

Company number: 05533825 (England and Wales)

**Report of the Directors and
Financial Statements for the Year Ended 31 December 2010
for
ZIRAX LIMITED**

ZIRAX LIMITED

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For the year ended 31 December 2010**

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ZIRAX LIMITED

**Group Information
For the year ended 31 December 2010**

DIRECTORS: M Baranov
S Belichenko

SECRETARY: S Belichenko

REGISTERED OFFICE: 51 Eastcheap
London
EC3M 1JP

REGISTERED NUMBER: 05533825 (England and Wales)

AUDITORS: Nexia Smith & Williamson
25 Moorgate
London
EC2R 6AY

SOLICITORS: Clyde & Co
51 Eastcheap
London
EC3M 1JP

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities and review of business

The Group's principal activities are the production, marketing and sale of calcium chloride based specialty chemicals in global markets for oilfield processes, de-icing solutions and wider industrial applications.

The Group comprises Zirax Limited (the 'Company'), its wholly owned subsidiaries, Zirax LLC, Zirax UK Limited and Zirax GmbH (formerly Solith Anlagenbau und Service GmbH) and the following subsidiaries in which Zirax LLC holds a controlling interest; Zirax Nefteservice LLC (90%), Nextra LLC (50%) and PIK Zadonye (95%).

Product supply is from Volgograd, Russian Federation; Ebensee, Austria and Rosignano, Italy.

On 18 March 2010 we acquired a limestone quarry in the Volgograd region, Russia, to secure supply of limestone which is a key raw material in calcium chloride production. The limestone from this quarry has unique chemical characteristics which enables Zirax LLC to produce calcium chloride of a high quality, including food grade. We hold the license until 31 December 2020, with the priority right to prolong the license. The proven reserves of limestone in the quarry are 24,461 thousand m³, which is sufficient for all of our Volgograd plant requirements even if we double our capacity. We actively look for new business opportunities where the limestone could be used, apart from supply to our calcium chloride production in our Volgograd plant.

The Group is primarily focused on the oilfield and de-icing segments although industrial applications, for example, food production, are becoming increasingly important. The revenue from the oilfield segment represented 52% of total revenue in 2010 (2009: 54%), de-icing segment revenue represented 33% of total revenue (2009: 36%), and revenue from industrial applications increased to 14% (2009: 10%).

After quite hard times in 2008 and 2009, The Group demonstrated a strong performance in 2010 which resulted from both general economic recovery and from the revised corporate strategy and management actions. As a result of this the Group boosted revenues (including other income) by 48% (from \$30.1m to \$44.4m) from the year 2009, which brings us to a new revenue record in our history.

While a major portion of the Group's business is in the Russian Federation, we continuously seek to expand into international markets, including the European Union, United States, Latin America, Middle East, Africa, and CIS. Our Russian revenues in 2010 were 72% (2009: 80%) and international sales were 28% (2009: 20%).

In May 2009 we announced that we had suspended our agreements with Solvay due to inconsistent quantities of calcium chloride production at the Rosignano plant and had entered into renegotiations with them. As part of those renegotiations the Group was entitled to a settlement fee of \$2.3m. The first installment of \$1.3m was received and recognised in 2010 and \$1.0m has been received since the year end which will be recognised in 2011. We retained access to supply from Rosignano, but this supply remains at low level.

We will continue to meet our aims of growing market share and meeting the changing needs of our customers, who demand new, more efficient and environmentally friendly ways of delivering their end requirements.

We are also actively investigating, through our own research and development, commercial collaborations and acquisitions, other potential applications and revenue streams.

On 23 February 2010 Zirax plc delisted from the AIM section of the London Stock Exchange as part of the revised corporate strategy which requires that in the next several years the Group management will dedicate their time to operational excellence and business development bringing the Zirax Group to a leading position in the industry. On the 11th March 2010 Zirax plc was re-registered under the Companies Act 2006 as a private limited company under the name Zirax Limited.

