

**AUDIT REPORT**  
**on JSC Dorogobuzh Consolidated**  
**Financial Statements**  
**for the Year 2006**

**Moscow 2007**

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## I. AUDITOR

- (1) **Name:** LLC Baker Tilly Russaudit
- (2) **Domicile:** 95 Prospect Mira, 129085 Moscow.
- (3) **Phone No.:** (495) 788-0906, 647-2420.  
**Fax No.:** (495) 647-2422.
- (4) **License:**  
  
**for general audit** No. E006075 issued by Order No. 158 of the Ministry of Finance of the Russian Federation as of June 24, 2004; the License is valid for the period of five years upon the date of its issuance.
- (5) **Certificate of State Registration** No. 015.468 dd. September 8, 1992 issued by the Moscow Registration Chamber; main state registration number (OGRN) 1037700117949.
- (6) **Membership with accredited professional audit associations:**
  - Institute of Professional Auditors, a non-profit partnership;
  - Institute of Professional Accountants of Russia, a non-profit partnership,**as well as:**  
  
Baker Tilly International (an independent member).

## II. AUDITED COMPANY

- (7) **Name:** JSC Dorogobuzh
- (8) **Domicile:** Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia
- (9) **Certificate of State Registration:**
- Certificate of the state registration No. 6 issued by the Head of the Administration of Dorogobuzh District as of July 30, 1997;
  - Certificate of an entry made to the Unified State Register of Legal Entities regarding the legal entity registered prior to July 1, 2002 issued by the Russian Ministry for Taxes and Levies Interdistrict Inspectorate No. 7 for Smolensk Region;

### III. EXECUTIVE SUMMARY

#### on the Financial Statements for the Year 2006

- (10) We have audited the accompanying consolidated financial statements of JSC Dorogobuzh for the year 2006 issued on April 2, 2007. These statements have been prepared by JSC Dorogobuzh executive body on the basis of the accounting and reporting principles and methods established under the laws and regulations of the Russian Federation.
- (11) The financial statements of JSC Dorogobuzh include:
- Consolidated Balance Sheet;
  - Consolidated Profit and Loss Statement;
  - Supplements to the Consolidated Balance Sheet and Profit and Loss Statement;
  - Explanatory Note to the consolidated financial statements.
- (12) These financial statements are the responsibility of JSC Dorogobuzh executive body. Our responsibility is to express an opinion, based on our audit, whether these financial statements are true and fair in all material aspects, and whether the applied accounting principles comply with the laws of the Russian Federation.
- (13) We conducted our audit in accordance with:
- Federal Law of the Russian Federation No. 119-FZ dd. August 7, 2001 *On Audit in the Russian Federation*;

- the Federal Audit Rules (Standards);
  - Internal Audit Standards of the Institute of Professional Auditors (or International Audit Standards) to the extent not contradicting to the Federal Audit Standards;
  - Internal Audit Standards of LLC Baker Tilly Russaudit;
  - Regulations of the Ministry of Finance of the Russian Federation; and subject to the Contract No. 168/2006A1 entered into with JSC Dorogobuzh as of July 28, 2006.
- (14) The audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles and methods used, the rules for preparation of financial statements, and significant estimates made by management of the audited Company, as well as evaluating the overall representation of the financial statements. We believe that our audit provides a reasonable basis for our opinion on these financial statements, and on whether the accounting principles have been in compliance with the laws of the Russian Federation.
- (15) In our opinion, the accompanying consolidated financial statements for the year 2006 are true and correct, i.e. present fairly, in all material respects, JSC Dorogobuzh assets and liabilities as of December 31, 2006 as well as financial results of its operations for the period from January 1 to December 31, 2006, in compliance with Federal Law No. 129-FZ dd. November 21, 1996 *On Accounting*.

***Moscow April 10, 2007***

***LLC Baker Tilly Russaudit***

**M.B. Pavlova**  
**Deputy General Director**

*(Auditor's Qualification Certificate  
No.011191, dated February 29, 1996 (Minutes No.104 dated March 28, 2002)  
continues in force indefinitely )*

**E.I. Tikhonov**  
**Audit Team Leader**

*(Auditor's Qualification Certificate  
No. K014700, dated April 8, 2004 (Minutes No.54, dated March 27, 1998)  
continues in force indefinitely)*

**CONSOLIDATED BALANCE SHEET OF JSC DOROGOBUZH**  
as of December 31 200 6

Stated in RUR '000s

OKUD Form No.1

0710001

ASSETS	Code	Opening Balance	Closing Balance
1	2	3	4
<b>I. NON-CURRENT ASSETS</b>			
Intangible assets	110	556	115 255
<i>including subsidiaries' goodwill</i>	<i>111</i>	-	<i>114 439</i>
Fixed assets	120	985 329	1 085 104
Construction in progress	130	49 838	644 269
Income-bearing investment in tangible assets	135	-	-
Long-term financial investment	140	122 792	3 377 455
Deferred tax assets	145	1 373	2 317
Other non-current assets	150	-	-
<b>TOTAL under Section I</b>	<b>190</b>	<b>1 159 888</b>	<b>5 224 400</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	878 977	971 472
<i>including:</i>			
<i>feedstock, raw materials and similar assets</i>	<i>211</i>	<i>644 410</i>	<i>731 322</i>
<i>rears and feeders</i>	<i>212</i>	<i>17 256</i>	<i>20 182</i>
<i>cost of production in process</i>	<i>213</i>	<i>55 587</i>	<i>72 890</i>
<i>finished goods and goods for resale</i>	<i>214</i>	<i>136 352</i>	<i>122 869</i>
<i>shipped goods</i>	<i>215</i>	<i>13 153</i>	<i>7 720</i>
<i>prepaid expenses</i>	<i>216</i>	<i>12 219</i>	<i>16 489</i>
<i>other inventories and costs</i>	<i>217</i>	-	-
Input Value Added Tax	220	70 502	92 852
Accounts receivable (maturing in more than 12 months after the accounting date)	230	681	672
<i>including trade receivables</i>	<i>231</i>	<i>681</i>	<i>672</i>
Accounts receivable (maturing within 12 months after the accounting date)	240	917 507	1 125 254
<i>including trade receivables</i>	<i>241</i>	<i>197 177</i>	<i>431 064</i>
Short-term financial investment	250	28 034	216 680
Cash	260	355 862	554 018
Other current assets	270	89 012	22 566
<b>TOTAL under Section II</b>	<b>290</b>	<b>2 340 575</b>	<b>2 983 514</b>
<b>BALANCE</b>	<b>300</b>	<b>3 500 463</b>	<b>8 207 914</b>

