JOINT STOCK COMPANY
“ACRON”

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

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of Joint Stock Company "Acron" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

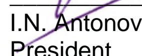
6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

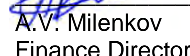
29 April 2010
Moscow, Russian Federation

	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	14	20,474,634	18,053,913
Exploration rights	15	21,690,111	19,624,441
Leasehold land	13	516,427	458,991
Goodwill	16	1,266,651	1,271,673
Other non-current assets		893,667	1,143,099
Investment in associate	17	-	571,010
Available-for-sale investments	18	20,594,908	6,659,501
Long-term loans receivable	11	61,279	58,607
Deferred tax assets	29	582,125	620,085
Total non-current assets		**66,079,802**	**48,461,320**
Current assets			
Inventories	12	5,858,448	5,538,401
Short-term loans receivable	11	831,442	920,353
Accounts receivable	10	4,310,534	3,958,728
Cash and cash equivalents	9	7,706,149	4,008,768
Other current assets		145,405	143,406
Total current assets		**18,851,978**	**14,569,656**
TOTAL ASSETS		**84,931,780**	**63,030,976**
EQUITY			
Share capital	23	3,125,018	3,125,018
Treasury shares	23	(46,326)	(46,326)
Retained earnings		21,687,510	15,391,110
Revaluation reserve		13,712,148	3,953,534
Other reserves	23	(248,466)	(248,466)
Cumulative currency translation difference		294,961	189,984
Share capital and reserves attributable to the Company’s owners		**38,524,845**	**22,364,854**
Non-controlling interest		3,867,909	2,810,532
TOTAL EQUITY		**42,392,754**	**25,175,386**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	21	19,812,018	10,413,584
Finance lease liability	22	49,499	69,514
Other long-term liabilities		259,636	306,714
Deferred tax liability	29	4,609,349	2,299,726
Total non-current liabilities		**24,730,502**	**13,089,538**
Current liabilities			
Accounts payable	19	1,317,554	2,291,645
Notes payable		807,733	1,466,581
Current income tax payable		23,591	22,465
Other taxes payable	20	239,058	216,849
Short-term borrowings	21	12,548,564	18,409,629
Advances received		2,499,178	2,223,679
Finance lease liability	22	21,553	30,557
Other current liabilities		351,293	104,647
Total current liabilities		**17,808,524**	**24,766,052**
TOTAL LIABILITIES		**42,539,026**	**37,855,590**
TOTAL LIABILITIES AND EQUITY		**84,931,780**	**63,030,976**

Approved for issue and signed on behalf of the Board of Directors on 29 April 2010.



I.N. Antonov
President



A.V. Milenkov
Finance Director

	Note	2009	2008
Revenue	7	37,541,673	43,131,614
Cost of sales	24	(23,938,872)	(19,771,160)
Gross profit		**13,602,801**	**23,360,454**
Transportation expenses		(4,106,792)	(3,669,792)
Selling, general and administrative expenses	25	(3,421,673)	(3,387,539)
(Loss)/gain on disposal of property, plant and equipment, net		(145,651)	74,741
Other operating expenses, net	27	(554,215)	(238,805)
Operating profit		**5,374,470**	**16,139,059**
Finance income/(loss)	26	192,169	(2,415,480)
Interest expense		(364,135)	(361,731)
Share of result of associates	17	(214,851)	208,442
Gain on disposal of associate	17	3,816,368	-
Profit before taxation		**8,804,021**	**13,570,290**
Income tax expense	29	(1,547,928)	(3,678,874)
Net profit for the year		**7,256,093**	**9,891,416**
Other comprehensive income/(loss):			
Available-for-sale investments:			
- Gains less losses arising during the year		13,742,424	(10,595,035)
- Income tax recorded directly in other comprehensive income		(2,748,481)	2,788,803
Currency translation differences		142,590	380,610
Other comprehensive income/(loss) for the year		**11,136,533**	**(7,425,622)**
Total comprehensive income for the year		**18,392,626**	**2,465,794**
Net profit is attributable to:			
Owners of the Company		7,081,442	9,340,443
Non-controlling interest		174,651	550,973
Net profit for the year		**7,256,093**	**9,891,416**
Total comprehensive income is attributable to:			
Owners of the Company		16,945,033	2,355,116
Non-controlling interest		1,447,593	110,678
Total comprehensive income for the year		**18,392,626**	**2,465,794**
Earnings per share, basic and diluted (expressed in RR per share)	**28**	**162.64**	**214.41**

	Note	2009	2008
Cash flows from operating activities			
Profit before taxation		**8,804,021**	**13,570,290**
Adjustments for:			
Depreciation and amortization	13, 14	1,379,663	1,335,913
Provision for impairment of accounts receivable		10,030	40,170
Increase in provision for write-down on inventory	24	-	463,679
(Reversal)/impairment of property, plant and equipment, net	24	(55,385)	506,468
Share of results of associate	17	214,851	(208,442)
Gain on disposal of associate	17	(3,816,368)	-
Loss/(gain) on disposal of property, plant and equipment		145,651	(74,741)
Interest expense		364,135	361,731
Interest income		(165,788)	(235,119)
Dividend income		(41,162)	(257,800)
Foreign exchange effect on non-operating balances		(66,352)	2,761,268
Operating cash flows before working capital changes		**6,773,296**	**18,263,417**
Decrease/(increase) in gross trade receivables		746,775	(605,255)
(Increase)/decrease in advances to suppliers		(428,709)	603,762
(Increase)/decrease in other receivables		(810,207)	119,592
Increase in inventories		(320,047)	(2,428,274)
Decrease in trade payables		(351,942)	(403,054)
Decrease in other payables		(200,994)	(522,347)
Increase in advances from customers		275,499	1,069,781
Increase in other current assets		(1,999)	(113,464)
Increase/(decrease) in other current liabilities		246,646	(27,641)
Net change in other non-current assets and liabilities		178,357	(258,153)
Cash generated from operations		**6,106,675**	**15,698,364**
Income taxes paid		(1,090,334)	(4,079,643)
Interest paid		(2,160,273)	(1,451,379)
Net cash generated from operating activities		**2,856,068**	**10,167,342**
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,734,328)	(5,314,883)
Exploration and evaluation expenditure		(152,000)	-
Purchase of exploration rights		-	(18,285,630)
Acquisition of subsidiaries, net of cash acquired	31	-	(290,025)
Proceeds from sale of property, plant and equipment		46,499	158,013
Loans provided		(472,761)	(897,250)
Proceeds from loans repaid		559,000	565,614
Interest received		88,231	235,119
Dividends received		40,218	257,218
Proceeds from sale of investment in associate	17	4,172,527	-
Income tax on sale of investment in associate	17	(757,771)	-
Purchase of leasehold land rights		(51,052)	(273,000)
Proceeds from sale of available-for-sale investments		19,315	99,360
Purchase of available-for-sale investments		(208,644)	(6,875)
Net cash used in investing activities		**(450,766)**	**(23,752,339)**
Cash flows from financing activities			
Acquisition of non-controlling interest		(1,085,620)	-
Dividends paid to shareholders		(433,479)	(4,921,996)
Dividends paid to non-controlling shareholders		(89,638)	(324,801)
Acquisition of treasury shares	23	-	(210,236)
Proceeds from disposal of treasury shares	23	-	65,000
Proceeds from borrowings		57,932,821	37,434,553
Repayment of borrowings		(55,040,746)	(15,961,088)
Net cash provided from financing activities		**1,283,338**	**16,081,432**
Effect of exchange rate changes on cash and cash equivalents		8,741	177,058
Net increase in cash and cash equivalents		**3,697,381**	**2,673,493**
Cash and cash equivalents at the beginning of the year		**4,008,768**	**1,335,275**
Cash and cash equivalents at the end of the year		**7,706,149**	**4,008,768**

The accompanying notes on pages 5 to 47 are an integral part of these consolidated financial statements.

