OJSC VB-Development Chernozemie

Preliminary opening statement of financial position

as of 1 January 2011

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Contents

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Special-purpose independent auditors' report

To shareholders and management of OJSC VB-Development Chernozemie

We have audited the accompanying preliminary opening IFRS statement of financial position and related notes of OJSC VB-Development Chernozemie ("the Company") as at 1 January 2011 (hereafter referred to as "the opening statement of financial position"). It has been prepared as part of the company's conversion to International Financial Reporting Standards (IFRS).

Management's responsibility for the opening statement of financial position

Management is responsible for the preparation of this opening statement of financial position in accordance with the basis set out in Note 2, and for such internal control relevant to the preparation of the opening statement of financial position that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on this opening statement of financial position 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 opening statement of financial position is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the opening statement of financial position. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the opening statement of financial position, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the opening statement of financial position 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 presentation of the opening statement of financial position.

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

Basis for qualified opinion

The Company did not disclose the name of its ultimate controlling party. This disclosure is required by International Accounting Standard 24 *Related Party Disclosures*.

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the opening statement of financial position of OJSC VB-Development Chernozemie as at 1 January 2011 is prepared, in all material respects, in accordance with the basis set out in Note 2 which describes how IFRS have been applied under IFRS1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when the management prepares its first complete set of IFRS financial statements as of 31 December 2012 and for the year then ended.

Emphasis of matter and use limitation

We draw your attention to the fact that Note 2 explains why there is a possibility that the opening statement of financial position may require adjustment before constituting the final opening statement of financial position. Moreover, we draw attention to the fact that, under IFRS, only a complete set of financial statements comprising a statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the entity's financial position, results of operations and cash flows in accordance with IFRS. Our opinion is not qualified in respect of this matter.

We draw attention to Notes 9 and 14 to the opening statement of financial position, which detail significant concentration of the Company's' financing transactions with related parties.

This report is intended solely for the information and use of the shareholders and management of OJSC VB-Development Chernozemie in connection with its conversion of the basis of the preparation of the financial statements to IFRS. It should not be used for any other purpose.

Ernst & Young LLC

17 August 2011

OJSC VB-Development Chernozemie

Preliminary opening statement of financial position

as of 1 January 2011

	Notes	1 January 2011 RUB thousand
Assets		
Non-current assets		
Property, plant and equipment	5	4,993,542
VAT receivable		21,417
Total non-current assets		**5,014,959**
Current assets		
Trade and other receivables	7	30,453
Cash and cash equivalents		4,222
Total current assets		**34,675**
Total assets		**5,049,634**
Equity and reserves		
Shareholder's equity		
Share capital		
Issued and outstanding	8	25,000
Income from revaluation	5	4,837,000
Accumulated loss		(1,051,279)
Total equity		**3,810,721**
Non-current liabilities		
Interest bearing loans from related parties	9	268,730
Deferred tax liabilities	6	946,297
Total non-current liabilities		**1,215,027**
Current liabilities		
Interest bearing loans from related parties	9	5,485
Trade and other payables and accruals	10	18,401
Total current liabilities		**23,886**
Total liabilities		**1,238,913**
Total equity and liabilities		**5,049,634**

These preliminary opening statement of financial position was authorized for issue by the Company's management and signed on behalf of the Company on 17 August 2011

Leonchuk V.V.
General Director of OJSC VB-Development Chernozemie

1. Corporate information

Organizational structure and activities

Open Joint-Stock Company VB-Development Chernozemie ("the Company") was founded on 20 June 2007.

OJSC VB-Development is the founder of the Company, which owns 100% shares in share capital.

As of 1 January 2011, the share capital of the Company was formed and paid in full.

The registered office of the Company is 10, Uritskogo street, Voronezh, 394061, Russia.

OJSC VB-Development Chernozemie is mainly engaged in exploration, development and mining of granite crushed stone and mortar sand. As of 1 January 2011, the Company is at the stage of exploration and evaluation.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies described in Note 3 "Summary of significant accounting policies" were applied for preparing the opening balances under IFRS as of 1 January 2011 (date of the Company's transition to IFRS). In preparation of final statement for financial position for three financial periods and statement on comprehensive income for two reporting periods it can be required to adjust preliminary opening statement of financial position in connection with voluntary changes in accounting policy or application of new standards.

The Company adjusted the amounts of the RAS financial statements in preparing the opening balances under IFRS.