LIABILITIES	Code	Opening Balance	Closing Balance
1	2	3	4
<b>III. EQUITY</b>			
Charter capital	410	218 860	218 860
Treasury stock	411	-	-
Capital surplus	420	716 461	695 877
Capital reserves	430	32 878	32 880
<i>including</i>			
<i>statutory reserves</i>	431	10 943	10 943
<i>reserves formed under constituent documents</i>	432	21 935	21 937
Retained profit (loss)	470	772 518	3 601 900
<b>TOTAL under Section II</b>	<b>490</b>	<b>1 740 717</b>	<b>4 549 517</b>
Minority interest		<b>5 439</b>	<b>3 971</b>
Subsidiaries goodwill		<b>4 793</b>	<b>4 793</b>
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	1 000 739	1 343 617
Deferred tax liabilities	515	43 229	822 683
Other long-term liabilities	520	235	-
<b>TOTAL under Section IV</b>	<b>590</b>	<b>1 044 203</b>	<b>2 166 300</b>
<b>V. SHORT-TERM LIABILITIES</b>			
Loans and borrowings	610	23 946	651 642
Accounts payable	620	545 613	809 550
<i>including:</i>			
<i>trade payables</i>	621	86 253	313 328
<i>payroll payable</i>	622	33 115	37 558
<i>accounts payable to state non-budgetary funds</i>	623	9 885	11 085
<i>taxes payable</i>	624	56 089	49 642
<i>other accounts payable</i>	625	360 271	397 937
Dividends payable to members (founders)	630	97 744	2 076
Deferred revenues	640	5 343	4 098
Provision for future expenses	650	-	-
Other short-term liabilities	660	32 665	15 967
<b>TOTAL under Section V</b>	<b>690</b>	<b>705 311</b>	<b>1 483 333</b>
<b>BALANCE</b>	<b>700</b>	<b>3 500 463</b>	<b>8 207 914</b>
<b>Statement of valuables recorded off balance sheet</b>			
Rented fixed assets	910	279 212	277 046
<i>including under lease arrangements</i>	911	-	-
Tangibles in custody	920	-	454
Goods accepted for commission	930	-	-
Bad debt written off to losses	940	4 126	9 430
Securities for liabilities and payments received	950	-	900 000
Securities for liabilities and payments issued	960	-	-
Depreciation of the housing stock	970	518	478
Depreciation of outdoor infrastructure and similar objects	980	-	-
Intangible assets received for use	990	-	-

President

(Signature)

I.N.Antonov

(Name)

Chief Accountant

(Signature)

N.I.Sluzhenikina

(Name)

April " 2 ", 200 7

**JSC DOROGOBUZH CONSOLIDATED PROFIT AND LOSS STATEMENT**  
for the year \_\_\_\_\_ **200 6**

Stated in RUR '000s

OKUD Form No. 2

0710002

Item			Corresponding Prior
Description	Code	Accounting Period	Period
1	2	3	4
<b>Operating revenues and expenses</b>			
(Net) proceeds from the sale of goods, products, works and services (less value added tax, excise duties and similar charges)	010	5 704 839	6 010 680
Cost of sold goods, products, works and services	020	(3 459 389)	(3 181 432)
Gross profit	029	2 245 450	2 829 248
Sales expenses	030	(657 614)	(695 196)
Administrative expenses	040	(620 635)	(565 013)
Sales profit (loss)	050	967 201	1 569 039
<b>Other revenues and expenses</b>			
Interest receivable	060	5 980	4 473
Interest payable	070	(133 720)	(108 196)
Revenues from shareholdings	080	84 484	107 061
Other revenues	090	6 443 505	3 219 463
Other expenses	100	(3 443 008)	(3 397 371)
Capitalized revenues (losses)		1 393	(4 064)
<b>Profit (loss) before tax</b>	<b>140</b>	<b>3 925 835</b>	<b>1 390 405</b>
Deferred tax assets	141	944	(63)
Deferred tax liabilities	142	(779 454)	(23 228)
Current profit tax	150	(195 698)	(325 310)
<b>Net profit (loss) for the accounting period</b>	<b>190</b>	<b>2 951 627</b>	<b>1 041 804</b>
Minority interest		1 468	1 702
<b>Net profit (loss) for the accounting period less minority interest</b>		<b>2 953 095</b>	<b>1 043 506</b>
FOR REFERENCE ONLY			
Permanent tax liabilities (assets)	200	32 400	11 856
Basic earnings (loss) per share	201		
Diluted earnings (loss) per share	202		