	Capital and reserves attributable to the Company’s owners							
	Share capital (Note 23)	Treasury shares (Note 23)	Retained earnings	Revaluation reserve	Other reserves (Note 23)	Cumulative currency translation difference	Non-controlling interest	Total equity
Balance at 1 January 2008	**3,125,018**	**(39,737)**	**11,247,092**	**11,207,376**	**-**	**(78,531)**	**2,835,506**	**28,296,724**
Comprehensive income								
Profit for the year	-	-	9,340,443	-	-	-	550,973	9,891,416
Other comprehensive income								
Fair value losses on available-for-sale investments (Note 18)	-	-	-	(9,815,630)	-	-	(779,405)	(10,595,035)
Currency translation differences	-	-	-	-	-	268,515	112,095	380,610
Income tax recorded in other comprehensive income (Note 29)	-	-	-	2,561,788	-	-	227,015	2,788,803
Total other comprehensive income	-	-	-	(7,253,842)	-	268,515	(440,295)	(7,425,622)
Total comprehensive income	-	-	9,340,443	(7,253,842)	-	268,515	110,678	2,465,794
Dividends declared (Note 23)	-	-	(5,196,425)	-	-	-	(455,400)	(5,651,825)
Business combinations (Note 31)	-	-	-	-	-	-	319,748	319,748
Share offering expenses (Note 23)	-	-	-	-	(109,819)	-	-	(109,819)
Acquisition of treasury shares (Note 23)	-	(6,924)	-	-	(203,312)	-	-	(210,236)
Disposal of treasury shares (Note 23)	-	335	-	-	64,665	-	-	65,000
Balance at 31 December 2008	**3,125,018**	**(46,326)**	**15,391,110**	**3,953,534**	**(248,466)**	**189,984**	**2,810,532**	**25,175,386**
Balance at 1 January 2009	**3,125,018**	**(46,326)**	**15,391,110**	**3,953,534**	**(248,466)**	**189,984**	**2,810,532**	**25,175,386**
Comprehensive income								
Profit for the year	-	-	7,081,442	-	-	-	174,651	7,256,093
Other comprehensive income								
Fair value gains on available-for-sale investments (Note 18)	-	-	-	12,198,263	-	-	1,544,161	13,742,424
Currency translation differences	-	-	-		-	104,977	37,613	142,590
Income tax recorded in other comprehensive income (Note 29)	-	-	-	(2,439,649)	-	-	(308,832)	(2,748,481)
Total other comprehensive income	-	-	-	9,758,614	-	104,977	1,272,942	11,136,533
Total comprehensive income	-	-	7,081,442	9,758,614	-	104,977	1,447,593	18,392,626
Dividends declared (Note 23)	-	-	-	-	-	-	(89,638)	(89,638)
Acquisition of non-controlling interest (Note 8)	-	-	(785,042)	-	-	-	(300,578)	(1,085,620)
Balance at 31 December 2009	**3,125,018**	**(46,326)**	**21,687,510**	**13,712,148**	**(248,466)**	**294,961**	**3,867,909**	**42,392,754**

1 Acron Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for Joint Stock Company "Acron" (the "Company" or "Acron") and its subsidiaries (together referred to as the "Group" or "Acron Group").

The Group's principal activities include the manufacture, distribution and sales of chemical fertilizers and related by-products. The Group's manufacturing facilities are primarily based in the Novgorodskaya and Smolenskaya oblasts of Russia and also in China. Acron was incorporated as a joint stock company on 19 November 1992. On that date the majority of assets and liabilities previously managed by the state conglomerate "Azot" were transferred to the Company. The transfer of assets and liabilities was made in accordance with Decree No. 721 on the privatisation of state companies approved on 1 July 1992.

The Group's ultimate parent is Subero Associates Inc (British Virgin Islands) (2008: Subero Associates Inc). As at 31 December 2009 and 2008 the Group was ultimately controlled by Mr. Viatcheslav Kantor.

The Company's registered office is at Novgorod-the-Great, 173012, Russian Federation.

2 Basis of Preparation of the Financial Statements

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

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

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

3 Summary of Significant Accounting Policies

3.1 Group accounting

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.1 Group accounting (continued)

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

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

3.2 Cash and cash equivalents

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

3.3 Trade and other receivables

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

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

3.4 Value added tax

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

3.5 Inventories

Inventories comprise raw materials, finished goods, work in progress, catalytic agents, spare parts and other materials and supplies. Catalytic agents consumed for the period of more than 12 months are presented within other non-current assets in the amount of RR 694,239 (2008: RR 624,451). Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3 Summary of Significant Accounting Policies (continued)

3.6 Property, plant and equipment

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

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

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

	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 Leasehold land

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

3.8 Intangible assets

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.9 Borrowings

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

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

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

3.10 Income taxes

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

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

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

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

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

3.11 Foreign currency transactions

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

3 Summary of Significant Accounting Policies (continued)

3.11 Foreign currency transactions (continued)

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

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

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

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

At 31 December 2009 the principal rate of exchange used for translating foreign currency balances was US$ 1 = 30.2442, US$ 1 = 6.8282 RMB (2008: US$ 1 = 29.3804 RR , US$ 1 = 6.8346 RMB). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies.

3.12 Provisions for liabilities and charges

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

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

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

3.13 Shareholders' equity

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

3 Summary of Significant Accounting Policies (continued)

3.13 Shareholders' equity (continued)

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

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

3.14 Revenue recognition

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

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

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

3.15 Mutual cancellations

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

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

3.16 Employee benefits

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

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

Pension costs. In the normal course of business the Group contributes to state pension schemes on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued in the year in which the associated services are rendered by the employees of the Group. The Group recognised contributions of RR 432,289 as part of labour costs in 2009 (2008: RR 453,021).

3 Summary of Significant Accounting Policies (continued)

3.17 Financial assets and liabilities

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

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

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

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

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

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.

3.18 Finance lease liabilities

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

3.19 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

3 Summary of Significant Accounting Policies (continued)

3.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 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.

3.21 Exploration and evaluation expenditure

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

3.22 Development expenditure

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

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value less cost to sale or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 16. At 31 December 2009 no impairment of goodwill was required, and none would be required even if the budgeted sales growth rate used in the value-in-use calculations for any CGU had been 5% lower than management estimates at 31 December 2009. If the estimated pre-tax discount rate applied to the discounted cash flows for any CGU had been 3% higher than management estimates, the goodwill would still have not been impaired (Note 16).

Impairment of property, plant and equipment and exploration rights. At 31 December 2009 the Group performed an impairment test of property, plant and equipment and exploration rights. The recoverable amount of each cash-generating unit (CGU) was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year period and the expected market prices for key fertilizers for the same period according to the leading industry publications, which are broadly in line with 2009 average prices. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGUs. Recoverable amounts of LLC Verkhnekamsk Potash Company ("VPC") and Shandong Hongri Acron ("Hongri Acron") are sensitive to changes in discount rates. For VPC any increase in discount rate by over 1% would lead to impairment charge. For Hongri Acron increase in discount rate by 6.6% would lead to impairment of RR 35,440. Reasonably possible change in other key assumptions does not lead to material impairment charge.

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

Valuation and impairment of available-for-sale investments. As of 31 December 2009 and 2008 the investments in JSC Apatit and JSC Silvinit were determined by reference to the current market value in line with requirements of IAS 39. Although the free float and volume of trades of investments may be not significant, their quoted prices are readily and regularly available from exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, in industry and sector performance, or in operating or financing cash flows, or when there are significant adverse consequences of changes in technology. At 31 December 2009 no impairment was required due to significant excess of fair values over the cost, refer to Note 18. The impact on fair value of available-for-sale investment as of 31 December 2009 would be to decrease it by RR 2,026,904 thousand were the market quotations to decrease by 10% from actual ones.

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

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

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

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

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

Identification of reporting segments. Although the Chief Operating Decision Maker ("CODM") (Note 7) reviews reports for different segments with different time intervals (most reports are reviewed monthly, reports for domestic and overseas distribution are reviewed quarterly), the Group believes that all the information for the segments disclosed as reporting is reviewed by CODM on regular basis.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

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

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

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group early adopted IAS 27 and changed its accounting policies for purchases of non-controlling interests that do not result in the loss of control. As a result of adoption the difference between the purchase consideration for remaining 50% of AS DBT and the carrying amount of non-controlling interest acquired was recorded as capital transaction directly in equity in the amount of RR 785,042 (Note 31).

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

- Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, which are provided in Note 33 and Note 34, there is no impact on earnings per share;
- Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). This amendment is not currently applicable to the Group as it has no such financial instruments;
- Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). Amendment to IFRS 2, Share-based Payment is not currently applicable to the Group as it has no such payments;

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

- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate;
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). This amendment does not impact the Group's consolidated financial statements;
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 is not relevant to the Group;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 is not relevant to the Group.

6 New Accounting Pronouncements

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

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

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

7 Segment Information

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

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the CODM and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Group.

