699)	(98,852)
Other expenses	10,581	(79,671)
Foreign exchange gain	1,203,568	2,342,589
Foreign exchange loss	(1,297,795)	(2,741,810)
	(49,317)	(554,215)



29 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (Note 24). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equal the basic earnings per share.

	2010	2009
Weighted average number of shares outstanding	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(4,329,863)	(4,147,256)
Weighted average number of shares outstanding	43,357,737	43,540,344
Profit attributable to the equity holders of the Company	5,584,068	7,081,442
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	128.79	162.64

30 Income Tax

	2010	2009
Income tax expense – current	1,924,921	1,948,826
Deferred tax credit – origination and reversal of temporary differences	(20,478)	(400,898)
Income tax charge	1,904,443	1,547,928

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

	2010	2009
Profit before taxation	8,183,894	8,804,021
Theoretical tax charge at statutory rate of 20% thereon (2009: 20%)	1,636,779	1,760,804
Effects of different tax rates	-	(150,750)
Unrecognised tax loss carry forwards for the previous years utilised	-	(133,439)
Tax effect of items which are not deductible or assessable for taxation purposes	146,848	71,313
Unrecognised tax loss carry forwards for the year	120,816	-
Income tax charge	1,904,443	1 547 928

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 and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 20% (2009: 20%).

	1 January 2009	Charged/ (credited) to profit or loss	Charged/ (credited) to OCI	31 December 2009	Charged/ (credited) to profit or loss	Charged/ (credited) to OCI	31 December 2010
Tax effects of taxable temporary differences :							
Property, plant and equipment	615,989	(75,769)	-	540,220	30,232	-	570,452
Investments	1,365,569	(44,921)	2,748,481	4,069,129	14,256	796,561	4,879,946
Exploration rights	321,015	548,488	-	869,503	529,257	-	1,398,760
Tax effects of deductible temporary differences and tax loss carry forwards:							
Other temporary differences	(7,947)	50,646	-	42,699	(21,000)	-	21,699
Tax loss carry forwards	(290,092)	(1,031,843)	-	(1,321,935)	(621,124)	-	(1,943,059)
Inventories	(91,647)	94,518	-	2,871	35,100	-	37,971
Accounts receivable	(81,613)	(6,982)	-	(88,595)	25,942	-	(62,653)
Accounts payable	(121,901)	64,965	-	(56,936)	2,073	-	(54,863)
Staff costs payable	(29,732)	-	-	(29,732)	(15,214)	-	(44,946)
Recognised net deferred tax liability	1,679,641	(400,898)	2,748,481	4,027,224	(20,478)	796,561	4,803,307



30 Income Tax (continued)

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RUB 8,123,663 (2009: RUB 8,294,712). 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.

31 Investment in Associate

In September 2009, the Group sold its investment in JSC Sibneftegaz (21% of interest held) for a total consideration of RUB 4,172,527 to a third party. A pre-tax gain on this transaction of RUB 3,816,368 was recognised and included in the "Gain on disposal of associate" line in the consolidated statement of comprehensive income. The revenues and net loss of JSC Sibneftegaz for the period from 1 January 2009 to the date of disposal amounted to RUB 1,279,877 and RUB (1,023,101), respectively.

32 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2010 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RUB 61,354 thousand (2009: RUB 621,874).

In accordance with the conditions of the exploration licenses the Group has to commence the extraction of certain mineral resources by certain dates as stipulated by license agreements (Note 15).

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.

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2010 and 2009, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of RUB 2,066,345 and RUB 1,075,879, respectively. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are not expected.

ii Legal proceedings

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

iii Operating environment of the Group

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

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

Management is unable to predict all developments in the economic environment which could have an impact on the Group's activities which can expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimize potential adverse effects on the financial performance of the Group.



32 Contingencies, Commitments and Operating Risks (continued)

iii Operating environment of the Group (continued)

People’s Republic of China

The Group’s major subsidiary, Shandong Hongri Acron Chemical Joint Stock Company Ltd., is located in the People’s Republic of China. The People’s Republic of China (the “PRC”) economic and legal system is not fully developed and has inherent uncertainties. The economy of PRC differs from the economies of most developed countries in many respects, including its structure, level of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange, and allocation of resources.