Going concern

The accompanying preliminary opening statement of financial position and respective notes thereto are prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

The Company is at the exploration stage and does not generate cash from its operations and the commencement of production by the Company is expected upon the completion of exploration and construction works in 2nd quarter 2012. The accumulated loss as of 1 January 2011 amounts to RUB 1,051,279 thousand. The Company’s long-term funds are provided by related parties and are not expected being called for redemption earlier than the terms of related loan agreements as disclosed in Note 9.

Cost base

These financial statements have been prepared on the historical cost basis, except for mining rights, recorded as part of mining assets, which were measured at fair value for the purpose of transition to IFRS on 1 January 2011 (refer to Note 5).

2. Basis of preparation (continued)

Functional and presentation currency

The primary functional currency of the Company and for its operations in the Russian Federation and presentation currency is the Russian ruble (RUB), the currency of their primary economic environment in which they operate. All amounts are presented in rubles and have been rounded to the nearest thousand.

3. Summary of significant accounting policies

a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are recorded by the Company at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate prevailing at that date.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency at the exchange rate prevailing at the date when the fair value is determined. All differences arising as a result of translation are taken to the profit and loss for the period with the exception of translation differences resulting from translation of the cost of equity instruments available for sale, which are recognized in other comprehensive income.

b) Mineral exploration, evaluation and development expenditure

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and evaluation costs

Once the legal right to explore has been acquired, exploration and evaluation costs are recognized as expenses in the profit or loss of the Company as they are incurred, unless the management concludes that future economic benefits are more likely than not to be realized.

Exploration and mining costs are capitalized in the assets when such costs are expected to be reimbursed in the course of future commercial field development, or as result of its sale, or when a reasonable estimation of economic reserves is impossible at the reporting date.

Exploration and mining costs capitalized in exploration and evaluation assets related to respective work at the exploration and evaluation stages, comprise the following:

- topographical, geological, geochemical and geophysical studies;
- cost of obtaining subsoil use rights and licenses for exploration work;
- prospect boring;
- exploration by boring exploratory trenches;
- exploratory sampling;
- evaluation of cost-performance ratio and commercial value of the extracted mineral resources.

3. Summary of significant accounting policies (continued)

b) Mineral exploration, evaluation and development expenditure (continued)

Once the technical feasibility of reserves is demonstrated, exploration and mining costs should be reclassified from exploration and evaluation assets to mining and metallurgical property, plant and equipment or licenses.

c) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

For any costs to be included in the cost of a created PPE item, they must be directly attributable to creating this PPE item and bringing it to a working condition.

Where items of property, plant and equipment comprise separate components having different useful lives, each of the components is accounted for as a separate item (major component) of property, plant and equipment.

Mining assets

The historical cost of mining assets comprises the following:

- acquisition and construction costs related to mines and mining and processing integrated works;
- costs related to developing the infrastructure of mines;
- Net present value of future expenses related to decommissioning of PPE and land recultivation, which the Company expects to incur upon completion of use of each asset/field as a result of decommissioning and liquidation of production capacities being currently in use;
- mining rights.

As of date of first time adoption mining rights are measured based on the assessment of the fair value of licenses which is determined based on the Multi-Period Excess Earnings Method (MEEM).

Key assumptions used to determine the fair value are as follows:

- discounted cash flows was prepared for the period up to 2030;
- forecast of operating activity is prepared on the basis of the data from the production and sales plans adjusted for macroeconomic indicators;
- discount rate for cash flow comprised 17,7%.

Construction in progress

Construction in progress includes costs directly attributable to mine development, construction of buildings, processing works, machinery and equipment, and creation of a necessary infrastructure.

3. Summary of significant accounting policies (continued)

c) Property, plant and equipment (continued)

Subsequent costs

Costs of replacing a significant part of an item of property, plant and equipment increase the carrying value of such item if it is highly probable that future economic benefits associated with the item will flow to the Company and if the value of such benefit may be reliably measured. Costs of current maintenance and repairs of property, plant and equipment are recognized through profit or loss for the period, as incurred.

Depreciation

The Company regularly writes down the depreciable value of property, plant and equipment over its useful life through depreciation.

Depreciation of property, plant and equipment (except for mining assets)

Property, plant and equipment not attributable directly to mining assets is depreciated on a straight-line basis over the useful life of such assets.

Land, exploration assets and construction in progress are not depreciated.
The Company applies the following useful lives for different groups of property, plant and equipment for preparing these financial statements:

Buildings	50 years
Machinery and equipment	5-36 years
Transport vehicles	3-20 years
Other property, plant and equipment	2-15 years

The Company's management estimates the useful life within each range based on the experience of work with similar assets. Depreciation is accrued separately by each asset/ item of property, plant and equipment.