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

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

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

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

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

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

7 Segment Information (continued)

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

In thousands of Russian Roubles	Acron	Dorogobuzh	Hongri Acron	Logistics	Mining	Overseas traders	Domestic traders	Eliminations	Other	Total
Revenue	18,987,999	9,919,410	5,774,923	1,224,116	-	18,031,865	3,591,002	(21,118,680)	1,441,082	37,851,717
EBITDA	5,384,865	2,530,906	(1,205,697)	301,655	-	561,870	(6,029)	(17,941)	366,897	7,916,526
Accounts receivable	1,478,985	483,334	51,794	204,750	-	126,153	528,558	(2,556,635)	806,759	1,123,698
Cash and cash equivalents	5,177,221	1,214,795	751,481	302,043	33,998	82,674	27,756	-	116,181	7,706,149
Measure of segment assets	6,656,206	1,698,129	803,275	506,793	33,998	208,827	556,314	(2,556,635)	922,940	8,829,847
Accounts payable	(231,425)	(154,824)	(479,921)	(113,880)	-	(1,296,116)	(32,229)	1,706,757	(163,693)	(765,331)
Borrowings and loans	(27,104,857)	(2,613,432)	(1,638,844)	(3,338,532)	(18,476,659)	(1,107,440)	(426,523)	22,436,005	(90,300)	(32,360,582)
Measure of segment liabilities	(27,336,282)	(2,768,256)	(2,118,765)	(3,452,412)	(18,476,659)	(2,403,556)	(458,752)	24,142,762	(253,993)	(33,125,913)
Capital expenditure	1,066,831	275,255	78,289	1,117,473	511,950	-	-	-	684,531	3,734,329

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

In thousands of Russian Roubles	Acron	Dorogobuzh	Hongri Acron	Logistics	Mining	Overseas traders	Domestic traders	Eliminations	Other	Total
Revenue	28,746,812	9,825,676	5,838,445	847,661	-	9,328,862	6,668,644	(16,917,335)	766,677	45,105,442
EBITDA	15,294,460	3,842,231	733,911	94,056	-	324,191	183,707	-	(125,356)	20,347,200
Accounts receivable	1,692,029	617,828	46,334	136,232	151,975	538,455	588,764	(1,542,766)	115,029	2,343,880
Cash and cash equivalents	1,673,266	706,828	1,375,532	84,476	38,616	38,346	24,298	-	67,406	4,008,768
Measure of segment assets	3,365,295	1,324,656	1,421,866	220,708	190,591	576,801	613,062	(1,542,766)	182,435	6,352,648
Accounts payable	(621,825)	(563,149)	(452,659)	(77,216)	(37,650)	(684,446)	(126,786)	1,116,033	(223,868)	(1,671,566)
Borrowings and loans	(23,410,778)	(1,322,118)	(1,445,678)	(2,158,864)	(17,457,000)	(1,160,526)	(307,751)	18,914,369	(474,867)	(28,823,213)
Measure of segment liabilities	(24,032,603)	(1,885,267)	(1,898,337)	(2,236,080)	(17,494,650)	(1,844,972)	(434,537)	20,030,402	(698,735)	(30,494,779)
Capital expenditure	1,850,537	1,408,139	151,561	1,541,835	362,811	-	-	-	-	5,314,883

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

7 Segment Information (continued)

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

In thousands of Russian Roubles	**2009**	**2008**
Total revenues for reportable segments	37,851,717	45,105,442
Custom duties (i)	(94,799)	(1,385,849)
Cut-off adjustment (ii)	(251,623)	(112,532)
Adjustment for consignment sales (iii)	-	(730,645)
Other differences	36,378	255,198
Total consolidated revenues	**37,541,673**	**43,131,614**

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

In thousands of Russian Roubles	**2009**	**2008**
Total EBITDA for reportable segments	7,916,526	20,347,200
Different classification of non-operating items (iv)	(1,148,763)	(968,495)
Cut-off adjustment (ii)	609,172	(326,532)
Adjustment for consignment sales (iii)	-	(1,174,356)
Impairment provision (v)	(101,459)	(506,468)
Total consolidated EBITDA	**7,275,476**	**17,371,349**

EBITDA is a non-IFRS profit measure. Consolidated EBITDA is reconciled to the consolidated IFRS operating profit in Note 33.

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

In thousands of Russian Roubles	**2009**	**2008**
Total accounts receivable for the reportable segments	1,123,698	2,343,880
Different classification of assets and liabilities (vi)	3,425,648	1,865,061
Different doubtful debts allowance (vii)	(230,976)	(220,947)
Other differences	(7,836)	(29,266)
Total consolidated accounts receivable	**4,310,534**	**3,958,728**

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

In thousands of Russian Roubles	**2009**	**2008**
Total accounts payable for reportable segments	(765,331)	(1,671,566)
Different classification of assets and liabilities (vi)	(277,260)	(556,429)
Other differences	(274,963)	(63,650)
Total consolidated accounts payable	**(1,317,554)**	**(2,291,645)**

The reconciling items are attributable to the following:

(i) Custom duties: certain segments report their revenues gross of custom duties in management accounts;

(ii) Cut-off adjustment: there are timing differences in recognition of revenue and related cost of sales in management accounts and IFRS, which arise primarily in Hongri Acron reporting segment;

(iii) Consignment sales: relates to different revenue recognition for sales through consignee in Overseas traders segment. In 2008 in management accounts revenue was recognised upon dispatch of the goods irrespective of transfer of risks and rewards. In 2009 management accounts were adjusted for this amount.

(iv) Different classification of non-operating items: certain expenses are classified as non-operating items in management accounts and are not included in EBITDA as per management accounts. These expenses represent primarily legal, consulting and bank charges of RR 435,085 (2008: RR 207,607), social expenditure of RR 209,489 (2008: RR 197,778) and taxes other than profit tax of RR 120,760 (2008: RR 115,378);

7 Segment Information (continued)

(v) Impairment provision: relates to impairment recorded in IFRS but not in management accounts. In 2008 related primarily to impairment of property, plant and equipment of Hongri Acron;

(vi) Different classification of assets and liabilities: The difference arose due to different classification of advances, tax and other receivables and payables in management accounts and in IFRS. For accounts receivable the major items represent reclassification of VAT of RR 1,471,943 (2008: RR 699,346), reclassification of other receivables (including interest receivables) of RR 429,217 (2008: RR 950,108) and reclassification of advances given of RR 1,324,488 (2008: RR 215,607). For accounts payable the major items represent reclassification of payroll payable of RR 262,234 (2008: RR 108,009) and of dividends payable of RR 15,026 (2008: RR 448,418);

(vii) Different doubtful debts allowance: different doubtful debt provisioning is applied in management accounts and IFRS.

In thousands of Russian Roubles	**2009**	**2008**
Revenue		
Russia	7,991,517	12,869,118
European Union	6,121,151	9,057,203
Commonwealth of Independent States	2,893,065	1,538,142
Americas	5,390,781	6,829,971
China	12,028,488	9,374,242
Other regions	3,116,671	3,462,938
Total	**37,541,673**	**43,131,614**
Non-current assets		
Russia	57,520,372	41,335,211
China	3,328,407	3,126,387
Canada	1,485,728	1,456,863
Estonia	3,740,263	2,537,827
USA	5,032	5,032
Total	**66,079,802**	**48,461,320**

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

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

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

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

8 Balances and Transactions with Related Parties

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

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

8 Balances and Transactions with Related Parties (continued)

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

i Balances with related parties

Statement of financial position caption	Note	Relationship	2009	2008
Trade receivables, gross	10	Companies under common control	101,393	54,651
Provision for impairment of trade receivables	10	Companies under common control	-	(40)
Prepayments	10	Companies under common control	7,574	5,000
Loans issued	11	Companies under common control	718,733	213,200
Other receivables	10	Companies under common control	1,913	669
Loans received		Companies under common control	-	(8,000)
Trade payables	19	Companies under common control	(21,594)	(17,138)

ii Transactions with related parties

Statement of comprehensive income caption	Note	Relationship	2009	2008
Sales of chemical fertilizers	7	Companies under common control	108,329	81,707
Purchases of raw materials	24	Companies under common control	(230,340)	(62,876)
Security services	25	Companies under common control	-	(132,951)

In December 2009 the Group acquired the remaining 50% of the share capital of AS DBT from a party under common control for a cash consideration of RR 1,085,620 (Note 31).

iii Cross shareholding

At 31 December 2009 JSC Dorogobuzh, a 72.33% subsidiary of the Group (2008: 72.33 %), owned 4,147,246 ordinary shares or 8.70% of the ordinary share capital of the Company (2008: 4,041,600 ordinary shares or 8.48%). During 2009 JSC Dorogobuzh increased its shareholding in the Company through acquisition of 105,646 shares from the Company. This did not have impact on total amount of treasury shares held by the Group. Shares owned by JSC Dorogobuzh are accounted for as treasury shares, but retain their voting rights and dividends.

iv Loans issued

At 31 December 2009 short-term loans to parties under common control totalled RR 713,718 (2008: RR 202,200) at interest rates in the range of 11.3% to 14.2%. The loans were unsecured.