Since 1978, the PRC Government has promulgated various reforms of its economic system and government structure. These reforms have resulted in significant economic growth and social progress for PRC in the last two decades. Many of the reforms are unprecedented or experimental and are expected to be modified from time to time.

The business and operations of the Group in PRC are governed by the PRC legal system. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of a dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit legal protections available to the Group. In addition, any litigation in PRC may be protracted and result in substantial costs and diversion of resources and management attention.

iv Taxation

Russian Federation

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

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

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

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

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

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



32 Contingencies, Commitments and Operating Risks (continued)

iv Taxation (continued)

Russian Federation (continued)

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2010 no provision for potential tax liabilities had been recorded (2009: no provision).

v Environmental matters

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

33 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RUB 61,985 (2009: RUB 383,031), which were settled via non-cash transactions during the years ended 31 December 2010 and 2009, respectively. These transactions primarily represent cancellation of mutual balances with customers within the operating cycle.

Included in the cost of the licences (refer to Note 15) approximately RUB 293,000 (2009: 0) of capitalized costs related to compliance with mining terms.

34 Financial and Capital Risk Management

34.1 Financial risk management

Presentation of Financial Instruments by Measurement Category

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

<i>In thousands of Russian Roubles</i>	2010			Total
	Loans and receivables	Available-for-sale assets	Trading Assets	
Assets				
Cash and cash equivalents (Note 9)				
- Cash on hand and bank balances	7,596,926	-	-	7 596 926
Trade and other receivables (Note 10)				
- Trade receivables	1,850,598	-	-	1,850,598
- Notes receivable	172,157	-	-	172 157
- Other financial receivables	236,360	-	-	236 360
Loans receivable (Note 11)				
- Short term loans receivable	955,885	-	-	955 885
- Long term loans receivable	41,970	-	-	41 970
Trading Investment (Note 19)	-	-	726,723	726,723
Available-for-sale investments (Note 17)				
- Corporate shares	-	24,398,329	-	24 398 329
Total FINANCIAL assets	10,853,896	24,398,329	726,723	35,978,948



34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

Presentation of Financial Instruments by Measurement Category (continued)

All of the Group's financial liabilities except for derivatives are carried at amortized cost. Derivatives belong to the fair value through profit or loss measurement category as designated.

The following table provides a reconciliation of financial assets with the measurement categories as of 31 December 2009:

<i>In thousands of Russian Roubles</i>	2009			Total
	Loans and receivables	Available-for-sale assets	Trading Assets	
ASSETS				
Cash and cash equivalents (Note 9)				
- Cash on hand and bank balances	7,706,149	-	-	7,706,149
Trade and other receivables (Note 10)				
- Trade receivables	386,598	-	-	386,598
- Notes receivable	75,383	-	-	75,383
- Other financial receivables	202,783	-	-	202,783
Loans receivable (Note 11)				
- Short term loans receivable	831,442	-	-	831,442
- Long term loans receivable	61,279	-	-	61,279
Available-for-sale investments (Note 17)				
- Corporate shares	-	20,594,908	-	20,594,908
TOTAL FINANCIAL ASSETS	9,263,634	20,594,908	-	29,858,542

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.

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

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

At 31 December 2010	USD	EUR	CNY
Financial assets:			
Cash and cash equivalents	3,848,133	731,743	563,710
Accounts Receivable	604,268	10,969	42,618
Loans receivable	1,020	-	-
	4,453,421	742,712	606,328
Financial liabilities:			
Accounts payable and other liabilities	(31,610)	(801)	(561,462)
Borrowings and notes payable	(24,259,612)	(1,635,137)	(2,038,635)
	(24,291,222)	(1,635,938)	(2,600,097)
Net position	(19,837,801)	(893,226)	(1,993,769)