The useful life of property, plant and equipment is reviewed, if appropriate. In case the cost of property, plant and equipment changes (due to modernization, reconstruction, etc.), the useful life must be reviewed. If expectations on the use of property, plant and equipment differ significantly from prior estimates, the asset's useful life is changed. The depreciation charge for the previous periods is not changed.

Property, plant and equipment is depreciated on a monthly basis from the 1st day of the month following the month in which the asset was put in operation.

Depreciation of property, plant and equipment depreciation is discontinued from the 1st day of the month following the month, in which the item of property, plant and equipment was disposed of or reclassified to assets held for sale.

Accrual of depreciation continues during outage or temporary shutdown of property, plant and equipment. Depreciation of the lengthy downtime (or slack) items of property, plant and equipment is not capitalized in the cost of construction in progress and is expensed in the period, to which it refers.

Property, plant and equipment with a value of less than RUB 20,000 are expensed in the current period upon commissioning.

3. Summary of significant accounting policies (continued)

c) Property, plant and equipment (continued)

Depreciation of mining assets

Mining assets are depreciated on a unit-of-production basis. This method employs the information on proved developed mineral reserves which can be extracted with the help of available equipment and technology as well as actual production in the period.

Depreciation charges on mining assets are included in the cost of production.

d) Financial instruments

Financial instruments include:

- accounts receivable;
- loans to companies and employees;
- held-to-maturity financial assets – these include purchased debt securities (bonds, notes) and bank deposits with maturity periods of over three months;
- financial assets at fair value through profit or loss – these include instruments acquired in order to earn short-term gains on market price fluctuations; such instruments are publicly traded and quoted, and their values can be reliably measured;
- available-for-sale financial assets – these include securities not publicly traded or quoted, and equity contributions.

Financial liabilities include:

- accounts payable;
- loans and borrowings payable.

The Company recognizes a financial asset or a financial liability when, and only when, the Company becomes a party to the contractual provisions of the instrument.

When a financial asset or financial liability is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs include:

- legal and advisory services provided to the Company (fees and commissions paid to agents, advisors, brokers and dealers, and due diligence fees);
- levies by regulatory agencies and securities exchanges, and taxes and duties required by applicable legislation;
- other costs directly attributable to the acquisition/disposal of financial assets.

Following initial recognition, the Company measures financial instruments at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial instruments:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity financial assets which are measured at amortized cost using the effective interest method;
- available-for-sale financial assets whose fair value cannot be reliably measured are carried at their acquisition cost less impairment.

3. Summary of significant accounting policies (continued)

d) Financial instruments (continued)

Accrued interest receivable, and amortization of material transaction costs, discount/premium on all financial assets, other than available-for-sale financial assets whose fair value cannot be reliably measured, are recorded in finance income.

Interest expected on available-for-sale financial assets whose fair value cannot be reliably measured (such as equity contributions) is recorded in dividends receivable.

All financial assets other than financial assets at fair value through profit or loss are subject to impairment testing.

The Company derecognizes a financial liability (or its part) only if it has been settled, i.e. the contractual obligation has been discharged, cancelled or expired.

e) Inventories

When recognized initially, inventories are measured at cost.

The cost of inventories includes all actual costs relating to their acquisition and processing, costs directly attributable to the manufacturing of products (provision of services, performance of work) and other costs incurred in order to bring inventories to their current condition and existing location.

The cost of inventories does not include borrowing costs on funds borrowed for their acquisition.

Afterwards, inventories are measured at the lower of cost and net realizable value.

The net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to sell.

Disposed inventories are valued on the weighted average cost basis.

f) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

Impairment of accounts receivable

If there is objective evidence that an impairment loss on accounts receivable has been incurred, the amount of the loss is measured as the difference between the carrying value of accounts receivable and the present value of estimated future cash flows discounted at the accounts receivable's original effective interest rate.

For each material amount receivable, the Company independently measures the amount of the impairment loss based on its past experience.

The amount of allowance for doubtful accounts is included in other expenses directly attributable to income from the provision of services, performance of work or sale of products.

3. Summary of significant accounting policies (continued)

f) Impairment of assets (continued)

Impairment of financial assets

Where it is probable that the Company may not recover the whole amount of debt (principal and interest) under the contractual terms of financial assets, an impairment loss on the financial assets is recognized.

