JOINT STOCK COMPANY
“DOROGOBUZH”

International Accounting Standard No. 34
Consolidated Condensed Interim
Financial Information (six months)

30 June 2011

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Joint Stock Company “Dorogobuzh”
Consolidated Condensed Interim Statement of Financial Position
at 30 June 2011 (unaudited) and 31 December 2010
(in thousands of Russian Roubles)

	Note	30 June 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	8	4,401,030	4,423,796
Other non-current assets		230,568	230,568
Investment in associate	9	1,363,024	1,321,956
Available-for-sale investments	10	1,093,323	4,304,565
Long-term loans receivable		4,775,266	3,664,124
Total non-current assets		**11,863,211**	**13,945,009**
Current assets			
Inventories	7	1,239,040	1,239,518
Short-term loans receivable		291,793	378,286
Accounts receivable	6	1,597,650	1,408,377
Trading investments		1,667,283	1,876,856
Cash and cash equivalents	5	4,472,941	2,101,062
Other current assets		9,495	24,537
Total current assets		**9,278,202**	**7,028,636**
TOTAL ASSETS		**21,141,413**	**20,973,645**
EQUITY			
Share capital		1,735,359	1,735,359
Share premium		93,794	93,794
Retained earnings		13,144,738	7,437,732
Revaluation reserve		808,464	3,376,625
Share capital and reserves attributable to the Company’s owners		**15,782,355**	**12,643,510**
TOTAL EQUITY		**15,782,355**	**12,643,510**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	12	3,270,830	5,302,980
Other long-term liabilities		102,503	102,503
Deferred tax liability		565,448	1,127,822
Total non-current liabilities		**3,938,781**	**6,533,305**
Current liabilities			
Accounts payable	11	325,479	233,262
Current income tax payable		153,614	106,070
Other taxes payable		99,946	58,322
Short-term borrowings	12	421,137	457,153
Advances received		420,101	942,023
Total current liabilities		**1,420,277**	**1,796,830**
TOTAL LIABILITIES		**5,359,058**	**8,330,135**
TOTAL LIABILITIES AND EQUITY		**21,141,413**	**20,973,645**

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

V.Y. Kunitsky
President

A.V. Milenkov
Finance Director

(in thousands of Russian Roubles, except for per share amounts)

	Note	Six months ended 30 June 2011	Six months ended 30 June 2010
Revenue		8,146,917	5,811,407
Cost of sales		(4,282,828)	(3,702,184)
Gross profit		**3,864,089**	**2,109,223**
Transportation expenses		(559,081)	(430,652)
Selling, general and administrative expenses		(618,886)	(498,048)
(Loss)/gain on disposal of property, plant and equipment, net		9,334	(2,943)
Other operating income / (expenses), net	14	(35,077)	65,916
Operating profit		**2,660,379**	**1,243,496**
Finance income / (expenses), net	13	876,063	127,457
Results from sale of available-for-sale investments		3,653,623	-
Interest expense		(154,270)	(137,636)
Share of result of associates		41,068	60,174
Profit before taxation		**7,076,863**	**1,293,491**
Income tax expense	16	(1,215,601)	(256,838)
Net profit for the period		**5,861,262**	**1,036,653**
Other comprehensive income:			
Available-for-sale investments:			
- Reversal of fair value gains on sale		(3,607,205)	(13,735)
- Gains less losses arising during the year		397,004	(361,652)
- Income tax recorded directly in other comprehensive income		642,040	75,077
Other comprehensive income for the period		**(2,568,161)**	**(300,310)**
Total comprehensive income for the period		**3,293,101**	**736,343**
Net profit is attributable to:			
Owners of the Company		5,861,262	1,036,653
Net profit for the period		**5,861,262**	**1,036,653**
Total comprehensive income is attributable to:			
Owners of the Company		3,293,101	736,343
Total comprehensive income for the period		**3,293,101**	**736,343**
Earnings per ordinary share, basic and diluted (expressed in RUB per share)	15	**6.52**	**1.15**
Earnings per preference share, basic and diluted (expressed in RUB per share)	15	**7.52**	**1.35**

(in thousands of Russian Roubles)