34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

At 31 December 2009	USD	EUR	CNY
Monetary financial assets:			
Cash and cash equivalents	2,477,868	411,363	823 756
Accounts receivable	242,084	23,516	51 796
Loans receivable	188,270	-	-
	2,908,222	434,879	875,552
Monetary financial liabilities:			
Accounts payable and other liabilities	(17,878)	-	(479 920)
Borrowings and notes payable	(18,467,611)	(1,927,033)	(1,638,844)
	(18,485,489)	(1,927,033)	(2 118 764)
Net position	(15,577,267)	(1,492,154)	(1 243 212)

In September 2010 the Group transacted a USD/RUB cross currency swap agreement whereby the Group pays USD fixed 5.10% based on the nominal amount of USD 9,691 thousand and receives Russian roubles fixed 8.75% interest based on the nominal amount of RUB 300 million to partially offset volatility of its cash flows from potential appreciation of RUB against USD in 2010-2013 (Note 18).

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

	2010	2009
<i>Impact on post-tax profit and on equity of:</i>		
USD strengthening by 25%	(4,959,450)	(3,894,317)
USD weakening by 25%	4,959,450	3,894,317
EUR strengthening by 25%	(223,307)	(373,039)
EUR weakening by 25%	223,307	373,039
CNY strengthening by 25%	(498,442)	(310,803)
CNY weakening by 25%	498,442	310,803

The Group relies on export sales to generate foreign currency earnings. As the Group sales outside the Russian Federation a significant portion of its production, it is exposed to foreign currency risk arising primarily on volatility of USD 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.

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's income and 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 2010 and 2009 borrowings at variable rates amounted to RUB 12,484,913 and RUB 12,572,992 respectively (Note 22).



34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

During 2009 the Group did not hedge this exposure using financial instruments. In July 2010, the Group entered into two interest rate swap contracts with a combined non deliverable nominal amount of USD 400 million to partially offset volatility of its cash flows from potential fluctuations in interest rates 2010-2013 (Note 18).

At 31 December 2010, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RUB 691,302 (2009: RUB 385,903) 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 an equity securities price risk, since it has an investment in equity stakes of JSC Silvinit and JSC Apatit, which are classified on the consolidated statement of financial position as available-for-sale as of 31 December 2010 and 31 December 2009, respectively (Note 17). 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 2010 and 31 December 2009.

From time to time the Group makes investments in entities with high upside market potential. Investments are assessed by corporate treasury department and accepted provided that internal rate of return for investment exceeds current weighted average cost of capital.

The Group does not enter into any transactions with financial instruments whose value is exposed to the value of any commodities traded on a public market.

(b) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, cash and bank deposits and loans receivable. The objective of managing credit risk is to prevent losses of liquid funds deposited with or invested in financial institutions or the loss in value of receivables.

The maximum exposure to credit risk of RUB 13,591,216 (2009: RUB 10,339,513) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents and originated financial guarantees. 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.

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 2010 and 31 December 2009 the Group had no counterparties with aggregated receivables balances in excess of 10% of the Group's gross accounts receivable balances.

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



34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

(c) Liquidity risk

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

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 9), trading investments (Note 19) and available-for-sale investments (Note 17). Management estimates that the liquidity portfolio cash, bank deposits, trading, and available-for-sale investments can be realised in cash within a day in order to meet unforeseen liquidity requirements

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

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date.

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2010						
Bonds issued * (Note 22)	192,699	3,356,404	3,247,553	-	-	6,796,656
Credit lines * (Note 22)	151,440	4,425,714	3,379,634	1,662,682	-	9,619,470
Term loans * (Note 22)	1,535,081	5,852,376	9,568,679	6,149,652	24,340	23,130,128
Interest payable (included in other liabilities)	211,900	-	-	-	-	211,900
Derivatives (Note 18)	-	-	(50,025)	-	-	(50,025)
Trade payables (Note 18)	855,318	21,027	-	-	-	876,345
Dividends and other distributions to shareholders (Note 18)	-	25,587	-	-	-	25,587
Finance lease minimum lease payments (Note 23)	5,324	15,226	18,700	28,323	-	67,573
Financial guarantees	354,115	1,436,117	-	276,113	-	2,066,345
Total future payments, including future principal and interest payments	3,305,877	15,132,451	16,164,541	8,116,770	24,340	42,743,979