At 31 December 2009 long-term loans to parties under common control totalled RR 5,015 (2008: RR 11,000), at interest rate of 14.2%. The loans are unsecured.

In 2009 the Group accrued interest income of RR 83,894 (2008: RR 21,790).

At 31 December 2009 loans issued to key management personnel totalled of RR 6,982 at interest rate of 8% (2008: RR 17,673).

v Key management personnel compensation

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

Total key management personnel compensation in the amount of RR 262,928 (2008: RR 153,933) was recorded in general and administrative expenses. Related state social and pension costs amounted to RR 6,811 (2008: RR 4,312).

9 Cash and Cash Equivalents

	2009	2008
Cash on hand and bank balances denominated in RR	3,917,032	931,031
Bank balances denominated in US$	2,477,868	1,493,181
Bank balances denominated in Euro	411,363	178,335
Bank balances denominated in Canadian dollars	4,029	31,597
Bank balances denominated in Estonian krone	72,101	12,859
Bank balances denominated in RMB	823,756	1,361,765
Total cash and cash equivalents	**7,706,149**	**4,008,768**

Cash and cash equivalents include term deposits of RR 5,655,937 (2008: RR 1,807,146).

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

	2009	2008
A to AAA* rated	74,939	1,637,812
BB- to BBB+* rated	6,795,680	842,844
Chinese banks with top internal credit ratings	831,317	1,361,765
Unrated	4,213	166,347
Total	**7,706,149**	**4,008,768**

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

10 Accounts Receivable

	2009	2008
Trade accounts receivable	386,598	1,133,373
Notes receivable	75,383	7,131
Other accounts receivable	202,783	232,296
Less: impairment provision	(226,699)	(210,153)
Total financial assets	**438,065**	**1,162,647**
Advances to suppliers	2,067,901	1,639,192
Value-added tax recoverable	1,656,970	931,229
Income tax prepayments	89,142	203,877
Other taxes receivable	62,735	32,578
Less: impairment provision	(4,279)	(10,795)
Total accounts receivable	**4,310,534**	**3,958,728**

Included in notes receivable are notes receivable from Sberbank for RR 68,424 (2008: RR nil) and notes receivable from banks in China for RR 6,959 (2008: RR 7,131).

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

As of 31 December 2009, trade and other accounts receivable of RR 226,699 (2008: RR 210,153) were individually impaired and an impairment provision was recognised. The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations.

The ageing of these receivables is as follows:

	2009	2008
Less than 3 months	-	-
From 3 to 9 months	2,948	62,552
From 9 to 12 months	4,804	3,672
Over 12 months	218,947	143,929
Total gross amount of impaired accounts receivable	**226,699**	**210,153**

10 Accounts Receivable (continued)

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

	2009	2008
	Trade and other receivables	Trade and other receivables
Provision for impairment at 1 January	**(210,153)**	**(129,753)**
Provision for impairment	(30,813)	(101,696)
Provision used	3,031	21,266
Provision reversed	11,236	30
Provision for impairment at 31 December	**(226,699)**	**(210,153)**

The Group does not hold any collateral as security.

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

As of 31 December 2009, trade receivables of RR 44,754 (2008: RR 30,732) were past due but not impaired. The ageing analysis of these trade receivables from past due date is as follows:

	2009	2008
Less than 3 months	2,100	3,188
From 3 to 9 months	172	20,417
From 9 to 12 months	16,509	2,716
Over 12 months	25,973	4,411
Trade accounts receivable past due not impaired	**44,754**	**30,732**

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

	2009		2008	
	Trade receivables	Notes receivable	Trade receivables	Notes receivable
Current and not impaired – exposure to:				
- Notes receivable from top Russian and foreign banks	-	75,383	-	7,131
- Foreign traders and customers	232,500	-	793,366	-
- Small individual Russian companies and farms	33,632	-	285,084	-
- Chinese customers	51,796	-	46,334	-
Total current and not impaired	**317,928**	**75,383**	**1,124,784**	**7,131**

11 Loans Receivable

	2009	2008
Short-term loans receivable		
Loans issued to related parties (refer to Note 8)	713,718	202,200
Loans issued to third parties	117,724	718,153
	831,442	**920,353**
Long-term loans receivable		
Loans issued to related parties (refer to Note 8)	5,015	11,000
Loans issued to third parties	56,264	47,607
	61,279	**58,607**

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

At 31 December 2009 and 2008 short-term loans totalled RR 831,442 and RR 920,353, respectively, at interest rates in the range of 10.5 % to 14.2% (2008: 10% to 14.2%). The loans were unsecured.

11 Loans Receivable (continued)

At 31 December 2009 and 2008 long-term loans totalled RR 61,279 and RR 58,607, respectively, at interest rates in the range of 8% to 14.2% (2008: 11.3% to 14.2%). The loans were unsecured.

In 2009 the Group accrued interest income on loans receivable of RR 92,773 (2008: RR 68,116).

At 31 December 2009 and at 31 December 2008 the Group had two counterparties with aggregated loans receivable balances in excess of 75% and 62% of the Group’s loans receivable balances, respectively. The loans were issued to parties, with whom the Group had standing business relationship as lending business is not Group’s primary activity.

12 Inventories

	2009	2008
Raw materials and spare parts	3,062,590	2,768,312
Work in progress	202,921	269,475
Finished products	2,592,937	2,500,614
	5,858,448	**5,538,401**

Raw materials are shown net of write-down of RR 229,787 (2008: RR 480,039). Finished products are shown net of write-down of RR 2,499 (2008: RR 267,673). No inventory was pledged as security at 31 December 2009 and 2008.

13 Leasehold Land

	2009	2008
Cost		
Balance at 1 January	490,230	169,810
Additions	51,052	273,000
Disposals	(5,817)	-
Translation difference	16,699	47,420
Balance at 31 December	**552,164**	**490,230**
Accumulated amortization		
Balance at 1 January	31,239	22,396
Amortization for the year	3,549	2,590
Translation difference	949	6,253
Balance at 31 December	**35,737**	**31,239**
Net book value		
Balance at 1 January	**458,991**	**147,414**
Balance at 31 December	**516,427**	**458,991**

At 31 December 2009, the Group’s leasehold land with net book value of RR 239,142 (2008: RR 185,991) was held under prepayments for land use rights with terms of 27 to 30 years expiring from March 2023 to November 2028. The leasehold land related to location of buildings and production facilities of Shandong Hongri Acron Chemical Joint Stock Company Ltd., the Group’s subsidiary in the People’s Republic of China.

At 31 December 2009, land use right with a net book value of RR 196,167 (2008: RR 153,170) had been pledged as security for long-term loans (Note 21).

14 Property, Plant and Equipment

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

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

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

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

In 2008 the impairment charge arose in a Methanol CGU in Shandong Hongri Acron Chemical Joint Stock Company Limited (included in China operating segment) following a decision in early 2008 to reduce the manufacturing output allocated to these operations. This was a result of a redefinition of the Group’s allocation of manufacturing volumes across all CGUs in order to benefit from advantageous market conditions. Following this decision, the Group reassessed the depreciation policies of its property, plant and equipment in this country and estimated that their useful lives would not be affected. In 2009 the impairment charge was partially reversed due to improved market conditions, which resulted in increased demand and profitability of methanol production. Management revised its plans to temporary suspend methanol production.