Our markets

Oilfield Solutions

We are committed to providing our Oilfield clients across the globe with the broad range of chemical products needed for oil well maintenance and enhanced oil recovery. Whereas our new portfolio of highly technological products is undergoing field tests with our clients, our high purity calcium chloride pellets PelletOil™ provide the base for our Oilfield business.

Our revenues in this segment recovered to \$22.6m (2009: \$16.2m) which brings us close to the 2008 record of \$25.2m. Our product level profit (which we define as selling price less outbound logistics and cost of goods sold) improved by 52% to \$6.1m (2009: \$4.0m).

The relationship with our key client in the Oilfield segment – Rosneft, remains an important success factor for us. We derived revenue of \$10.4m from business with Rosneft in 2010, which accounts for 46% of Oilfield segment and 24% of total Group revenue. Though, in 2010 we managed to extend the portfolio of our Oilfield clients and our dependence on this key client has reduced significantly from 72% of the Oilfield segment and 39% of total Group revenue in 2009.

De-icing Solutions

The Group is a recognised supplier of efficient and more ecologically friendly de-icing solutions in Russia, which is proven by our participation in the Moscow city de-icing program for the eighth consecutive year, and our leading role in new de-icing programs of both Russian federal highways and regional cities across Russia. Besides our impressive participation in local and federal de-icing programs within Russia, we actively seek to become partners in de-icing programs outside Russia. Thus, in addition to our ongoing relationship with ASFINAG, a road maintenance agency in Austria, we won a 4 year contract to supply de-icing chemicals to the city of Berlin worth up to \$6.0m and successfully executed this contract in its first season 2010.

Our revenues within the De-icing segment recovered to \$14.3m (2009: \$10.8m) which brings us close to the 2005 record of \$16.1m. Our product level profit improved by 37% to \$2.6m (2009: \$1.9m).

The relationship with Moscow Government, our key client in the De-icing segment, remains an important success factor for us. We derived revenue of \$4.6m from business with the Moscow government in 2010, which accounts for 32% of De-icing segment and 10% of total Group revenue. Though, in 2010 we managed to extend the portfolio of our De-icing clients and our dependence on this key client has almost halved since the previous year when 59% of product revenues were generated through this contract.

Industrial Solutions

An important element of the Group strategy is focused diversification. We continuously look to new business opportunities within our strategic framework and we are pleased to report that our initiatives, including the successful launch of our new product FUDIX™ which is food-grade quality calcium chloride, enabled us to deliver an impressive 107% increase in revenues reaching the historical record of \$6.2m (2009: \$3.0m). The product level profits delivered by this sector are even more impressive \$2.6m, which brings the Industrial Chemicals segment equal to the De-icing segment in terms of product level profits.

Results

Total revenue has increased by \$13 m (43%): from \$30.1m to \$43.1m. All segments contributed greatly to this increase: the Oilfield segment delivered \$6.3m, De-icing segment delivered \$3.5m and Industrial segment delivered \$3.2m increase.

Cost of sales increased by 37% to \$24.6m (2009: \$18.0m), driven by increased sales volumes and cost increases in raw materials and energy. Distribution expenses, which comprise outbound logistics to customers and sales & marketing expenses, increased by 30% to \$9.9m (2009: \$7.6m), negatively driven by increased charges from logistics providers, and positively driven by a change in the customer mix in favor of customers with shorter supply lines and by modest increase in sales & marketing expenses.

General and administrative expenses increased by 8% to \$5.7m (2009: \$5.3m), where a significant portion of expense was incurred by delisting from AIM, including related redundancy payments to directors although, a significant part of delisting expenses was offset by the \$1.3m settlement fee from Solvay.

The operating result is \$2.9m profit compared to the prior year operating loss of \$(0.9)m, is close to our historical maximum of \$4.7m operating profits in the prosperous economic environment of 2007.

Net interest payable has increased to \$1.1m (2009: \$0.7m) mostly as a result of increased sales and the related increase in the working capital and its funding needs. The foreign exchange movements were less adverse for the Group's net monetary position in 2010 thus showing a foreign exchange loss of \$(0.1)m compared to \$(0.8)m in 2009.