**JSC DOROGOBUZH CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**for the year 2006**

Stated in RUR '000s

**I. Changes in Shareholders' Equity**

Item		Charter Capital	Capital Surplus	Capital Reserves	Retained Profit (Loss)	Total
Description	Code					
1	2	3	4	5	6	7
Balance as of December 31 of the previous year	010	218 860	721 497	26 324	252 669	1 219 350
<b>200 5</b> (previous year)						
Effect of changes in accounting policy	011	X	X	X		
Effect of fixed assets revaluation	012	X		X		
		X				
Balance as of January 1 of the previous year	020	218 860	721 497	26 324	252 669	1 219 350
Translation difference	023	X		X	X	
Net profit	025	X	X	X	1 043 506	1 043 506
Dividends	026	X	X	X	(522 139)	(522 139)
Allocations to reserve fund	030	X	X	6 554	(6 554)	-
Increase in shareholders' equity resulting from additional share issue	041		X	X	X	
increase in shares par value	042		X	X	X	
legal entity reorganization	043		X	X		
other	045				5 036	5 036
Decrease in shareholders' equity resulting from						
decrease in shares par value	051		X	X	X	
decrease in the number of shares	052		X	X	X	
legal entity reorganization	053		X	X		
other	055		(5 036)			(5 036)
Balance as of December 31 of the previous year	060	218 860	716 461	32 878	772 518	1 740 717
<b>200 6 r.</b> (accounting year)						
Effect of changes in accounting policy	061	X	X	X		
Effect of fixed assets revaluation	062	X		X		
		X				
Balance as of January 1 of the	100	218 860	716 461	32 878	772 518	1 740 717
Translation difference	103	X		X	X	
Net profit	105	X	X	X	2 953 095	2 953 095
Dividends	106	X	X	X	(146 241)	(146 241)

1	2	3	4	5	6	7
Allocations to reserve fund	110	X	X	2	(2)	-
Increase in shareholders' equity resulting from additional share issue	121		X	X	X	
increase in shares par value	122		X	X	X	
legal entity reorganization	123		X	X		
other	125		2 388		22 530	24 918
Decrease in shareholders' equity resulting from decrease in shares par value	131		X	X	X	
decrease in the number of shares	132		X	X	X	
legal entity reorganization	133		X	X		
other	135		(22 972)			(22 972)
Balance as of December 31 of the accounting year	140	218 860	695 877	32 880	3 601 900	4 549 517

## II. Reserves

Item		Opening Balance	Allocated	Distributed	Closing Balance
Description	Code				
1	2	3	4	5	6
<b>Statutory reserves</b>					
<b>Capital reserve</b>					
(reserve description)					
for the previous year		10 943			10 943
for the accounting year		10 943			10 943
(reserve description)					
for the previous year					
for the accounting year					
<b>Reserved formed under constituent documents</b>					
<b>Capital reserves</b>					
(reserve description)					
for the previous year		15 380	6 555		21 935
for the accounting year		21 935	2		21 937
(reserve description)					
for the previous year					
for the accounting year					
<b>Provisions</b>					
(reserve description)					
for the previous year					
for the accounting year					
(reserve description)					
for the previous year					
for the accounting year					
(reserve description)					
for the previous year					
for the accounting year					

1	2	3	4	5	6
<b>Provision for deferred expenses</b>					
(reserve description)					
for the previous year		-	-	-	-
for the accounting year		-	-	-	-
(reserve description)					
for the previous year					
for the accounting year					

**Reference Information**

Item		Opening Balance		Closing Balance	
Description	Code				
1	2	3	4	5	6
1) Net assets		1 798 496		5 382 745	
		From the budget		From the non-budget funds	
		accounting year	previous year	accounting year	previous year
		3	4	5	6
2) Received for:					
operating expenses - total					
including:					
capital investment in non-current assets					
including:					

President

I.N.Antonov

Chief Accountant

N.I.Sluzhenikina

April 2, 2007

**JSC DOROGOBUZH CONSOLIDATED CASH FLOW STATEMENT**  
for the year 2006

Stated in RUR '000s

Item			
Description	Code	Accounting Period	Corresponding Prior Period
1	2	3	4
<b>Opening cash balance</b>	010	355 862	269 964
<b>Cash flow from operating activities</b>			
Trade receipts	020	6 193 197	6 576 962
Other revenues	050	3 233 841	2 898 025
Cash allocated for:			
acquired goods, works, services, raw materials and other current assets	150	(4 872 875)	(4 553 513)
payroll	160	(652 488)	(570 720)
dividends and interest	170	(384 328)	(549 073)
taxes	180	(564 229)	(642 751)
other expenses	190	(3 047 967)	(3 043 530)
Net cash flow from operating activities	200	(94 849)	115 400
<b>Cash flow from investment activities</b>			
Proceeds from the sale of fixed assets and other non-current assets	210	2 247	6 624
Proceeds from the sale of securities and other financial investments	220	33 754	58 389
Dividends received	230	70 636	79 436
Interest received	240	2 246	3 962
Repayment of loans issued to other entities	250	82 014	308 176
Acquisition of subsidiaries	280		
Acquisition of fixed assets, income-bearing investments in tangible and intangible assets.	290	(618 280)	(222 159)
Acquisition of securities and other financial investments	300	(3 716)	(2 452)
Loans issued to other entities	310	(252 869)	(353 800)
Other payments	320		
Net cash flow from investment activities	340	(683 968)	(121 824)
<b>Cash flow from financial activities</b>			
Proceeds from issues of shares and other equity securities	350		
Proceeds from loans and borrowings granted to other entities	360	1 495 564	1 624 369

1	2		4
Other			
Repayment of loans and other borrowings (net of interest)	390	(500 386)	(1 540 088)
Repayment of financial lease	400		
Other expenses			
Net cash flow from financial activities	410	995 178	84 281
Net increase (decrease) in cash and cash equivalents	420	216 361	77 857
<b>Closing cash balance</b>	430	554 018	355 862
Effect of foreign currency/rouble exchange rate movement	440	-18 205	8 041

JSC Dorogobuzh President

I.N.Antonov

JSC Dorogobuzh Chief Accountant

N.I.Sluzhenikina

April 2, 2007

**SUPPLEMENT TO JSC DOROGOBUZH CONSOLIDATED BALANCE SHEET**  
**for the year 2006**

(Stated in RUR '000s)