The amount of the loss for which allowance is made is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial instrument's original effective interest rate computed at initial recognition.

Impairment losses/gains from impairment restoration on financial assets are recorded in the following manner:

- gains or losses on a financial asset designated as at fair value through profit or loss should be recorded in profits or losses;
- gains or losses on an available-for-sale financial asset should be recorded in other comprehensive income until the financial asset is derecognized and after that gains or losses recognized as other comprehensive income earlier should be taken to profit or loss.

g) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. In case of discounting, increase in the provision over time is recognized as finance costs.

Decommissioning and rehabilitation provision

Pursuant to legislation, license and mining rights agreement, the Company has liabilities relating to the decommissioning of mining facilities after the completion of mine exploitation, disturbed soil restoration and environmental rehabilitation.

Provision estimates are based on the management's understanding of the requirements of applicable legislation and license agreements.

The decommissioning and rehabilitation provision is recognized in an amount equal to the present value of costs in the period when the Company performs work to access mineral resources and thereby disturbs the environment.

3. Summary of significant accounting policies (continued)

g) Provisions (continued)

The values of future rehabilitation costs measured based on current prices at the provision recognition date (nominal values) must be discounted to real values based on a price index. The forecast producer price index is used for this purpose.

The present value of future decommissioning and rehabilitation costs is calculated using a risk free interest rate. For this purpose, the interest rate on government bonds is used subject to their maturity period and currency (the long-term interest rate on federal loan bonds).

The calculated provision amounts are included in the cost of mining assets and expensed through the depreciation process using the unit of production method (pro rata to production).

Over time, the discounted liability is increased for the change in present value based on the discount rates. The periodic unwinding of the discount is recognized in profit or loss as a finance cost.

In the event of changes to the estimated decommissioning and rehabilitation liability driven by changes in the expected dates or values of expected future costs or in the discount rates, changes in the value of capitalized rehabilitation costs are recognized in the following manner:

- the above changes in the decommissioning and rehabilitation liability are recognized by either increasing or reducing the cost of the mining asset;
- reduction in the decommissioning and rehabilitation liability and therefore deduction from the cost of the mining asset in an amount not exceeding the carrying amount of that asset; if it does, any excess over the carrying value is recorded in other operating expenses;
- increase in the decommissioning and rehabilitation liability and therefore an addition to the cost of the mining assets making it necessary to test the assets for impairment.

h) Income tax

Income tax for the reporting period comprises current and deferred taxes. Current and deferred taxes are recorded in profit or loss for the period, except for their part attributable to a business combination or transactions recorded directly in equity or other comprehensive income. Current income tax payable is calculated based on the expected taxable income or loss for the year, using tax rates enacted at the reporting date. The calculation of current income tax payable also includes the value of tax liability arising on declared dividends.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not recognized for the following:

- temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit or loss;
- temporary differences associated with investments in subsidiaries and jointly controlled entities, where it is probable that the temporary differences will not be utilized in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred income tax is based on tax rates expected to apply to temporary differences when the temporary differences reverse.

3. Summary of significant accounting policies (continued)

h) Income tax (continued)

The Company offsets current tax assets and current tax liabilities, if the Company has a legally enforceable right to set off the recognized amounts intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company recognizes a deferred tax asset for the carry-forward of tax losses to the extent that it is probable that taxable profit will be available in the future against which such tax losses can be utilized.

No deferred tax asset is recognized to the extent that it is no longer probable that sufficient taxable profit will be available to allow unused tax losses to be utilized.

i) Loans and borrowings payable

Loans and borrowings payable are recorded in financial liabilities.

When recognized initially, loans and borrowings payable are measured at fair values less transaction costs directly attributable to raising the loans and borrowings.

Transaction costs may include:

- loan processing fees;
- legal and advisory services provided to the Company (fees and commissions paid to agents, advisors, brokers and dealers, and due diligence fees);
- levies by regulatory agencies and securities exchanges, and taxes and duties required by applicable legislation;
- other costs directly attributable to borrowings.

After initial recognition, loans and borrowings are measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate.

Amortization charges are included in finance costs, except where borrowing costs are capitalized as part of the cost of a qualifying asset.

j) First-time adoption of International Financial Reporting Standards

For all periods up to and including the year 31 December 2010, the Company prepared its financial statements in accordance with Russian accounting principles. This preliminary opening statement of financial position as of 1 January 2011 – date of transition to IFRS, is the first the Company has prepared in accordance with International Financial Reporting Standards (IFRS).