The Group recognised a bargain purchase gain of \$0.6m related to the acquisition of a limestone quarry in Volgograd region, Russia, in March 2010. See note 30 for further details.

The profit after tax is \$2.5m compared to the prior year loss of \$(2.7)m.

Cash flow

Net cash generated from operating activities amounted to \$2.9m compared to net cash used in operating activities of \$(2.6) m in 2009. The key driver for positive operating cash flow was profitable business in 2010, which generated cash flow of \$5.6m before working capital funding.

Capital expenditure was \$(1.0)m, nearly the same level as 2009 (\$0.9m). This capital expenditure is related mostly to replacing the pieces of machinery with expired useful lives, without significant change in the production capacity.

Net proceeds from borrowing were \$3.1m, which is similar to 2009. All the borrowings are used to fund working capital which increases as the revenue grows.

Future developments

Having established a good base in terms of our customers and our geographic reach, we aim to build on this by offering higher value added solutions for the needs of our customers - sharing the added value on a fair basis between our customers and ourselves. We will also continue to diversify our target markets in a controlled and focused way along with broadening the geography of our customers – both through organic growth and business contributions.

Principal risks and uncertainties

The management of the Group's business and the execution of its strategy are subject to a number of key risks. The key operating risks affecting the Group are described in note 27 to the financial statements. The key financial risks affecting the Group are described in note 28 to the financial statements.

Share capital

The Group's authorised and issued share capital as at 31 December 2010, together with details of shares issued during the year, is set out in note 20 to the financial statements.

Dividend

The directors do not recommend the payment of a dividend.

Directors

The directors who held office as at 31 December 2010 were:

Mikhail Baranov	Executive director
Sergey Belichenko	Executive director

On 23 February 2010, following the de-listing of the Group from the AIM Market of the London Stock Exchange, Sir Michael Oliver, Fenlon Dunphy, Mikhail Petrushin and David Wood resigned from the Board, Mikhail Baranov became an executive director and Sergey Belichenko was appointed to the Board.

Indemnities

The Group has entered into qualifying third party indemnities for each of the directors.

Currency

The functional currency of the parent company is British Pound Sterling (GBP). The financial statements are presented in US Dollars (USD), which is the presentational currency of the Group and the Company.

Payments to creditors

The Group's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction, either by accepting the suppliers' terms or by making the suppliers aware of alternative terms and to abide by the agreed terms. It does not follow a published code or standard.

Trade creditors of the Company as at 31 December 2010 represented 17 days purchases (2009: 18 days).

Related party transactions

Details of related party transactions are set out in note 26 to the financial statements.

Employees

The Group had 335 employees at 31 December 2010 (2009: 252 employees).

Post balance sheet events

There are no events to report after the balance sheet date.

Disclosure of information to auditors

Each of the directors at the time of this report was approved, confirm that:

- so far as they are aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware;
- they have taken all the steps that they ought to have taken in their duty as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with provisions of the Companies Act 2006. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union.
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

This statement should cover both the parent company and the Group as a whole.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

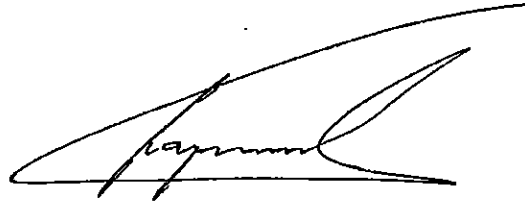
Each of the directors, whose names and functions are listed above (refer to company information page) confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- The directors' report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Mikhail Baranov
Director
25.07.2011

A handwritten signature in black ink, appearing to read 'Mikhail Baranov', written over a horizontal line.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZIRAX LIMITED ON THE GROUP FINANCIAL STATEMENTS

We have audited the financial statements of Zirax Limited for the year ended 31 December 2010 which comprise the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Group's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Basis for qualified opinion on financial statements

• As set out in note 13 to the financial statements, in 2008 full provision was made against a cash amount receivable from a financial institution in Russia of RR87m (\$2,870,000) held with them on demand. During the year ended 31 December 2010, the cash was exchanged for a promissory note due from a different third party. As at 31 December 2010, the promissory note has been fully impaired. The audit evidence available to us in respect of the promissory note was limited and we have been unable to obtain sufficient appropriate evidence regarding the recoverability of the amount receivable and therefore the extent of any impairment required.