**Intangible Assets**

Item		Opening Balance	Received	Disposed of	Closing Balance
Description	Code				
1	2	3	4	5	6
Intellectual property items (exclusive rights to the subject-matter of intellectual property)	010	655	345		1 000
including:					
of a patent holder in relation to an invention, industrial design, utility model	011				
of a software or database right holder	012				
of an integral circuit topography rights holder	013				
of a holder of a trademark, service mark, geographical indication rights	014	655	345		1 000
of a holder of a plant breeder's rights	015				
Administrative expenses	020				
Goodwill	030		114 439		114 439
Other	040				

Item		Opening Balance	Closing Balance
Description	Code		
1	2	3	4
Intangible assets amortization - total	050	99	184
including:			

**Fixed Assets**

Item		Opening Balance	Received	Disposed of	Closing Balance
Description	Code				
1	2	3	4	5	6
Buildings	061	751 584	26 281	(20 474)	757 391
Installations and transmission units	062	439 040	5 979	(1 656)	443 363
Plant and machinery	063	1 193 890	141 298	(21 194)	1 313 994
Vehicles	064	105 526	30 177	(7 268)	128 435
Production and household inventory	065	17 399	4 457	(874)	20 982
Working livestock	066	7	363	(7)	363
Producing livestock	067	169		(169)	0
Perennial plants	068				0
Other fixed assets	069	20 162	5 898	(9 555)	16 505
Land plots and natural assets	070	1 195	48	(40)	1 203
Capital investment in land reclamation	071				
<b>Total</b>	<b>072</b>	<b>2 528 972</b>	<b>214 501</b>	<b>(61 237)</b>	<b>2 682 236</b>

Item		Opening Balance	Closing Balance
Description	Code		
1	2	3	4
Amortization of fixed assets - total	140	1 543 643	1 597 132
including:			
buildings and installations	141	589 937	603 010
plant, machinery, vehicles	142	944 583	983 482
other	143	9 123	10 640
Leased out fixed assets	150	278 595	297 407
including:			
buildings	151	169 325	187 808
installations	152	93 012	26 529
other	153	16 258	83 070
Mothballed fixed assets	160	16 258	38 427
Fixed assets taken on lease - total	161	279 212	253 528
including:			
Real estate accepted into operation in the process of state registration	165		
	Code	Opening Balance	Closing Balance
<b>For Reference Only</b>	2	3	4
Effect from revaluation of fixed assets	171		
historical (replacement) cost	172		
amortization	173		
	Code	Opening Balance	Closing Balance
	2	3	4
Changes in the fixed assets value as a result of additional construction, equipping, revamping, partial liquidation	180	247 732	222 329

**Income-Bearing Investments in Tangible Assets**

Item		Opening Balance	Received	Written-Off	Closing Balance
Description	Code				
1	2	3	4	5	6
Assets to be transferred under lease arrangements	190				
Assets to be transferred under rent arrangements	200				
Other	210				
Total	220				

  

		Opening Balance	Closing Balance
1	2	3	4
Depreciation of income-bearing investments in tangible assets	230		

**Expenses Associated with Research, Development and Engineering Activities**

Activity		Opening Balance	Received	Written-off	Closing Balance
Description	Code				
1	2	3	4	5	6
Total	310				
including:					

  

		Code	Opening Balance	Closing Balance
		2	3	4
<b>For Reference Only</b>				
Expenses associated with research, development and engineering activities in progress	320			

  

		Code	Accounting Period	Corresponding Prior Period
		2	3	4
Expenses associated with research, development and engineering activities which did not pay off and are written off to non-sale expenses				

**Expenses Associated with Natural Resources Development**

Item		Opening Balance	Received	Written-off	Closing Balance
Description	Code				
1	2	3	4	5	6
Expenses associated with natural resources development - total					
including:					

  

		Code	Opening Balance	Closing Balance
		2	3	4
<b>For Reference Only</b>				
Expenses associated with subsoil plots not completed with exploration, evaluation of reserves, prospecting and/or hydro geological surveys and similar activities				
Expenses associated with natural resources development written-off to non-sales expenses in the accounting period as not paying off				

### Financial Investments

Item		Long-term		Short-term	
		Opening Balance	Closing Balance	Opening Balance	Closing Balance
Description	Code				
1	2	3	4	5	6
Interest in charter (share) capital of other entities - total	510	122 792	3 371 955		
including subsidiaries and associates	511	5 630	6 663		
State and municipal securities	515				
Securities of other entities - total	520				
including debt securities (bonds and bills of exchange)	521	-	-		
Loans issued	525	-	5 500	26 582	190 000
Deposits	530				
Other	535			1 452	26 680
<b>Total</b>	<b>540</b>	<b>122 792</b>	<b>3 377 455</b>	<b>28 034</b>	<b>216 680</b>
<b>Of the total amount, financial investments quoted at current market value</b>					
Interest in charter (share) capital of other entities - total	550	93 361	3 363 894		
including subsidiaries and associates	551				
State and municipal securities	555				
Securities of other entities - total	560				
including debt securities (bonds and bills of exchange)	561				
Other	565				
<b>Total</b>	<b>570</b>	<b>93 361</b>	<b>3 363 894</b>		
<b>For Reference Only</b>					
For financial investments quoted at current market value, effect of value adjustment	580	93 175	3 342 407		
For debt securities, difference between historical cost and nominal value posted to financial result of the accounting period	590				

### Accounts Receivable and Payable

Item		Opening Balance	Closing Balance
Description	Code		
1	2	3	4
<b>Accounts receivable</b>			
short-term - total	610	917 507	1 125 254
including:			
trade receivables	611	197 177	431 064
advances paid	612	370 801	370 058
other	613	349 529	324 132
long-term - total	620	681	672
including:			
trade receivables	621	681	672
advances paid	622		
other	623		
<b>Total</b>	<b>630</b>	<b>918 188</b>	<b>1 125 926</b>
<b>Accounts payable</b>			
short-term - total	640	569 559	1 461 192
including:			
trade payables	641	86 253	313 328
advances received	642	362 444	396 065
taxes payable	643	64 682	49 642
loans	644	20 955	632 132
borrowings	645	2 991	19 510
other	646	32 234	50 515
long-term - total	650	1 000 974	1 343 617
including:			
loans and borrowings	651	1 000 739	1 343 617
other	655	235	-
<b>Total</b>	<b>660</b>	<b>1 570 533</b>	<b>2 804 809</b>