14 Property, Plant and Equipment (continued)

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

	AS DBT, LLC Andrex, JSC Dorogobuzh, JSC Acron	Shandong Hongri Acron Chemical JSC Limited
EBITDA margin range over the forecast period	13-27%	4-18%
Growth rate beyond five years	3%	2.5%
Pre-tax discount rate	16.3-19.4%	8.9%

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

	AS DBT, LLC Andrex, JSC Dorogobuzh, JSC Acron	Shandong Hongri Acron Chemical JSC Limited
EBITDA margin range over the forecast period	4.2-39.2%	0-13%
Growth rate beyond five years	3%	2.5%
Pre-tax discount rate	21.5%	8.9%

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

	Buildings and constructions	Plant and equipment	Transport	Other	Assets under construction	Total
Cost						
Balance at 1 January 2008	**17,133,948**	**18,901,464**	**1,368,948**	**660,330**	**2,966,257**	**41,030,947**
Acquisitions through business combinations	251,296	123,154	-	3,077	1,457	**378,984**
Additions	-	-	-	-	5,348,183	**5,348,183**
Transfers	378,741	1,588,177	975,347	436,700	(3,378,965)	**-**
Disposals	(114,343)	(286,665)	(54,832)	(83,033)	(1,616)	**(540,489)**
Translation difference	234,690	641,930	20,173	18,818	21,008	**936,619**
Balance at 31 December 2008	**17,884,332**	**20,968,060**	**2,309,636**	**1,035,892**	**4,956,324**	**47,154,244**
Accumulated Depreciation						
Balance at 1 January 2008	11,178,081	15,146,054	632,822	297,518	-	**27,254,475**
Depreciation charge	422,163	656,326	111,531	145,893	-	**1,335,913**
Disposals	(47,836)	(189,660)	(42,974)	(11,900)	-	**(292,370)**
Translation difference	27,868	185,701	5,529	11,974	-	**231,072**
Balance at 31 December 2008	**11,580,276**	**15,798,421**	**706,908**	**443,485**	**-**	**28,529,090**
Accumulated Impairment Loss						
Balance at 1 January 2008	4,670	36,163	-	5,428	4,149	**50,410**
Additions	89,758	416,710	-	-	-	**506,468**
Translation difference	1,565	10,098	-	1,542	1,158	**14,363**
Balance at 31 December 2008	**95,993**	**462,971**	**-**	**6,970**	**5,307**	**571,241**
Net Book Value						
Balance at 1 January 2008	**5,951,197**	**3,719,247**	**736,126**	**357,384**	**2,962,108**	**13,726,062**
Balance at 31 December 2008	**6,208,063**	**4,706,668**	**1,602,728**	**585,437**	**4,951,017**	**18,053,913**

14 Property, Plant and Equipment (continued)

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

At 31 December 2009, buildings, machinery and equipment with a net book value of RR 774,956 (2008: RR 1,969,649) had been pledged as security for long-term loans (Note 21).

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

Development expenditure comprises of:

	2009	2008
Balance at 1 January	**465,789**	**-**
Additions	484,293	465,789
Disposals/Transfers	(28,222)	-
Balance at 31 December	**921,860**	**465,789**

Leased assets

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

	2009	2008
Cost of transport	146,000	146,000
Accumulated depreciation	(45,004)	(24,147)
Carrying amount of transport	**100,996**	**121,853**

15 Exploration and Evaluation Licences and Expenditure

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

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

- to finalise the geological exploration by 15 April 2011;
- to commence construction of an exploration complex by 15 June 2012;
- to commence the extraction of potash salt by 15 June 2014.

The Group accounted for the license at cost of RR 16,828,767, and additionally capitalised borrowing costs of RR 1,886,805 at 11.25% (2008: RR 1,100,968 at 11.25%). In 2009 the Group also capitalised exploration and evaluation expenses in the amount of RR 152,000 (2008: nil), which were fully paid. No exploration and evaluation expenses were recognised in profit or loss.

During 2008 the Group's subsidiary (101109718 Saskatchewan Ltd) acquired 26 permits to explore for potash deposits in the Canadian province of Saskatchewan for RR 1,456,863. Duration of the permits is 5 years. Following exploration results the Group will have preferential right for purchase of exploitation licenses.

15 Exploration and Evaluation Licences and Expenditure (continued)

	2009	2008
Cost		
Balance at 1 January	**19,624,441**	**237,843**
Additions	2,065,670	19,386,598
Disposals	-	-
Balance at 31 December	**21,690,111**	**19,624,441**
Accumulated Amortization		
Balance at 1 January	-	-
Additions	-	-
Disposals	-	-
Balance at 31 December	**-**	**-**
Net Book Value		
Balance at 1 January	**19,624,441**	**237,843**
Balance at 31 December	**21,690,111**	**19,624,441**

Exploration and evaluation expenditure comprise of:

	2009	2008
Apatite-nepheline deposits	237,843	237,843
Potash deposits	19,966,540	17,929,735
Permits for exploration	1,485,728	1,456,863
	21,690,111	**19,624,441**

Exploration and evaluation expenditure impairment test 2009

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

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

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

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

Exploration and evaluation expenditure impairment test 2008

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

15 Exploration and Evaluation Licences and Expenditure (continued)

Exploration and evaluation expenditure impairment test 2008 (continued)

Based on the results of these calculations the Group concluded that no impairment charge was required for major CGUs. The key assumptions used for value-in-use calculations at 31 December 2008 are as follows:

	101109718 Saskatchewan Ltd	JSC North-Western Phosphorous Company	LLC Verkhnekamsk Potash Company
EBITDA margin range over the forecast period	67-71%	47-68%	60-75%
Growth rate beyond forecast period	0%	0%	0%
Pre-tax discount rate	15%	21.5%	21.5%

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

16 Goodwill

	Note	2009	2008
Carrying amount at 1 January		**1,271,673**	**1,023,601**
Acquisition of subsidiary	31	-	248,072
Adjustment identified in the course of finalisation of the purchase price allocation	31	(5,022)	-
Carrying amount at 31 December		**1,266,651**	**1,271,673**
Gross book value at 31 December		1,266,651	1,271,673
Carrying amount at 31 December		**1,266,651**	**1,271,673**

In August 2008 the Group acquired 50% of the voting shares of AS DBT for a cash consideration of RR 546,846. The Group concluded that there are no separately identifiable intangible assets in the acquired company, which could qualify for separate accounting in accordance with IFRS 3, Business Combinations. The goodwill of RR 243,050 is primarily attributable to the profitability of the acquired business, cost of new market entry and the significant synergies and combined costs savings expected to arise due to geographical location of assets of the acquired company for the Group. The Group did not recognise any goodwill impairment at 31 December 2009.

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

	2009	2008
LLC Andrex	52,068	52,068
JSC Dorogobuzh	971,533	971,533
AS DBT	243,050	248,072
Total carrying amount of goodwill	**1,266,651**	**1,271,673**

17 Investment in Associate

	2009	2008
Balance at 1 January	**571,010**	**362,568**
Share of (loss)/profit	(214,851)	208,442
Disposal	(356,159)	
Balance at 31 December	**-**	**571,010**

In September 2009, the Group sold its investment in JSC Sibneftegaz (21% of interest held) for a total consideration of RR 4,172,527 to a third party. A pre-tax gain on this transaction of RR 3,816,368 was recognised and included in the "Gain on disposal of associate" line in the consolidated statement of comprehensive income.

17 Investments in Associates (continued)

The revenues and net loss of JSC Sibneftegaz for the period from 1 January 2009 to the date of disposal amounted to RR 1,279,877 and RR (1,023,101), respectively.

At 31 December 2008, 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
JSC Sibneftegaz	22,268,467	21,009,196	4,413,091	992,583	21%	Russia

18 Available-for-Sale Investments

	2009	2008
Balance at 1 January	**6,659,501**	**17,306,627**
Additions	208,644	6,875
Fair value gain/(loss) recognised directly in other comprehensive income	13,742,424	(10,595,035)
Disposals	(15,661)	(58,966)
Balance at 31 December	**20,594,908**	**6,659,501**

The Group has investments in the following companies:

Name	Activity	Country of registration	2009	2008
JSC Silvinit	Potash mining	Russia	14,835,600	4,311,200
JSC Apatit	Apatite concentrate mining	Russia	5,226,653	2,159,105
JSC Sberbank	Banking	Russia	206,935	56,454
Other			325,720	132,742
			20,594,908	**6,659,501**

Fair value of the investments was determined by reference to the current market value at the close of business on 31 December 2009. At 31 December 2009 the share price quoted by RTS and MICEX for JSC Apatit and JCS Silvinit amounted to 269 and 773 US Dollars for 1 share, respectively. At 31 December 2008 the share price quoted by RTS and MICEX for JSC Apatit and JCS Silvinit amounted to 114 and 231 US Dollars for 1 share, respectively.