• As set out in note 13 to the financial statements, an amount of RR104m (\$3,416,000) was held in a related party bank account until 6 April 2010. At that date the cash was exchanged for a promissory note due from a different third party. No provision has been made against this amount in the financial statements for the year ended 31 December 2010 or in relation to the cash balance held in the prior year financial statements. The audit evidence available to us in respect of the promissory note however was limited and we have been unable to obtain sufficient appropriate evidence as to the ultimate recoverability of this amount and therefore the extent to which any provision for impairment might be required.

Qualified opinion on financial statements

Except for the possible effects of the matters described in the basis for qualified opinion paragraph, the group financial statements, in our opinion:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

In respect solely of the limitations on our work relating to cash and promissory notes, described above:

- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made;

Other matter

We have reported separately on the parent company financial statements of Zirax Limited for the year ended 31 December 2010.

Andrew Bond

Andrew Bond
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Date 27/7/11

The maintenance and integrity of the Zirax Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ZIRAX LIMITED ON THE PARENT COMPANY FINANCIAL STATEMENTS**

We have audited the parent company financial statements of Zirax Limited for the year ended 31 December 2010 which comprise the company Balance Sheet, the company Statement of Cash Flow, the Company Statement of Changes in Equity, and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provision of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, as set out on page 5, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010;
- have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provision of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Zirax Limited for the year ended 31 December 2010. The opinion in that report is qualified.

Andrew Bond

Andrew Bond
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Date 27 / 7 / 11

**Consolidated Income Statement
for the year ended 31 December 2010**

	Notes	2010 \$'000	2009 \$'000
Revenue	3	43,090	30,075
Cost of sales		(24,618)	(18,033)
Gross profit		18,472	12,042
Distribution expenses		(9,864)	(7,630)
General and administrative expenses		(5,742)	(5,306)
Operating profit /(loss)	3, 4	2,866	(894)
Other income	5	1,330	-
Gain on bargain purchase	30	626	-
Interest receivable		112	288
Interest payable and similar charges		(1,259)	(1,018)
Net foreign exchange loss		(88)	(766)
Net finance expense		721	(1,496)
Profit /(loss) before taxation		3,587	(2,390)
Taxation	8	(1,047)	(282)
Profit /(loss) for the year		2,540	(2,672)
Profit attributable to non – controlling interest		26	-
Profit/(loss) for the year attributable to parent equity holders		2,514	(2,672)

All results are derived from continuing operations.

**Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010**

Group

	2010 \$'000	2009 \$'000
Profit / (loss) for the year	2,514	(2,672)
Other comprehensive income:		
Effect of exchange rates	(151)	201
Share option credit	-	25
Total comprehensive income for the year	2,363	(2,446)

Parent

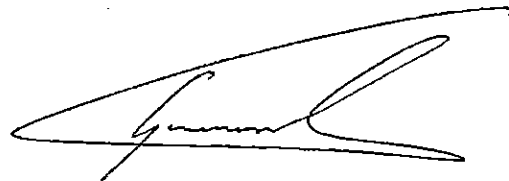
	2010 \$'000	2009 \$'000
Loss for the year	(483)	(4,649)
Other comprehensive income:		
Effect of exchange rates	(488)	1,608
Share option credit	-	25
Total comprehensive loss for the year	(971)	(3,016)