	Note	Six months ended 30 June 2011	Six months ended 30 June 2010
Cash flows from operating activities			
Profit before taxation		7,076,863	1,293,491
Adjustments for:			
Depreciation	8	163,462	148,656
Share of results of associate		(41,068)	(60,174)
(Gain)/ Loss on disposal of property, plant and equipment		(9,334)	2,943
Interest expense		154,270	137,636
Interest income		(387,215)	(155,283)
Dividend income		(115,361)	(100,279)
Gain on sale of available for sale investments		(3,653,623)	-
Foreign exchange effect on non-operating balances		(425,073)	122,480
Operating cash flows before working capital changes		**2,762,921**	**1,389,470**
(Increase)/ decrease in gross trade receivables		(299,233)	(292,102)
(Increase)/ decrease in advances to suppliers		129,894	164,362
(Increase)/ decrease in other receivables		394,987	(140,649)
(Increase)/ decrease in inventories		478	(515,085)
Increase/ (decrease) in trade payables		90,600	105,553
Increase/ (decrease) in advances from customers		(521,922)	(280,891)
(Increase)/ decrease in other payables		51,751	33,487
Increase/ (decrease) in other current assets		15,042	(23,307)
(Increase) / (decrease) in trading investments		209,573	-
Net change in other non-current assets and liabilities		-	53,651
Cash generated from operations		**2,834,091**	**494,489**
Income taxes paid		(1,104,704)	(278,103)
Interest paid		(154,302)	(105,034)
Net cash generated from operating activities		**1,575,085**	**111,352**
Cash flows from investing activities			
Purchase of property, plant and equipment		(143,487)	(87,873)
Proceeds from sale of property, plant and equipment		4,512	5,145
Loans provided		(3,270,436)	(3,672,104)
Proceeds from loans repaid		2,243,450	186,334
Dividends received		114,433	183
Purchase of available-for-sale investments		-	(393,140)
Proceeds from sale of available-for-sale investments		3,654,664	1,024,852
Interest received		59,127	12,392
Net cash used in investing activities		**2,662,263**	**(2,924,211)**
Cash flows from financing activities			
Dividends paid to shareholders		(146,421)	(6,821)
Proceeds from borrowings	12	1,494,023	3,265,448
Repayment of borrowings	12	(3,134,779)	(1,405,603)
Net cash provided from/(used in) financing activities		**(1,787,177)**	**1,853,024**
Effect of exchange rate changes on cash and cash equivalents		(78,292)	8,885
Net increase in cash and cash equivalents		**2,371,879**	**(950,950)**
Cash and cash equivalents at the beginning of the year	5	**2,101,062**	**1,214,795**
Cash and cash equivalents at the end of the year	5	**4,472,941**	**263,845**

The accompanying notes on pages 5 to 16 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Capital and reserves attributable to the Company's owners				
	Share capital	**Share premium**	**Retained earnings**	**Revaluation reserve**	**Total equity**
Balance at 1 January 2010	**1,735,359**	**93,794**	**5,134,851**	**2,938,049**	**9,902,053**
Comprehensive income					
Profit for the year	-	-	1,036,653	-	1,036,653
Other comprehensive income					
Reversal of fair value gains on sale of available-for-sale investments	-	-	-	(13,735)	(13,735)
Fair value losses on available-for-sale investments	-	-	-	(361,652)	(361,652)
Income tax recorded in other comprehensive income	-	-	-	75,077	75,077
Total other comprehensive income	-	-	-	(300,310)	(300,310)
Total comprehensive income	-	-	1,036,653	(300,310)	736,343
Dividend declared	-	-	(30,849)	-	(30,849)
Balance at 30 June 2010	**1,735,359**	**93,794**	**6,140,655**	**2,637,739**	**10,607,547**
Balance at 1 January 2011	**1,735,359**	**93,794**	**7,437,732**	**3,376,625**	**12,643,510**
Comprehensive income					
Profit for the year	-	-	5,861,262	-	5,861,262
Other comprehensive income					
Reversal of fair value gains on sale of available-for-sale investments	-	-		(3,607,205)	(3,607,205)
Fair value gains on available-for-sale investments	-	-	-	397,004	397,004
Income tax recorded in other comprehensive income	-	-	-	642,040	642,040
Total other comprehensive income	-	-	-	(2,568,161)	(2,568,161)
Total comprehensive income	-	-	5,861,262	(2,568,161)	3,293,101
Dividend declared			(154,256)	-	(154,256)
Balance at 30 June 2011	**1,735,359**	**93,794**	**13,144,738**	**808,464**	**15,782,355**

The accompanying notes on pages 5 to 16 are an integral part of these consolidated financial statements.