### Operative Expenses (by Expense Items)

Item		Accounting Year	Prior Year
Description	Code		
1	2	3	4
Material expenses	710	2 953 930	2 804 665
Payroll	720	757 654	685 264
Social charges	730	168 185	157 721
Amortization	740	88 174	70 319
Other expenses	750	916 199	836 980
<b>Total for expense items</b>	<b>760</b>	<b>4 884 142</b>	<b>4 554 949</b>
Movements (increase [+], decrease [-]) of:			
production in progress	765	17 303	6 071
deferred expenses	766	4 270	-1 389
provision for deferred expenses	767	-	-

### Securities

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

### State Subsidies

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

Chairman of JSC Dorogobuzh Board of Directors

I.N.Antonov

JSC Dorogobuzh Chief Accountant

N.I. Sluzhenikina

April 2, 2007

## **EXPLANATORY NOTE**

**to the consolidated accounting statements of JSC Dorogobuzh**

**for the year 2006**

The present consolidated accounting statements have been prepared in accordance with the requirements of the Accounting and Reporting Regulation of the Russian Federation approved by Order of the Ministry of Finance No.34n dated July 29, 1998, and pursuant to the Methodical Recommendations on preparation and presentation of consolidated accounting statements approved by Order of the Ministry of Finance No.112 dated December 30, 1996 (hereinafter referred to as "Methodical Recommendations").

According to the Methodical Recommendations, the accounting statements of a subsidiary company should be incorporated into the consolidated accounting statements in the following cases:

- 1) If a parent company holds more than fifty percent of the voting shares in a joint stock company or more than fifty percent of the charter capital of a limited liability company.
- 2) If a parent company is able to influence decisions of a subsidiary company pursuant to an agreement made between the parent company and the subsidiary company.
- 3) If a parent company has other means of influencing decisions made by a subsidiary company.

Below is a list of the subsidiaries and related companies that were incorporated into the consolidated accounting statements pursuant to the requirements of the Methodical Recommendations.

## JSC DOROGOBUZH SUBSIDIARIES

Name: LLC **Private Security Agency Phoenix**

Address: Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia

JSC Dorogobuzh holds **100 per cent** interest in Phoenix and, therefore, may influence its decision-making process.

Name: LLC **Elegant**

Address: 5, Molodezhnaya St., Verkhnedneprovsky Settlement, Dorogobuzh District, 215750 Smolensk Region, Russia

JSC Dorogobuzh holds **100 per cent** interest in Elegant and, therefore, may influence its decision-making process.

Name: LLC **Dnepr**

Address: Novo-Mikhailovskoye village, Dorogobuzh District, 215710 Smolensk Region, Russia

JSC Dorogobuzh holds **100 per cent** interest in Dnepr and, therefore, may influence its decision-making process.

Name: JSC **Catalyst**

Address: Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia

JSC Dorogobuzh holds **100%** of Catalyst voting shares and, therefore, may influence its decision-making process.

Name: LLC **Dorogobuzh Polymer**

Address: Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia

JSC Dorogobuzh holds **100 per cent** interest in Dorogobuzh Polymer and, therefore, may influence its decision-making process.

Name: LLC **Hunting Farm Starosmolenskoye**

Address: JSC Dorogobuzh production site, Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia

JSC Dorogobuzh holds **100 per cent** interest in Srarosmolenskoye Hunting Farm and, therefore, may influence its decision-making process.

Name: LLC **Andrex**

Address: 1, 5<sup>th</sup> Prichalnaya St., Kaliningrad, Russia

JSC Dorogobuzh holds **100 per cent** interest in Andrex and, therefore, may influence its decision-making process.

Name: CJSC **Agrofirm Vysokye Tekhnologyi**

Address: Livenskaya village, Zadonsky District, 399202 Lipetsk Region, Russia

JSC Dorogobuzh holds **69.8%** of the Agrofirm voting shares and, therefore, may influence its decision-making process. For the consolidated accounting purposes, the minority interest is **30.2%**.

Name: CJSC **Acronagrotraiding**

Address: JSC Acron site, 173012 Veliky Novgorod, Russia

JSC Dorogobuzh holds **51%** of Acronagrotraiding voting shares and, therefore, may influence its decision-making process. For the consolidated accounting purposes, the minority interest is **49%**.

Name: CJSC **Shebekinoagronova**

Address: 1-a Poleyaya St., Rzhevka village, Shebekino District, 309261 Belgorod Region, Russia

JSC Dorogobuzh holds **50.1%** of Shebekinoagronova voting shares and, therefore, may influence its decision-making process. For the consolidated accounting purposes, the minority interest is **49.9%**.

Name: CJSC **Shebekinoagrokhimservice**

Address: 1-a Poleyaya St., Rzhevka village, Shebekino District, 309261 Belgorod Region, Russia

JSC Dorogobuzh holds **50.1%** of Shebekinoagrokhimservice voting shares and, therefore, may influence its decision-making process. For the consolidated accounting purposes, the minority interest is **74.9%**.

#### **JSC DOROGOBUZH RELATED COMPANIES**

Name: LLC Private Security Agency **Krona**

Address: 41/24 (3) Bolshaya Ordynka St., 109017 Moscow, Russia

JSC Dorogobuzh holds **25 per cent** interest in Krona and, therefore, may influence its decision-making process. For the consolidated accounting purposes, the minority interest is **75%**.