**Balance Sheets
at 31 December 2010**

	Notes	Group		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Non-current assets					
Property, plant and equipment	10	9,244	9,799	3	4
Intangible assets	11	2,737	1,310	-	-
Investment in subsidiaries	29	-	-	7,032	7,339
Deferred income tax assets	8	105	25	-	-
Loans granted (long-term)	12	985	-	985	-
Other non-current assets	13	3,516	-	-	-
Total non-current assets		16,587	11,134	8,020	7,343
Current assets					
Inventories	14	4,358	5,418	-	-
Trade and other receivables	15	12,305	8,032	2,488	3,843
Cash and cash equivalents	16	4,358	4,899	1,243	718
Total current assets		21,021	18,349	3,731	4,561
Current liabilities					
Short-term borrowings	17	4,179	8,253	-	-
Trade and other payables	18	3,467	2,385	1,114	299
Current tax liabilities	19	796	207	-	23
Total current liabilities		8,442	10,845	1,114	322
Net current assets		12,579	7,504	2,617	4,239
Long-term borrowings	17	8,524	615	-	-
Deferred tax liabilities	8	314	-	-	-
Solih deferred consideration		27	-	26	-
Provision for site restoration		3	-	-	-
Total non-current liabilities		8,868	615	26	-
Net assets		20,298	18,023	10,611	11,582
Shareholders' equity					
Share capital	20	2,965	2,965	2,965	2,965
Share premium	22	11,194	11,194	11,194	11,194
Other reserves	23	540	691	4,663	5,151
Profit and loss account	24	5,687	3,173	(8,211)	(7,728)
Equity attributable to parent equity holder		20,386	3,173	(8,211)	(7,728)
Equity attributable to non controlling interest		(88)	-	-	-
Total shareholders' equity		20,298	18,023	10,611	11,582

The financial statements on pages 10 to 35 were approved by the Board of directors on 25 July 2011 and were signed on its behalf by:

Mikhail Baranov
Director
Company number: 05533825



**Cash Flow Statement
for the year ended 31 December 2010**

	Notes	Group		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flows from operating activities					
Profit/(loss) before taxation		3,587	(2,390)	(483)	(4,649)
Adjustments for:					
Depreciation of property, plant and equipment		1,324	1,224	1	1
Amortisation of intangible assets		134	22	-	-
Loss on disposal of property, plant and equipment		-	1	-	-
Impairment of intercompany loan		-	-	213	2,492
Share options expense		-	25	-	25
Provision for site restoration		3	-	-	-
Bargain purchase gain (note 30)		(626)	-	-	-
Interest receivable		(112)	(288)	(10)	(16)
Interest payable and similar charges		1,259	1,018	-	(81)
Profit/(loss) before working capital changes		5,569	(388)	(279)	(2,228)
Decrease/(increase) in inventories		1,060	(1,286)	-	-
(Increase)/decrease in trade and other receivables		(4,645)	1,182	27	3,350
Increase/(decrease) in trade and other payables		1,090	(1,686)	217	(221)
Increase/(decrease) in taxes payable		636	(11)	23	-
Cash generated from / (used in) operations		3,710	(2,189)	(12)	901
Taxes paid		(830)	(457)	-	-
Net cash generated from/(used in) operating activities		2,880	(2,646)	(12)	901
Cash flows generated from investing activities:					
Interest received		3	550	12	325
Purchase of property, plant and equipment		(968)	(881)	-	(4)
Purchase of intangible assets		(66)	-	-	-
Deferred consideration for Zirax GmbH		(27)	(105)	(27)	(27)
Loans granted to third parties		(1,293)	(202)	(985)	-
Repayment of loans to third parties		23	32	-	-
Purchase of promissory note (note 13)		(3,416)	-	-	-
Purchase of subsidiaries and business units		(120)	-	-	-
Loans granted to subsidiaries		-	-	(1,140)	(4,964)
Repayment of loans from subsidiaries		-	-	2,224	4,124
Net cash (used in)/generated from investing activities		(5,864)	(606)	84	(546)
Cash flows generated from financing activities:					
Proceeds from borrowings		13,595	8,585	833	-
Repayment of borrowings		(9,250)	(4,140)	-	-
Interest paid		(1,259)	(1,018)	-	-
Net cash generated from financing activities		3,086	3,427	833	-
Net increase in cash and cash equivalents		104	175	905	356
Cash and cash equivalents at beginning of the year		4,228	3,703	718	250
Effects of exchange rate changes		(442)	350	(380)	112
Cash and cash equivalents at end of the year	16	3,890	4,228	1,243	718