1 Dorogobuzh Group and its Operations

These unaudited consolidated condensed interim financial information has been prepared in accordance with International Financial Reporting Standards for the six months ended 30 June 2011 for Joint Stock Company "Dorogobuzh" (the "Company" or "Dorogobuzh") and its subsidiaries (together referred to as the "Group" or "Dorogobuzh Group").

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

The Group's parent company is JSC "Acron" (Russian Federation). The Group's ultimate parent is Subero Associates Inc (British Virgin Islands) (2010: Subero Associates Inc). As at 30 June 2011 and 31 December 2010 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

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

2 Basis of Preparation of the Financial Statements

Basis of preparation. These unaudited consolidated condensed interim financial information for the six months ended 30 June 2011 has been prepared in accordance with IAS 34, Interim Financial Reporting. These unaudited consolidated condensed interim financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2010.

Presentation currency. All amounts in these unaudited consolidated condensed interim financial information are presented in thousands of Russian Roubles ("RUB thousands"), unless otherwise stated. The unaudited consolidated condensed interim financial information is 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)

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.2 Cash and cash equivalents

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

3.3 Trade and other receivables

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

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

3.4 Value added tax

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

3.5 Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Catalytic agents consumed for the period of more than 12 months are presented within other non-current assets in the amount of RUB 203,719 (31 December 2010: RUB 227,402). Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.6 Property, plant and equipment

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

3.7 Intangible assets

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

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

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

3.8 Borrowings

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.9 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the countries, where most significant subsidiaries of the Group are located, enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. Corporate profit tax rate is 20% (2010: 20%) for Russia, where the most significant Group subsidiaries are registered. With effect from 1 January 2009, the rate of profit tax payable by companies in the Russian Federation can range from 15.5% to 20%, depending on applicable rates set by regional authorities.

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

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

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

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

3.10 Foreign currency transactions

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

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

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

At 30 June 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = 28.076 (31 December 2010: USD 1 = RUB 30.4769). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3 Summary of Significant Accounting Policies (continued)

3.11 Provisions for liabilities and charges

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

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

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

3.12 Shareholders’ equity

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

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

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

3.13 Revenue recognition

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

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

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

3.14 Mutual cancellations

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

3 Summary of Significant Accounting Policies (continued)

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

3.15 Employee benefits

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

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

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

3.16 Financial assets and liabilities

Classification of financial assets.

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

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

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

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.

(in thousands of Russian Roubles)

3 Summary of Significant Accounting Policies (continued)

All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss.

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

3.17 Earnings per share

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

3.18 Segment reporting

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

4 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 nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 30 June 2011 and 31 December 2010 are detailed below.

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

i Balances with related parties

Statement of financial position caption	Notes	Relationship	30 June 2011	31 December 2010
Trade receivables, gross	6	Parent company	5,908	10,259
		Parties under common control	716,299	216,399
Prepayments	6	Parties under common control	134,621	140,482
Loans provided		Parties under common control	5,015,999	3,997,324
Trade payables	10	Parties under common control	(7,522)	(6,426)
		Parent company	(9,352)	(6,171)
Advances from customers		Party under common control	(175,378)	(623,176)
Investment for trading (bonds)		Parent company	1,270,038	1,299,306
Available for sale investments (securities)		Parent company	817,142	4,021,508

(in thousands of Russian Roubles)

ii Transactions with related parties

Statement of comprehensive income caption	Relationship	Six months ended 30 June 2011	Six months ended 30 June 2010
Sales of chemical fertilizers, other goods and services	Parent company	36,954	312,951
	Parties under common control	4,968,749	3,081,792
Purchases of raw materials	Parent company	(33,326)	(36,453)
	Parties under common control	(31,447)	(13,345)
Transportation services	Parties under common control	(181,716)	(52,211)

iii Loans issued

At 30 June 2011 and 31 December 2010 short-term loans to parent company and parties under common control denominated in RUB totalled RUB 240,733 and RUB 333,200, respectively, at interest rates in the range of 8.25% to 8.8%.The loans are unsecured.