The Company has elected to measure its mining rights recorded as part of mining assets at fair value as at 1 January 2011 and to use this fair value as initial cost of mining rights at this moment. The Company did not use other exemptions allowed by IFRS at first-time adoption of IFRS.

The principal adjustments made by the Company in the restatement of the statement of financial position as at 1 January 2011 prepared in accordance with Russian accounting principles into the preliminary opening statement of financial position prepared in accordance with IFRS comprise remeasurement of property, plant and equipment. The Company increased the carrying value of property, plant and equipment by RUB 4,747,916 thousand, which was mainly caused by the revaluation of mining rights recorded as part of mining assets.

4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's opening statement of financial position are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IAS 27 *Separate Financial Statements* (*Amendment*)

Issued on May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12, amended IAS 27 *Separate Financial Statements* contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 *Separate Financial Statements* requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. The Company does not expect any impact from the adoption of the amendment on its financial position or performance. The Standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IAS 24 *Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact from the adoption of the amendment on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 28 *Investments in Associates and Joint Ventures (Amendment)*

IAS 28 Issued on 12 May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12, amended IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Company does not expect any impact from the adoption of the amendment on its financial position or performance. The Standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

4. Standards issued but not yet effective (continued)

IFRS 10 *Consolidated Financial Statements*

IFRS 10 *Consolidated Financial Statements* provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Application of IFRS 10 will not affect on financial statement of the Company.

IFRS 11 *Joint Arrangements*

IFRS 11 *Joint Arrangements* improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Application of IFRS 10 will not affect on financial statement of the Company.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Adoption of the standard will require new disclosures to be made in the financial statements of the Company but will have no impact on its financial position or performance.

IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group’s assets and liabilities accounted for at fair value. Currently the Company evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

4. Standards issued but not yet effective (continued)

IFRIC 14 *Prepayments of a Minimum Funding Requirement*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset.The amendment is expected to have no impact on the Company's financial position or performance.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011:

IFRS 3 *Business Combinations*

IFRS 7 *Financial Instruments: Disclosures*

IAS 1 *Presentation of Financial Statements*

IAS 27 *Consolidated and Separate Financial Statements*

IFRIC 13 *Customer Loyalty Programs*

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

5. Property, plant and equipment

Property, plant and equipment include the following categories:

	Mining assets	**Exploration and evaluation assets**	**Land**	**Buildings and structures**	**Transport vehicles**	**Other**	**Total**
Cost							
At 1 January 2011	4,837,000	62,789	62,411	32,435	1,635	1,254	4,997,524
Depreciation							
At 1 January 2011	–	–	–	(2,883)	(246)	(853)	(3,982)
Net book value							
At 1 January 2011	**4,837,000**	**62,789**	**62,411**	**29,552**	**1,389**	**401**	**4,993,542**

Pre-license exploration and evaluation costs total RUB 49,685 thousand and are included in retained earnings as of the reporting date.

As of 1 January 2011, borrowing costs, which have been capitalized into the cost of exploration and evaluation assets, amount to RUB 18,174 thousand.

On 31 March 2009, the Company obtained an exploration and mining license (BPH No. 80028) for Don-Granit, a granite deposit in Pavlovsky district, Voronezh region.

The mining rights granted under the license are accounted for at fair value as of 1 January 2011 and recorded as part of mining assets in the amount of RUB 4,837,000 thousand.

6. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items of the statement of financial position:

	1 January 2011
Provisions	1,820
Deferred expenses in tax accounting	8,452
Deferred tax assets	**10,272**
Loans and borrowings	(6,985)
Property, Plant and Equipment	(949,584)
Deferred tax liabilities	**(956,569)**
Total	**(946,297)**

7. Trade and other receivables

Trade and other receivables comprise the following:

	At 1 January 2011
Prepayments	26,538
Other receivables	3,915
Total	**30,453**

Prepayments mostly comprise advances to suppliers for geological engineering and geophysical design works.

8. Share capital

Share capital comprises comprised 1,000 ordinary shares at par value of RUB 25 thousand per share.

9. Loans from related parties

Long-term and short-term interest bearing loans from related parties comprise the following:

	Currency	Security	Effective interest rate	At 1 January 2011
Current loans				
Current loan	RUB	unsecured	–	5,485
Total current loans				**5,485**
Non-current loans				
Non-current loan	RUB	unsecured	6%	260,921
Non-current loan	RUB	unsecured	8%	7,809
Total non-current loans				**268,730**
Total loans				**274,215**

The principal portion of non-current loans in the amount of RUB 260,921 thousand is represented by a credit lines which are repayable within 3 to 5 years.