19 Accounts Payable

	2009	2008
Trade accounts payable (refer to Note 8)	702,111	1,054,053
Dividends payable	12,117	445,596
Total financial payables	**714,228**	**1,499,649**
Payables to employees	290,696	472,630
Accrued liabilities and other creditors	312,630	319,366
Total accounts payable and accrued expenses	**1,317,554**	**2,291,645**

20 Other Taxes Payable

	2009	2008
Value-added tax payable	81,440	1,767
Payroll taxes	45,516	83,613
Property and other taxes payable	112,102	131,469
	239,058	**216,849**

21 Short-Term and Long-Term Borrowings

Borrowings consist of the following:

	2009	2008
Bonds issued	6,047,494	-
Credit lines	20,673,272	22,181,695
Term loans	5,639,816	6,641,518
	32,360,582	**28,823,213**

The Group's borrowings mature as follows:

	2009	2008
Borrowings due:		
- within 1 year	12,548,564	18,409,629
- between 1 and 5 years	19,812,018	5,946,869
- after 5 years	-	4,466,715
	32,360,582	**28,823,213**

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

	2009	2008
Borrowings denominated in:		
- Russian Roubles	10,327,094	8,559,300
- Euro	1,927,033	1,586,615
- US Dollars	18,467,611	17,231,605
- RMB	1,638,844	1,445,693
	32,360,582	**28,823,213**

Bank loans denominated in RMB were collateralised by buildings, machinery and equipment with a net book value of RR 625,062 (2008: RR 223,795) (Note 14) and land use right with a net book value of RR 196,167 (2008: RR 35,463) (Note 13). The loans obtained from banks in China are secured by guarantees issued by third parties totalled RR 730,836 (2008: RR 862,334).

The other Group's loan agreements are collateralised by property, plant and equipment with net book value of RR 149,894 (2008: RR 1,745,854), Note 14.

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

At 31 December 2009 the fair value of borrowings was RR 689,382 lower than their carrying amounts. At 31 December 2008 the fair value of borrowings was not materially different from their carrying amounts.

The loan agreements for a total of RR 4,271,600 (2008: RR 4,271,600) were secured by pledge of 100% shares of subsidiary LLC Verkhnekamsk Potash Company with net assets of RR 16,923,223 (Note 15).

At 31 December 2009 unused credit lines available under the long-term loan facilities were nil (31 December 2008: RR 1,304,739).

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

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

	2009	2008
Short-term borrowings		
Russian roubles		
Loans with fixed interest rates of 10% to 14% per annum	8,000	4,287,700
Euro		
Loans with floating interest rates of EURIBOR + 1.3% per annum	282,479	-
US$		
Loans with fixed interest rate of 3.6% to 8% per annum	2,528,917	1,175,215
Loans with floating interest rates of LIBOR + 5.1% to LIBOR + 5.6% per annum	8,090,324	11,737,470
RMB		
Loans with fixed interest rates of 4.62% to 8.5% per annum	1,395,232	884,257
Add: current portion of long-term debt	243,612	324,987
Total short-term borrowings	**12,548,564**	**18,409,629**

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

	2009	2008
Long-term borrowings		
Russian roubles		
Loans with fixed interest rates of 8% to 11% per annum	4,271,600	4,271,600
Bonds with coupon payments of 13.85% to 14.05% per annum	6,047,494	-
Euro		
Loans with floating interest rates of EURIBOR + 1.3%	1,644,554	1,586,616
US$		
Loans with fixed interest rates of 7.9% per annum	5,292,735	-
Loans with floating interest rates of LIBOR + 4.13% to LIBOR + 5.6% per annum	1,345,867	4,318,919
Loans with floating interest rates of LIBOR + 8%	1,209,768	-
RMB		
Loans with fixed interest rates of 6.2% to 7.4% per annum	243,612	561,436
Less: current portion of long-term debt	(243,612)	(324,987)
Total long-term borrowings	**19,812,018**	**10,413,584**

The loan agreements for a total of RR 11,794,156 (2008: RR 12,064,352) contain certain covenants including those which require the Group and Group entities to maintain a minimum level of net assets, and impose restrictions on total debt, EBITDA/net interest expense ratio and debt/EBITDA ratio. The loan agreements provide for the borrower's obligation to maintain the required level of foreign currency inflows through the accounts opened with the lending banks and stipulate acceleration clauses in case of the borrower’s failure to fulfil or appropriately fulfil its obligations to the bank.

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

The loan agreements for a total of around RR 4,964,053 (2008: RR 2,970,000) 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.

As of 31 December 2009 the Group failed to comply with some debt covenants (certain financial ratios) stipulated in the loan agreements for the amount of RR 1,926,000. However, prior to the reporting date the lender waived its right to claim for early repayment of this debt, so the Group retained classification of the amount in accordance with original maturity of the loan agreement.

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

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

These bonds have been admitted to the quotation list B and are traded on MICEX.

The fair value of the outstanding bonds balance at 31 December 2009 was RR 6,134,781 with reference to MICEX Stock Exchange quotations as of this date.

22 Finance Lease Liabilities

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

Finance lease liabilities minimum lease payments:

	2009	**2008**
Not later than 1 year	22,776	32,622
Later than 1 year and not later than 5 years	67,573	93,300
More than 5 years	-	11,902
Future finance charges on finance lease	(19,297)	(37,753)
Present value of finance lease liabilities	**71,052**	**100,071**

The present value of finance lease liabilities matures as follows:

	2009	**2008**
Not later than 1 year	21,553	30,557
Later than 1 year and not later than 5 years	49,499	63,893
More than 5 years	-	5,621
	71,052	**100,071**

23 Share Capital

The total authorised number of ordinary shares is 47,687,600 shares (2008: 47,687,600) with a par value of RR 5 per share. All authorised shares have been issued and fully paid.

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

	No. of outstanding ordinary shares	No. of treasury shares	Total share capital	Treasury share capital	Outstanding share capital
At 31 December 2008	**47,687,600**	**(4,147,256)**	**3,125,018**	**(46,326)**	**3,078,692**
At 31 December 2009	**47,687,600**	**(4,147,256)**	**3,125,018**	**(46,326)**	**3,078,692**

In May 2008 the Group acquired 105,646 shares of the Company for RR 210,236 paid in cash. The transaction was recorded in other reserves in the statement of changes of equity.

In August 2008 the Group disposed of 30,000 shares of the Company for a cash consideration of RR 65,000. This transaction was effected in connection with the offering of shares in the form of shares and Global Depositary Receipts (“GDRs”), the proposed admission of the GDRs to the Official List maintained by the Financial Services Authority and the proposed admission to trading of the GDRs on the London Stock Exchange's Regulated Market. The transaction was recorded in other reserves in the statement of changes of equity.

A dividend was declared in 2009 in respect of 2008 to holders of ordinary shares of RR 80 per ordinary share (2008: RR 65 per ordinary share in respect of 2007), including interim dividends for the six months ended 30 June 2008 of RR 80 per ordinary share, declared in 2008.

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

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2009, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 16,500,605 (2008: RR 986,769) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 33,355,985 (2008: RR 16,852,169). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

24 Cost of Sales

	2009	2008
Change in inventories of finished goods and work in progress	239,405	(1,346,744)
Staff costs	2,059,465	1,829,950
Materials and components used	10,230,089	8,570,401
Fuel and energy	2,746,195	2,378,994
Natural gas	5,338,145	4,402,137
Depreciation and amortization	1,379,663	1,335,913
Net realizable value of inventories provision	-	463,679
Impairment loss	(55,385)	506,468
Production overheads	155,343	69,673
Repairs and maintenance	1,592,540	1,281,303
Social expenditure	253,412	279,386
	23,938,872	**19,771,160**

25 Selling, General and Administrative Expenses

	2009	2008
Staff costs	1,399,630	1,499,949
Provision for bad debts	10,030	40,170
Business trips expenses	89,208	226,026
Research and development costs	15,952	16,490
Taxes other than income tax	335,908	318,374
Marketing services	71,181	54,843
Audit, legal and consulting services	342,876	206,731
Bank services	272,246	156,082
Insurance	44,527	30,664
Buildings maintenance and rent	150,801	140,114
Security	163,486	146,813
Telecommunication costs	45,872	44,834
Representation expenses	67,555	84,926
Commission fees	155,364	89,658
Other expenses	257,037	331,865
	3,421,673	**3,387,539**

26 Finance Income, net

	2009	2008
Interest income from loans provided and term deposits	165,788	235,119
Dividend income	41,162	257,800
Foreign exchange gain	4,764,883	225,267
Foreign exchange loss	(4,779,664)	(3,133,666)
	192,169	**(2,415,480)**

27 Other Operating Expenses, net

	2009	2008
Gain (loss) on disposal of investments	23,529	(169,765)
Charity expenses	(98,852)	(129,150)
Other expenses	(79,671)	(138,537)
Foreign exchange gain	2,342,589	893,429
Foreign exchange loss	(2,741,810)	(694,782)
	(554,215)	**(238,805)**

28 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares (Note 23). The Company has no dilutive potential ordinary shares, therefore, the diluted earnings per share equal the basic earnings per share.