These consolidated accounting statements were prepared by integrating the accounting statements of the parent company, its subsidiaries and certain data on its affiliated companies; they reflect the financial situation as of the reporting date and financial performance in the reporting period of a group of interrelated companies (hereinafter the "Group").

Pursuant to the requirements of Order No.112 of the Ministry of Finance of the Russian Federation dated December 30, 1996, the consolidated accounting statements were prepared by combining the corresponding accounting indicators of each Group member and applying relevant adjustments where applicable.

In particular,

accounts receivable and accounts payable are stated less inter-group arrears of the Group members;

financial investments are stated less the parent company's investments in the charter

capital of subsidiary companies;

capital and reserves are stated less the parent company's investments in subsidiary companies and minority interests;

proceeds from sales of goods (work, services) and operating expenses are stated without accounting for the inter-group business volumes of the Group members;

interest receivable and payable, operating and non-sale income and losses are stated without account of income and losses of the Group members resulting from inter group transactions.

In accordance with Section 5.1 of the Methodical Recommendations, the explanations to the Consolidated Balance Sheet and Consolidated Profit and Loss Statement contain the cost evaluation of the influence on the financial situation and performance of the Group of the acquisition or retirement of subsidiary and affiliated companies as of the reporting date and during the reporting period.

The following changes were made in the list of JSC Acron subsidiaries and related companies during 2006:

1. The following companies ceased to be subsidiaries of JSC Acron:

Name: **JSC Niva Chernozemya**

Address: 35, Oktyabrskaya St., 302035 Orel, Russia

JSC Dorogobuzh held **46%** of the company's voting shares and, therefore, could influence its decision-making process.

2. The following companies were added to JSC Acron subsidiaries:

- **LLC Dorogobuzh Polymer – 100%**
- **LLC Andrex - 100%**
- **LLC Hunting Farm Starosmolenskoye - 100%**

As a result of changes in the Group's subsidiaries and related companies, its profit for the year 2006 reduced 0.04% (RUR 1.132 million).

Financial investments for which market value can be defined in accordance with the established order are presented as of the end of the accounting period at current market price; in the current year the gain from their value adjustment amounted to RUR 3.25 billion and was included into other expenses. A deferred tax liability in the amount of RUR 779.82 million accrued on this adjustment.

Details in the below list of affiliates have been disclosed in accordance with the securities laws of the Russian Federation.

List of Affiliates as of December 31, 2006

No.	Full Name	Domicile (in case of an individual, disclosed solely subject to the individual's consent)	Interest Held in the Company's Charter Capital, %	Common Stock Held in the Company, %
1	2	3	4	5
1	Ivan Antonov	Veliky Novgorod, Russia	-	-
2	Oscar Valters	Moscow, Russia	-	-
3	Valery Ivanov	Veliky Novgorod, Russia	-	-
4	Vladimir Kunitsky	Dorogobuzh, Smolensk Region, Russia	0.0121	0.00144
5	Viktor An	Dorogobuzh, Smolensk Region, Russia	-	-
6	Svetlana Nemova	Moscow, Russia	-	-
7	Alexander Popov	Moscow, Russia	-	-
8	Evgeny Rouchkin	Veliky Novgorod, Russia	-	-
9	Victor Bocherikov	Verkhnedneprovsky Settlement, Dorogobuzh District, Smolensk Region, Russia	-	-
10	Vladimir Ovchinnikov	Veliky Novgorod, Russia	-	-
11	Dmitry Golubkov	Moscow, Russia	-	-
12	Victor Ryzhkov	Moscow, Russia	-	-
13	Oleg Kostylev	Safonovo, Smolensk Region, Russia	-	-
14	Alexander Knopov	Veliky Novgorod, Russia	-	-
15	Andrey Velichko	Dorogobuzh, Smolensk Region, Russia	0.0031	0.0010
16	Valery Shvalyuk	Moscow, Russia	-	-
17	Elena Bondarenkova	Dorogobuzh District, Smolensk Region, Russia	-	-
18	Yulia Tarasova	Verkhnedneprovsky Settlement, Dorogobuzh District, Smolensk Region, Russia	-	-
19	Nikolay Grigoriev	Zadonsky District, Lipetsk Region, Russia	-	-
20	Vladimir Petryakov	Shebekino District, Belgorod Region, Russia	-	-
21	Pavel Chaturov	Saratov, Russia	-	-
22	Andrey Rovensky	Moscow, Russia	-	-
23	Anatoly Petrov	Veliky Novgorod, Russia	-	-

No.	Full Name	Domicile (in case of an individual, disclosed solely subject to the individual's consent)	Interest Held in the Company's Charter Capital, %	Common Stock Held in the Company, %
24	Vladimir Gavrikov	Veliky Novgorod, Russia	-	-
25	Alexey Alekhin	Zadonsk, Lipetsk Region, Russia	-	-
26	Yuri Galkin	Gryazi, Lipetsk Region, Russia	-	-
27	Vladimir Kolesnik	Alekseevka, Belgorod Region, Russia	-	-
28	Vasily Khodykin	Yakovlevsky District, Belgorod Region, Russia	-	-
29	Alexander Sharik	Gubkin town, Belgorod Region, Russia	-	-
30	Sergey Stroev	Livny, Orel Region, Russia	-	-
31	Sergey Vivchar	Leningrad District, Krasnodar Krai, Russia	-	-
32	Victor Sergeev	Saratov, Russia	-	-
33	Lyudmila Burmistrova	Ershov town, Saratov Region, Russia	-	-
34	Vasily Pechikin	Yelets, Lipetsk Region, Russia	-	-
35	Sergey Shekhovtsev	Poltavskaya Station, Krasnoarmeisk District, Krasnodar Krai, Russia	-	-
36	Pavel Bobrov	Saratov, Russia	-	-
37	Dmitry Dashkov	Vygonichsky District, Bryansk Region, Russia	-	-
38	Gennady Shestopalov	Nizhny Novgorod, Russia	-	-
39	Victor Streikh	Baltay District, Saratov Region, Russia	-	-
40	Svetlana Kolesnikova	Belgorod, Russia	-	-
41	Leonid Romnov	Lebedyansky District, Lipetsk Region, Russia	-	-
42	Vera Yandyo	Lipetsk, Russia	-	-
43	Alexander Chernyshev	Lukoyanov, Nizhny Novgorod Region, Russia	-	-
44	Nikolay Nesterov	Orel, Russia	-	-
45	Nikolay Buzykin	Azov District, Rostov Region, Russia	-	-
46	Oleg Ogorev	Poltavskaya Station, Krasnoarmeisk District, Krasnodar Krai, Russia	-	-
47	Galina Petukhova	Orel District, Orel Region, Russia	-	-
48	Sergey Kozlov	Veliky Novgorod, Russia	-	-
49	Andrey Pestov	Veliky Novgorod, Russia	-	-
50	Sergey Fedorov	Moscow, Russia	-	-
51	Arkady Sverdlov	Moscow, Russia	-	-
52	Vladimir Lukunев	Moscow, Russia	-	-