10. Trade and other payables

Trade and other payables comprise the following:

	At 1 January 2011
Taxes payables	9,152
Provision for unused vacations	9,105
Trade payables	144
Total	**18,401**

11. Earnings per share

Basic earnings per share are calculated by dividing the retained earnings as of beginning of the period by the weighted average number of ordinary shares in issue.

The basic and diluted earnings per share are the same as there are no dilutive effects on earnings.

	At 1 January 2011
Accumulated loss	(1,051,279)
Income from revaluation	4,837,000
Total retained earnings attributable to ordinary equity holders	**3,785,721**
Weighted average number of ordinary shares (shares)	1,000
Basic and diluted earnings per ordinary share	3,786

12. Financial instruments

The Company's financial instruments comprise receivables and payables, loans received and loans issued. The Company does not undertake trading in financial instruments.

Interest rate risk

The Company is not exposed to interest rate risk through market value fluctuations of interest-bearing loans and borrowings as the interest rates on long-term loans and borrowings are fixed. The Company holds no insurance policies in relation to the interest rate risk.

Market risk

Market risk is the risk that market price fluctuations may affect the Company's financial performance or the value of its financial instruments. The Company periodically evaluates future losses which may arise from unfavorable changes in market conditions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its liquidity risk. The Company's management believes that sufficient funds are provided to pay the financial obligations in full.

12. Financial instruments (continued)

Liquidity risk (continued)

As of 1 January 2011, contractual maturity dates of financial liabilities are as follows:

	0 to 6 months	7 to 24 months	2 to 5 years	Total
Loans payable	–	5,485	438,001	443,486
Interest payable	–	–	79,408	79,408
Trade payables	144	–	–	144
Other payables	9,152	–	–	9,152
Total	**9,296**	**5,485**	**517,409**	**532,190**

Fair value of financial instruments

The Management believes that its current measurement of financial assets and liabilities corresponds to their fair value.

13. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 and in the beginning of 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

Taxation

The Russian tax system is relatively new. Russian tax, currency 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 Company may be challenged by the relevant regional and federal authorities. 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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

As a result, tax exposure in the Russian Federation may be significantly higher than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. Nevertheless, respective regulatory authorities may apply a different interpretation of applicable tax legislation, which may affect the Company's financial statements in case such interpretation is recognized as legally valid.

13. Commitments and contingencies (continued)

Taxation (continued)

Management has identified areas where its interpretation of existing tax legislation may be challenged by the authorities. Where such uncertainty exists, the Company has accrued tax liabilities in the amount of RUB 8,577 thousand based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Insurance

The insurance market in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not hold full insurance policies in relation to its property, plant and equipment, or in respect of business interruption, or in respect of liability to third parties for the compensation of damage to property or environment caused by accidents at the Company's production facilities, or related to its activities. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

Legal proceedings

Management believes that there is no claims against the Company which can significantly affect the Company's current position or activities. Liabilities related to legal proceedings were not accrued or disclosed in the financial statements.

14. Related party disclosures

The following table provides the information on significant transactions that have been entered into with related parties at 1 January 2011:

	Short-term interest loans received, nominal value	**Long-term interest loans received**
Key management personnel	5,485	–
Other related parties	–	268,730
Total	**5,485**	**268,730**

Related party transactions were performed at arm-length basis.

15. Evaluation of undeveloped commercial reserves (unaudited)

The Company's undeveloped mineral reserves and resources at Don-Granit deposit were evaluated in accordance with JORC Code.

Resources were evaluated in accordance with an economic model based on the forecast of the Company's activities for the period until 2030.

As of 1 January 2011, resources of the deposit classified as Indicated and Measured according to JORC Code comprise 294.3 million m^3 of granite crushed stone and 1.2 million m^3 of mortar sand.

15. Evaluation of undeveloped commercial reserves (unaudited) (continued)

Reserves within the quarry classified as Probable according to JORC Code comprise 25.6 million m^3 of granite crushed stone and 1.3 million m^3 of mortar sand.

The deposit is characterized by a substantial volume of reserves and rather favorable mining and geological conditions allowing for open pit mining with an expected stripping ratio of 1.2 m^3/t.

The Company's deposit is in Pavlovsk district of Voronezh region.