	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						
Bonds issued * (Note 22)	210,885	632,655	5,064,143	2,891,790	-	8,799,473
Credit lines * (Note 22)	1,866,657	6,651,408	5,935,583	7,960,151	1,154,485	23,568,284
Term loans * (Note 22)	3,066,368	4,018,928	630,652	-	-	7,715,948
Interest payable (included in other liabilities)	263,488	-	-	-	-	263,488
Trade payables (Note 20)	616,235	85,854	22	-	-	702,111
Dividends and other distributions to shareholders (Note 20)	-	12,117	-	-	-	12,117
Finance lease minimum lease payments (Note 23)	5,900	16,876	20,551	47,022	-	90,349
Financial guarantees	-	1,075,879	-	-	-	1,075,879
Total future payments, including future principal and interest payments	6,029,533	12,493,717	11,650,951	10,898,963	1,154,485	42,227,649

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



34 Financial and Capital Risk Management (continued)

34.1 Financial risk management (continued)

(c) Liquidity risk (continued)

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

As of 31 December unused credit lines available under long-term loan facilities were RUB 8,557,944 (2009: nil).

34.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company's statutory financial (accounting) reports. In 2010, the Group's strategy, which was unchanged from 2009, was to maintain the gearing ratio at the level not exceeding 150%.

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

	2010	2009
Long-term borrowings	22,719,147	19,812,018
Short-term borrowings	13,134,375	12,548,564
Total debt	35,853,522	32,360,582
Shareholders' equity	50,121,511	42,392,754
Gearing ratio, %	72%	76%

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

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

In 2010, the Group's strategy, which was unchanged from 2009, was to maintain EBITDA/net interest expense ratio at the level not be lower than 4:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortization adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 22).

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

	2010	2009
Operating profit	8,740,505	5,374,470
Add: depreciation and amortization (Note 13, 14)	1,495,603	1,379,663
Add: foreign exchange gain (Note 28)	94,227	399,221
Add: (gain)/loss on disposal of investments	8,220	(23,529)
Add: gain on sale of mining licenses	(163,248)	-
Add: loss on disposal of property, plant and equipment	160,693	145,651
EBITDA	10,336,000	7,275,476
Interest income (Note 27)	(360,779)	(165,788)
Interest expense	694,235	364,135
Net interest expense	333,456	198,347
EBITDA/Net interest expense	31:1	37:1

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 22) and imposed by the statutory legislation of the Russian Federation, the People's Republic of China and Estonia. Since EBITDA is not standard IFRS measure Acron Group's definition of EBITDA may differ from that of other companies.



35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading, Available-for-sale investments and derivatives are carried in the consolidated statement of financial position at their fair value.

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

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

Level 1: quoted price in an active market;

Level 2: valuation technique with inputs observable in markets;

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

All available-for-sales and trading financial instruments of the Group were included in level 1 category in the amount of RUB 25,125,052 (2009: RUB 20,594,908).

Fair values of derivatives financial assets and liabilities were determined based on valuation technique with inputs observable in markets and were included in level 2.

There are no other financial instruments which fair value was determined based on inputs other than level 1 or level 2 category.

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

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables and loans receivable approximate fair values.

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 31 December 2010 the fair value of borrowings was RUB 392,714 lower than their carrying amounts. At 31 December 2009 the fair value of borrowings was RUB 689,382 lower than their carrying amounts.

36 Subsequent Events

Subsequent to 31 December 2010 the Group received new bank loans in the amount RUB 4,030,619 as well as paid off RUB 8,821,661 on existing credit facilities. In February 2011 the Board of Directors of the Company approved the issuance of non convertible interest-bearing 10 year bonds with a face value of RUB 7,500,000 (1,000 roubles each) and the option for bond holders for early redemption.



36 Subsequent Events (continued)

In April 2011 Board of Directors of the Company recommended shareholders dividend distribution for 2010 in the amount of 40 roubles per ordinary share (4 roubles per 1 GDR).

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