At 30 June 2011 and 31 December 2010 long-term loans to parties under common control totalled RUB 4,775,266 and RUB 3,664,124, respectively, and interest rates of 8.8%.The loans are unsecured.

For six months ended 30 June 2011 the Group accrued interest income of RUB 214,586 (for six months ended 30 June 2010: RUB 112,809).

5 Cash and Cash Equivalents

	30 June 2011	31 December 2010
Cash on hand and bank balances denominated in RUB	2,694,685	1,006,104
Bank balances denominated in USD	1,771,738	995,435
Bank balances denominated in EUR	6,518	99,523
Total cash and cash equivalents	**4,472,941**	**2,101,062**

Cash on hand and bank balances include restricted cash balance of RUB 1,278,080 as a guarantee related to credit agreement between HSBC Bank (China) Company Limited and Raiffeisen Bank International AG, Beijing Branch and one of the subsidiaries of the Acron Group in China.

6 Accounts Receivable

	30 June 2011	31 December 2010
Trade accounts receivable	571,678	272,445
Other accounts receivable	439,754	249,855
Less: impairment provision	(46,765)	(46,765)
Total financial assets	**964,667**	**475,535**
Advances to suppliers	252,992	382,886
Value-added tax recoverable	349,903	549,057
Income tax prepayments	-	765
Other taxes receivable	31,634	1,680
Less: impairment provision	(1,546)	(1,546)
Total accounts receivable	**1,597,650**	**1,408,377**

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

7 Inventories

	30 June 2011	31 December 2010
Raw materials and spare parts	962,971	797,415
Work in progress	70,984	65,291
Finished products	205,085	376,812
	1,239,040	**1,239,518**

(in thousands of Russian Roubles)

8 Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	2011	2010
Carrying amount at 1 January	**4,423,796**	**4,333,281**
Additions	143,487	87,875
Disposals	(2,791)	(2,155)
Charge for the period	(163,462)	(148,656)
Carrying amount at 30 June	**4,401,030**	**4,270,435**

9 Investment in Associate

	2011	2010
Balance at 1 January	**1,321,956**	**1,085,000**
Share of (loss)/profit	41,068	60,174
Balance at 30 June	**1,363,024**	**1,145,174**

In December 2009 the Group acquired 50% of the share capital of AS DBT through the acquisition of 100% interest on LLC Balttrans from a party under common control for a cash consideration of RUB 1,085,620.

In 2010 JSC Acron, the parent company of the Group, initiated a restructuring of its logistic segment. In doing so the Group and JSC Acron have agreed that the Group contributes the 100% interest it held in LLC Andrex into LLC Balttrans and JSC Acron contributes 85% of AS BCT into LLC Balttrans. This transaction was finalised in December 2010 and as a result of it the Group's interest in LLC Balttrans reduced to 35%.

At 30 June 2011, the Group's interest in its principal associate and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	% interest held	Country of incorporation
LLC Balttrans	4,192,782	2,778,514	853,333	117,337	35 %	Russia

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

Name	Total assets	Total liabilities	Revenue	Profit/(loss)	% interest held	Country of incorporation
LLC Balttrans	4,087,385	3,417,547	1,652,535	140,003	35 %	Russia

10 Available-for-Sale Investments

The Group has investments in the following companies:

Type	Activity	Country of registration	30 June 2011	31 December 2010
JSC Acron shares	Fertilisers manufacturing	Russia	817,142	4,021,508
Sberbank	Banking	Russia	247,500	257,870
Other	Miscellaneous	Russia	28,681	25,187
			1,093,323	**4,304,565**

During reporting period JSC Dorogobuzh sold 2,926,175 shares of JSC Acron. Sale income amounted to RUB 3,243,658.