No.	Full Name	Domicile (in case of an individual, disclosed solely subject to the individual's consent)	Interest Held in the Company's Charter Capital, %	Common Stock Held in the Company, %
53	Vladimir Zakharov	Moscow, Russia	-	-
54	Li Defu	Linyi city, Shandong province, China	-	-
55	Evgeny Demidov	Tallinn, Estonia	-	-
56	Alexander Volokhonsky	Tallinn, Estonia	-	-
57	Tatiana Izmestieva	Verkhnedneprovsky Settlement, Dorogobuzh District, Smolensk Region, Russia	-	-
58	Victor Kochubey	Veliky Novgorod, Russia	-	-
59	Marina Glushakova	Kaliningrad, Russia	-	-
60	Open Joint Stock Company Acron	173012 Veliky Novgorod, Russia	54,74	66,40
61	Joint Stock Company Catalyst	Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia	-	-
62	Limited Liability Company Dnepr	Novo-Mikhailovskoye village Dorogobuzh District, 215710 Smolensk Region, Russia	-	-
63	Limited Liability Company Private Security Agency Krona	41/24 (3) Bolshaya Ordynka St., 109017 Moscow, Russia	-	-
64	Limited Liability Private Security Agency Phoenix	Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia	-	-
65	Limited Liability Company Elegant	5, Molodezhnaya St., Verkhnedneprovsky Settlement, Dorogobuzh District, 215750 Smolensk Region, Russia	-	-
66	Closed Joint Stock Company Agrofirma Vysokye Tekhnologyi	Livenskaya village, Zadonsky District, 399202 Lipetsk Region, Russia	-	-
67	Closed Joint Stock Company Acronagrotrading	JSC Acron site, 173012 Veliky Novgorod, Russia	-	-
68	Closed Joint Stock Company Shebekinoagronova	1-a Poleyvaya St., Rzhevka village, Shebekino District, 309261 Belgorod Region, Russia	-	-
69	Closed Joint Stock Company Shebekinoagrokhimservice	1-a Poleyvaya St., Rzhevka village, Shebekino District, 309261 Belgorod Region, Russia	-	-

No.	Full Name	Domicile (in case of an individual, disclosed solely subject to the individual's consent)	Interest Held in the Company's Charter Capital, %	Common Stock Held in the Company, %
70	Limited Liability Company Hunting Farm Starosmolenskoye	JSC Dorogobuzh production site, Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia	-	-
71	Limited Liability Company Investment Port Company	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-
72	Closed Joint Stock Company WIAM-AGRO	37(2) Prechistenka St., 119034 Moscow	-	-
73	Limited Liability Construction Company Stolny Grad	12(8) Tverskaya St., 125009 Moscow	-	-
74	Open Joint Stock Company Lipoil	2, Papina St., 398024 Lipetsk, Russia	-	-
75	Limited Liability Company Acronit	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-
76	Flornteks Limited	3/5 Maly Koptevsky Proezd, 125315 Moscow, Russia	-	-
77	Limited Liability Company Acron Hotel	24, Predtechenskaya St., 173007 Veliky Novgorod, Russia	-	-
78	Open Joint Stock Company Zvyaginki	Zvyaginki village, Orel District, 302523 Orel Region, Russia	-	-
79	Closed Joint Stock Company Acron-Saratov	Trofimovsky-II station (without number), Leninsky District, 410086 Saratov, Russia	-	-
80	Closed Joint Stock Company Firma Proekt	37(2) Prechistenka St., 119034 Moscow	-	-
81	Closed Joint Stock Company Zadonskiy Syr	Repets village, Zadonsky District, 399215 Lipetsk Region	-	-
82	Closed Joint Stock Company Nordic Rus Holding	37(2) Prechistenka St., 119034 Moscow	-	-
83	Closed Joint Stock Company ENGservice	3a Mendeleeva St., 173016 Veliky Novgorod, Russia	-	-
84	Limited Liability Company Private Security Agency Guepard	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-
85	Limited Liability Company Trustservice	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-
86	Limited Liability Company Nikoulinskoye	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-