	2009	2008
Weighted average number of shares outstanding	47,687,600	47,687,600
Adjusted for weighted average number of treasury shares	(4,147,256)	(4,123,227)
Weighted average number of shares outstanding	43,540,344	43,564,373
Profit attributable to the equity holders of the Company	**7,081,442**	**9,340,443**
Basic and diluted earnings per share (in Russian roubles) attributable to the equity holders of the Company	**162.64**	**214.41**

29 Income Taxes

	2009	2008
Income tax expense – current	1,948,826	3,990,025
Deferred tax credit – origination and reversal of temporary differences	(400,898)	(311,151)
Income tax charge	**1,547,928**	**3,678,874**

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

	2009	2008
Profit before taxation	8,804,021	13,570,290
Theoretical tax charge at statutory rate of 20% thereon (2008: 24%)	1,760,804	3,256,870
Effects of different tax rates	(150,750)	-
Unrecognised tax loss carry forwards for the previous years utilised	(133,439)	-
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	-	(56,416)
Tax effect of items which are not deductible or assessable for taxation purposes	71,313	287,792
Unrecognised tax loss carry forwards for the year	-	190,628
Income tax charge	**1,547,928**	**3,678,874**

In the context of the Group’s current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Differences between IFRS and Russian and other countries statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded for major Russian subsidiaries at the rate of 20% (2008: 20%).

	1 January 2008	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2008	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	31 December 2009
Tax effects of taxable temporary differences :							
Property, plant and equipment	805,127	(189,138)	-	615,989	(75,769)	-	540,220
Investments	4,171,098	(16,726)	(2,788,803)	1,365,569	(44,921)	2,748,481	4,069,129
Exploration rights	-	321,015	-	321,015	(321,015)	-	-
Tax effects of deductible temporary differences and tax loss carry forwards:							
Other temporary differences	(3,519)	(294,520)	-	(298,039)	270,295	-	(27,744)
Tax loss carry forwards	-	-	-	-	(381,989)	-	(381,989)
Inventories	(26,845)	(64,802)	-	(91,647)	94,518	-	2,871
Accounts receivable	(59,293)	(22,320)	-	(81,613)	(6,982)	-	(88,595)
Accounts payable	(85,068)	(36,833)	-	(121,901)	64,965	-	(56,936)
Staff costs payable	(21,905)	(7,827)	-	(29,732)	-	-	(29,732)
Recognised net deferred tax liability	**4,779,595**	**(311,151)**	**(2,788,803)**	**1,679,641**	**(400,898)**	**2,748,481**	**4,027,224**

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries in the amount of RR 8,294,712 (2008: 8,208,641). The Group controls timing of the reversal of those temporary differences.

As of 31 December 2008 the tax effect of the changing from 24% to 20% of the statutory income tax rate from 1 January 2009 on taxable temporary differences on available-for-sale investments amounted to RR 695,183 and was recorded in other comprehensive income.

29 Income Taxes (continued)

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

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

30 Contingencies, Commitments and Operating Risks

i Contractual commitments and guarantees

As at 31 December 2009 the Group had outstanding capital commitments in relation to property, plant and equipment for amount of RR 621,874 (2008: RR 572,548).

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

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. As at 31 December 2009 and 2008, the Group has issued financial guarantees to third parties in respect of borrowings from non-group companies in the amount of RR 1,075,879 and RR 1,022,678, respectively. No amount has been accrued in the consolidated financial statements for the Group’s obligation under these guarantees as the projected outflows from such guarantees are not expected.

ii Legal proceedings

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

iii Operating environment of the Group

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

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

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia’s economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.

(iii) The official US$ exchange rate of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 30.24 at 31 December 2009. This increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

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

30 Contingencies, Commitments and Operating Risks (continued)

iii Operating environment of the Group (continued)

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

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

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

People's Republic of China

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

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

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

Russian Federation

iv Taxation

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

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

30 Contingencies, Commitments and Operating Risks (continued)

iv Taxation (continued)

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

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

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

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

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

Management estimates that the Group has no possible obligations from exposure to other than remote tax risks (2008: RR 51,526, these exposures primarily relates to recoverability of VAT).

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

v Environmental matters

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

31 Business Combinations

Acquisition of subsidiaries

On 7 August 2008 the Group acquired 50% voting shares of AS DBT for a cash consideration of RR 546,846. The acquired company holds title for facilities for shipment of fertilizers at the port Muuga (Estonia). This acquisition was made consistent with Group's strategy, aiming for optimisation of fertilizer exports logistics. The acquired company is consolidated by the Group for the first time as at the effective date of obtaining control which is August 2008.

In December 2009 the Group acquired remaining 50% of the share capital of AS DBT from a party under common control for a cash consideration of RR 1,085,620 (Note 8). This acquisition was accounted for under IAS 27 (Revised), which the Group early adopted from 1 January 2009 (Note 5). The Group applied economic entity model to account for this transactions with non-controlling shareholder. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired was recorded as capital transaction directly in equity (Note 3.1).

The acquired company contributed revenue of RR 63,130 and net loss of RR 124,094 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, effect on Group revenue for 2008 would have been RR 245,074, and effect in the amount of net loss for 2008 would have been RR 124,445.

31 Business Combinations (continued)

Acquisition of subsidiaries (continued)

In 2009 the Group completed the purchase price allocation. The following table summarises the fair values of the assets acquired and liabilities assumed in this business combination as determined in accordance with IFRS 3 Business Combinations. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser. The Group concluded that there are no separately identifiable intangible assets in the acquired company, which could qualify for separate accounting in accordance with IFRS 3, Business Combinations. The goodwill of RR 248,072 is primarily attributable to the profitability of the acquired business, cost of new market entry and the significant synergies and combined costs savings expected to arise due to geographical location of assets of the acquired company for the Group.

The details of the assets acquired and liabilities assumed and goodwill arising on acquisition are as follows:

	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		256,821	256,821
Property, plant and equipment		329,517	376,000
Other assets		8,083	8,175
Accounts payable		(29,309)	(29,309)
Other liabilities		(4,096)	(4,096)
Fair value of net assets of subsidiary			**607,591**
Less: non-controlling interest			(303,795)
Fair value of acquired interest in net assets of subsidiary			**303,796**
Goodwill arising from the acquisition	16		243,050
Total purchase consideration			**546,846**
Less: cash and cash equivalents of subsidiary acquired			(256,821)
Outflow of cash and cash equivalents on acquisition			**290,025**

Subsequent to business combination for acquisition of AS DBT accounted under previous edition of IFRS 3 the Group early adopted IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009) from 1 January 2009 (Note 5).

32 Significant Non-Cash Transactions

Included in sales are non-cash transactions for RR 383,031 (2008: RR 13,381), which were settled via non-cash transactions during the years ended 31 December 2009 and 2008, respectively. These transactions primarily represent cancellation of mutual balances with customers within the operating cycle.

33 Financial and Capital Risk Management

33.1 Financial risk management

Presentation of Financial Instruments by Measurement Category

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

	2009			2008		
In thousands of Russian Roubles	Loans and receivables	Available-for-sale assets	Total	Loans and receivables	Available-for-sale assets	Total
ASSETS						
Cash and cash equivalents (Note 9)						
- Cash on hand and bank balances	7,706,149	-	7,706,149	4,008,768	-	4,008,768
Trade and other receivables (Note 10)						
- Trade receivables	386,598	-	386,598	1,133,373	-	1,133,373
- Notes receivable	75,383	-	75,383	7,131	-	7,131
- Other financial receivables	202,783	-	202,783	232,296	-	232,296
Loans receivable (Note 11)						
- Short term loans receivable	831,442	-	831,442	920,353	-	920,353
- Long term loans receivable	61,279	-	61,279	58,607	-	58,607
Available-for-sale investments (Note 18)						
- Corporate shares	-	20,594,908	20,594,908	-	6,659,501	6,659,501
TOTAL FINANCIAL ASSETS	**9,263,634**	**20,594,908**	**29,858,542**	**6,360,528**	**6,659,501**	**13,020,029**

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

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

(a) Market risk

(i) Foreign currency risk

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

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

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

33 Financial and Capital Risk Management (continued)

33.1 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

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

At 31 December 2009	**US Dollar**	**EURO**
Monetary financial assets:		
Cash and cash equivalents	2,477,868	411,363
Accounts receivable	242,084	23,516
Loans receivable	188,270	-
	2,908,222	434,879
Monetary financial liabilities:		
Accounts payable and other liabilities	(17,878)	-
Borrowings and notes payable	(18,467,611)	(1,927,033)
	(18,485,489)	(1,927,033)
Net position	**(15,577,267)**	**(1,492,154)**

At 31 December 2008	**US Dollar**	**EURO**
Monetary financial assets:		
Cash and cash equivalents	1,493,181	178,335
Accounts receivable	577,942	622
Loans receivable	-	-
	2,071,123	178,957
Monetary financial liabilities:		
Accounts payable and other liabilities	(715,383)	(24,948)
Borrowings and notes payable	(17,231,605)	(1,586,615)
	(17,946,988)	(1,611,563)
Net position	**(15,875,865)**	**(1,432,606)**

The above analysis includes only monetary assets and liabilities.