The fair value of investments was determined by reference to the current market value at the close of business on 30 June 2011. The share price quoted by MICEX for JSC Acron shares amounted to RUB 1,331 per share at 30 June 2011 (31 December 2010: RUB 1,136 per share); for Sberbank shares RUB 100 per share at 30 June 2011 (31 December 2010: RUB 104.19 per share).

11 Accounts Payable

	30 June 2011	31 December 2010
Trade accounts payable	202,300	111,700
Dividends payable	10,910	8,208
Total financial payables	**213,210**	**119,908**
Payables to employees	99,760	105,034
Accrued liabilities and other creditors	12,509	8,320
Total accounts payable and accrued expenses	**325,479**	**233,262**

(in thousands of Russian Roubles)

12 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	30 June 2011	31 December 2010
Credit lines	-	-
Term loans	3,691,967	5,760,133
	3,691,967	**5,760,133**

The Group's borrowings mature as follows:

	30 June 2011	31 December 2010
Borrowings due:		
- within 1 year	421,137	457,153
- between 1 and 5 years	3,270,830	5,302,980
	3,691,967	**5,760,133**

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

	30 June 2011	31 December 2010
Borrowings denominated in:		
- Russian Roubles	-	-
- US Dollars	3,691,967	5,760,133
	3,691,967	**5,760,133**

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.

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

	30 June 2011	31 December 2010
Short-term borrowings		
USD		
Loans with fixed interest rates of 6,75% per annum	421,137	457,153
Total short-term borrowings	**421,137**	**457,153**

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

	30 June 2011	31 December 2010
Long-term borrowings		
USD		
Loans with fixed interest rates of 5,95% to 6,75% per annum	3,270,830	4,358,196
Loans with floating interest rates of LIBOR1m + 4% to LIBOR + 8% per annum	-	944,784
Total long-term borrowings	**3,270,830**	**5,302,980**

The loan agreements for a total of RUB 2,597,011 (2010: RUB 3,992,473) contain certain covenants including those which require the Group to maintain a certain total debt, EBITDA/net interest expense ratio and debt/EBITDA ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks and stipulate acceleration clauses in case of the borrower's failure to fulfil or appropriately fulfil its obligations to the bank.

The loan agreements for a total of RUB 1,263,411 (2010: RUB 1,767,660) 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 thousands of Russian Roubles)

13 Finance Income / (expenses), net

	Six months, ended	
	30 June 2011	**30 June 2010**
Interest income from loans issued	387,215	155,283
Dividend income	115,361	100,279
Foreign exchange gain	373,629	83,988
Foreign exchange loss	(142)	(212,093)
	876,063	**127,457**

14 Other Operating Income / (expenses), net

	Six months, ended	
	30 June 2011	**30 June 2010**
Other expenses	(7,718)	75,974
Foreign exchange gain	81,959	207,334
Foreign exchange loss	(109,318)	(217,392)
	(35,077)	**65,916**

15 Earnings per Share

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

	30 June 2011	**30 June 2010**
Weighted average number of ordinary shares outstanding	721,182,860	721,182,860
Weighted average number of preference shares outstanding	154,256,400	154,256,400
Dividends to ordinary shareholders	-	-
Dividends to preference shareholders	154,256	30,851
Total dividends for the period	**154,256**	**30,851**
Profit attributable to ordinary shareholders	4,701,405	828,576
Profit attributable to preference shareholders	1,159,857	208,078
Profit for the year	**5,861,262**	**1,036,654**
Basic and diluted earnings per ordinary share (in Russian Roubles)	**6.52**	**1.15**
Basic and diluted earnings per preference share (in Russian Roubles)	**7.52**	**1.35**

16 Income Taxes

	Six months, ended	
	30 June 2011	**30 June 2010**
Income tax expense – current	(1,139,401)	(247,531)
Deferred tax credit – origination and reversal of temporary differences	(76,200)	(9,307)
Income tax charge	**(1,215,601)**	**(256,838)**

17 Subsequent Events

For the period from June 30, 2011 to the date of these consolidated financial statements, the Group obtained new bank credit facilities in the amount of RUB nil and repaid existing loans in the amount of RUB 15,028.