No.	Full Name	Domicile (in case of an individual, disclosed solely subject to the individual's consent)	Interest Held in the Company's Charter Capital, %	Common Stock Held in the Company, %
87	Closed Joint Stock Company Agronova	Administration Office, 20a Zapovednaya St., 129642 Moscow, Russia	-	-
88	Closed Joint Stock Company North-Western Phosphorous Company	37(2) Prechistenka St., 119034 Moscow	-	-
89	Open Joint Stock Company Zadonskagronova	M. Panarino village, Zadonsky District, 399200 Lipetsk Region, Russia	-	-
90	Closed Joint Stock Company Gryziagronova	12 Peskovatskaya St., 399300 Gryazi town, Lipetsk Region, Russia	-	-
91	Open Joint Stock Company Agrokhim	DSP-2 district, 309850 Alekseevka town, Belgorod Region, Russia	-	-
92	Open Joint Stock Company Yakovlevoagronova	9 2 <sup>nd</sup> Zavodskaya St., 309070 Stroitel town, Yakovlevsky District, Belgorod Region, Russia	-	-
93	Open Joint Stock Company Gubkinselkhozkhimia	7 3 <sup>rd</sup> Melnichny Lane, 309187 Gubkin town, Belgorod Region, Russia	-	-
94	Closed Joint Stock Company Livnyagronova	23 Nagorny village, 303800 Nagorny town, Orel Region, Russia	-	-
95	Open Joint Stock Company Krasnoarmeiskagronova	10 Narodnaya St., Poltavskaya Station, Krasnoarmeisk District, 353807 Krasnodar Krai, Russia	-	-
96	Open Joint Stock Company Koubanagronova	20 302 <sup>nd</sup> Division St., Leningradskaya Station, Leningrad District, 353810 Krasnodar Krai, Russia	-	-
97	Open Joint Stock Company Baltayagropromkhimiya	15 Rabochaya St., Baltay village, Baltay District, 412630 Saratov Region, Russia	-	-
98	Open Joint Stock Company Ershovskaya Selhozhkhimiya	30 Pionerskaya St., 413500 Ershov town, Saratov Region, Russia	-	-
99	Closed Joint Stock Company Eletzagronova	Moscovskoye Shosse, GSP-12, 399740 Eletz town, Lipetsk Region, Russia	-	-

No.	Full Name	Domicile (in case of an individual, disclosed solely subject to the individual's consent)	Interest Held in the Company's Charter Capital, %	Common Stock Held in the Company, %
100	Closed Joint Stock Company Kubris	10 Narodnaya St., Poltavskaya Station, Krasnoarmeisk District, 353807 Krasnodar Krai, Russia	-	-
101	Closed Joint Stock Company Baltaiagronova	15 Rabochaya St., Baltay village, Baltay District, 412630 Saratov Region, Russia	-	-
102	Open Joint Stock Company Agronova- Bryansk	Glinishevo village, Bryansk District, 242025 Bryansk Region, Russia	-	-
103	Closed Joint Stock Company Agronova- Volga	29V, Ilyinskaya St., 603109 Nizhny Novgorod, Russia	-	-
104	Closed Joint Stock Company Agronova- Saratov	Trofimovsky-II station (without number), Leninsky District, 410086 Saratov, Russia	-	-
105	Limited Liability Company EVLASHEVSKOYE	Sosnovka village, Baltay District, 412641 Saratov Region, Russia	-	-
106	Closed Joint Stock Company Belagronova	1g August 5 <sup>th</sup> St., 308027 Belgorod, Russia	-	-
107	Closed Joint Stock Company Lebedyanagronova	71 Lev Tolstoy St., 399610 Lebedyan town, Lipetsk Region, Russia	-	-
108	Closed Joint Stock Company Agronova- Lipetsk	15 Balmochnykh St., 398002 Lipetsk, Russia	-	-
109	Closed Joint Stock Company Lukoyanovagronova	41V Pushkina St., Lukoyanov town, 607800 Nizhny Novgorod, Russia	-	-
110	Closed Joint Stock Company Agronova- Orel	35 Oktaybrskaya St., 302035 Orel, Russia	-	-
111	Closed Joint Stock Company Rostagronova	14 A, M.Nagibina Ave., 344038 Rostov-on-Don, Russia	-	-
112	Acronagrotrans Ltd	Trident Trust Company Limited (B.V.I.) Office, Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands	-	-
113	Linyi Fudelai Chemical Fertilizer Company Ltd.	252 Linxi Yilu St., Linyi city, Shandong province,	-	-

No.	Full Name	Domicile (in case of an individual, disclosed solely subject to the individual's consent)	Interest Held in the Company's Charter Capital, %	Common Stock Held in the Company, %
		China		
114	REFCO HOLDINGS LIMITED	Michalaki Kousoulidi, 15 P.C. 2024, Nicosia, Cyprus	-	-
115	Shandong Hongri Acron Chemical Joint Stock Company, Ltd.	Luo Zhuang district, Linyi city, Shandong province, China	-	-
116	Linyi Fudelai Chemical Fertilizer Company Ltd.	Huabolu village, Luo Zhuang district, Linyi city, Shandong province, China	-	-
117	Limited Liability Company Verkhnekamsk Potassium Company	37(2) Prechistenka St., 119034 Moscow	-	-
118	Limited Liability Company Acron Food Production Facility	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-
119	Closed Joint Stock Company Granit	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-
120	AO BCT	Tallinn, Estonia	-	-
121	Premier Management Limited	P.O. Box 556, Main Street, Charlestown, Nevis, West Indies	-	-
122	AS BFT Eesti	Tallinn, Estonia	-	-
123	Veliky Novgorod Jewish Community Fund – Cultural and Spiritual Heritage Development Center	8 Dvortsovaya St., 173000 Veliky Novgorod, Russia	-	-
124	Non-commercial Fund for Support of State and Non-state Programmes of Agriculture Development "Fertility"	37(2) Prechistenka St., 119034 Moscow	-	-
125	Limited Liability Company Diagnose-Center	3a Mendeleeva St., 173016 Veliky Novgorod, Russia	-	-
126	Limited Liability Company Dorogobuzh Polymer	Verkhnedneprovsky Settlement, Dorogobuzh District, 215753 Smolensk Region, Russia	-	-
127	Limited Liability Company Acron Machine Building Plant	JSC Acron Site, 173012 Veliky Novgorod, Russia	-	-
128	Limited Liability Company ANDREX	1 5 <sup>th</sup> Prichalnaya St., 236035 Kaliningrad, Russia	-	-

**President**

**I.N.Antonov**

**Chief Accountant**

**N.I.Sluzhenikina**