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

	2009	**2008**
Impact on post-tax profit and on equity of:		
US Dollar strengthening by 25%	(3,894,317)	(3,968,391)
US Dollar weakening by 25%	3,894,317	3,968,391
Euro strengthening by 25%	(373,039)	(358,151)
Euro weakening by 25%	373,039	358,151

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

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

(ii) Interest rate risk

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

33 Financial and Capital Risk Management (continued)

33.1 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

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

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

The Group interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group's cash flow to an interest rate risk. At 31 December 2009 and 2008 borrowings at variable rates amounted to RR 12,572,992 and RR 17,643,005, respectively (Note 21).

At 31 December 2009, if interest rates at that date had been 5% higher with all other variables held constant, profit for the year would have been RR 385,903 (2008: RR 253,711) lower, mainly as a result of higher interest expense on variable interest liabilities.

The effect of a change for the year in the interest rate on equity would be the same as that on post-tax profit.

(iii) Price risk

The Group is exposed to an equity securities price risk, since it has an investment in equity stakes of JSC Silvinit and JSC Apatit, which are classified on the consolidated statement of financial position as available-for-sale as of 31 December 2009 and 31 December 2008, respectively (Note 18). Monitoring of the fair value of the stakes is performed on a regular basis to assess risk of impairment of the stakes. No impairment of these investments were recognised as of 31 December 2009 and 31 December 2008.

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

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

(b) Credit risk

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

The maximum exposure to credit risk of RR 10,339,513 (2008: RR 7,383,206) resulting from financial assets is equal to the carrying amount of the Group's financial assets, including loans receivable, cash and cash equivalents and originated financial guarantees. The amount does not include equity investments. The Group has no significant concentrations of credit risk.

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

33 Financial and Capital Risk Management (continued)

33.1 Financial risk management (continued)

(b) Credit risk (continued)

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

The monitoring and controlling of credit risk is performed by the corporate treasury function of the Group. The credit policy requires the performance of credit evaluations and ratings of customers or borrowers. The credit quality of each new customer is analysed before the Group provides it with the standard terms of goods supply and payments. The credit quality of new borrowers is analysed before the Group provides it with the loan. The credit quality of customers and borrowers is assessed taking into account their financial position, past experience and other factors. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Group's gross accounts receivable balances. At 31 December 2009 and 31 December 2008 the Group had no counterparties with aggregated receivables balances of in excess of 10% of the Group's gross accounts receivable balances.

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

(c) Liquidity risk

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

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

The table below analyses the Group's financial liabilities into the relevant maturity groupings based on the time remaining from the reporting date to the contractual maturity date (Refer also Note 4 for Going Concern Critical Judgement).

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2009						
Bonds issued * (Note 21)	210,885	632,655	5,064,143	2,891,790	-	**8,799,473**
Credit lines * (Note 21)	1,866,657	6,651,408	5,935,583	7,960,151	1,154,485	**23,568,284**
Term loans * (Note 21)	3,066,368	4,018,928	630,652	-	-	**7,715,948**
Interest payable (included in other liabilities)	263,488	-	-	-	-	**263,488**
Trade payables (Note 19)	616,235	85,854	22	-	-	**702,111**
Dividends and other distributions to shareholders (Note 19)	-	12,117	-	-	-	**12,117**
Finance lease minimum lease payments (Note 22)	5,900	16,876	20,551	47,022	-	**90,349**
Financial guarantees	-	1,075,879	-	-	-	**1,075,879**
Total future payments, including future principal and interest payments	**6,029,533**	**12,493,717**	**11,650,951**	**10,898,963**	**1,154,485**	**42,227,649**

33 Financial and Capital Risk Management (continued)

33.1 Financial risk management (continued)

(c) Liquidity risk (continued)

	Demand and less than 3 months	From 3 to 12 months	From 12 months to 2 years	From 2 years to 5 years	Over 5 years	Total
As of 31 December 2008						
Bonds issued * (Note 21)	-	-	-	-	-	-
Credit lines * (Note 21)	1,838,230	11,307,094	5,126,705	2,614,231	5,133,226	**26,019,486**
Term loans * (Note 21)	1,935,556	4,629,037	246,743	11,065	-	**6,822,401**
Interest payable (included in other liabilities)	78,183	-	-	-	-	**78,183**
Trade payables (Note 19)	319,686	729,009	4,293	1,065	-	**1,054,053**
Dividends and other distributions to shareholders (Note 19)	-	445,596	-	-	-	**445,596**
Finance lease minimum lease payments (Note 22)	8,469	24,153	28,373	64,927	11,902	**137,824**
Financial guarantees	-	1,022,678	-	-	-	**1,022,678**
Total future payments, including future principal and interest payments	**4,180,124**	**18,157,567**	**5,406,114**	**2,691,288**	**5,145,128**	**35,580,221**

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

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

Unused credit lines available under long-term loan facilities were nil (31 December 2008: RR 1,304,739).

33.2 Capital risk management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital under management. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. This is considered more appropriate than alternative methods available, such as the value of equity shown in the Company’s statutory financial (accounting) reports. In 2009, the Group’s strategy, which was unchanged from 2008, was to maintain the gearing ratio at the level not exceeding 150%.

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

	2009	2008
Long-term borrowings	19,812,018	10,413,584
Short-term borrowings	12,548,564	18,409,629
Total debt	**32,360,582**	**28,823,213**
Shareholders’ equity	**42,392,754**	**25,175,386**
Gearing ratio, %	**76%**	**114%**

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

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

33 Financial and Capital Risk Management (continued)

33.2 Capital risk management (continued)

In 2009, the Group's strategy, which was unchanged from 2008, was to maintain EBITDA/net interest expense ratio at the level not be lower than 4:1. For this purpose EBITDA is defined as earnings before tax, interest, depreciation and amortization adjusted for operating foreign exchange gain or loss, result on disposal of property, plant and equipment and investments and extraordinary items. Net interest expense is defined as interest expense less interest income. This ratio is included as a covenant in the loan agreements (see Note 21).

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

	2009	2008
Operating profit	5,374,470	16,139,059
Add: depreciation and amortization (Note 24)	1,379,663	1,335,913
Add: foreign exchange gain/(loss) (Note 27)	399,221	(198,647)
Add: (gain)/loss on disposal of investments	(23,529)	169,765
Add: loss/(gain)on disposal of property, plant and equipment	145,651	(74,741)
EBITDA	**7,275,476**	**17,371,349**
Interest income (Note 26)	(165,788)	(235,119)
Interest expense	364,135	361,731
Net interest expense	**198,347**	**126,612**
EBITDA/Net interest expense	**37:1**	**137:1**

The Group's capital management includes compliance with the externally imposed minimum capital requirements arising from the Group's borrowings (Note 21) and imposed by the statutory legislation of the Russian Federation, the People's Republic of China and Estonia. Since EBITDA is not standard IFRS measure Acron Group's definition of EBITDA may differ from that of other companies.

34 Fair Value of Financial Instruments

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

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

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

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

Level 1: quoted price in an active market;

Level 2: valuation technique with inputs observable in markets;

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

All available-for-sales financial instruments of the Group were included in level 1 category in the amount of RR 20,594,908 (2008: RR 6,659,501). There are no other financial instruments which fair value was determined based on inputs other than level 1 category.

34 Fair Value of Financial Instruments (continued)

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

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. At 31 December 2009 the fair value of borrowings was RR 689,382 lower than their carrying amounts. At 31 December 2008 the fair value of borrowings was not materially different from their carrying amounts.

35 Subsequent Events

Subsequent to 31 December 2009 and prior to the date of these consolidated financial statements, the Group has obtained additional bank loans of RR 4,030,619 and repaid existing loans of RR 8,821,661.

In April 2010 the Group agreed with regulatory authorities the extension of the construction period of VPC factory till October 2016 with scheduled achievement of full production capacity in June 2018.

In April 2010 Board of Directors of the Company recommended shareholders dividend distribution for 2009 in the amount of 25 roubles per ordinary share (2.5 roubles per 1 GDR).

In April 2010 Board of Directors of JSC Dorogobuzh recommended shareholders dividend distribution for 2009 in the amount of 0.2 roubles per privileged share and no dividend for ordinary shares.