**Statement of Changes in Equity
for the year ended 31 December 2010**

Group

	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Translation reserve \$'000	Other reserves \$'000	Profit and Loss account \$'000	Total equity \$'000
Balance at 31 December 2008	2,965	11,194	3,430	(2,045)	(920)	5,845	20,469
Loss for the year	-	-	-	-	-	(2,672)	(2,672)
Effect of exchange rates	-	-	-	201	-	-	201
Share options credit	-	-	-	-	25	-	25
Total comprehensive income for the year	-	-	-	201	25	(2,672)	(2,446)
Balance at 31 December 2009	2,965	11,194	3,430	(1,844)	(895)	3,173	18,023
Profit for the year	-	-	-	-	-	2,514	2,514
Effect of exchange rates	-	-	-	(151)	-	-	(151)
Total comprehensive income for the year	-	-	-	(151)	-	2,514	2,363
Balance at 31 December 2010	2,965	11,194	3,430	(1,995)	(895)	5,687	20,386

Company

	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Translation reserve \$'000	Other reserves \$'000	Profit and Loss account \$'000	Total equity \$'000
Balance at 31 December 2008	2,965	11,194	5,730	(2,617)	405	(3,079)	14,598
Loss for the year	-	-	-	-	-	(4,649)	(4,649)
Effect of exchange rates	-	-	-	1,608	-	-	1,608
Share options credit	-	-	-	-	25	-	25
Total comprehensive income for the year	-	-	-	1,608	25	(4,649)	(3,016)
Balance at 31 December 2009	2,965	11,194	5,730	(1,009)	430	(7,728)	11,582
Loss for the year	-	-	-	-	-	(483)	(483)
Effect of exchange rates	-	-	-	(488)	-	-	(488)
Total comprehensive income for the year	-	-	-	(488)	-	(483)	(971)
Balance at 31 December 2010	2,965	11,194	5,730	(1,497)	430	(8,211)	10,611

Notes to the Financial Statements

1. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

(a) General information

Zirax Limited (the Company) is a private limited company incorporated and domiciled in the United Kingdom. During 2009 the Company was registered as Zirax plc and listed on the Alternative Investment Market ('AIM'). Following an EGM on 8 February 2010, when shareholders voted to de-list from AIM and re-register as a private limited company, the Company de-listed from AIM on 23 February 2010 and re-registered as a private limited company on 11 March 2010. The address of its registered office is disclosed in the company information at the beginning of this Annual Report. The consolidated financial statements of the Group for the year ended 31 December 2010 comprise the financial statements of the Company and its subsidiaries (together referred to as the Group).

(b) Going concern basis of preparation

The directors have prepared forecasts for the business for the period of a year from the date of approval of these financial statements. These forecasts reflect the best estimate the directors can make concerning the performance of the underlying business which they consider will be cash generative over the year as a whole. On the basis of these forecasts the directors consider that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustment to the balance sheet intangible or tangible assets, the reclassification of long-term liabilities or provision for further liabilities that may be required should the going concern basis of accounting not be appropriate.

(c) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee, endorsed by the European Union ('EU') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has adopted IFRS since the date of its registration. These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

(d) New standards and interpretations

The Group has considered or applied the following standards for the period commencing 1 January 2010.

- IFRS 1 (amended)/ IAS 27 (amended) – Cost of an investment in Subsidiary, Jointly Controlled Entity or Associate.
- IAS 28 (revised 2008) – Investments in Associates
- IFRS 3 (revised 2008) – Business combinations

The effect of adoption of IFRS3 (revised 2008) on the Group financial statements to the year ended 31 December 2010 is that the costs of acquisition incurred in the year have been expensed rather than capitalised.

At the date of authorisation of these financial statements, the following new standards and interpretations, which may affect the Group, have been issued but are not yet effective and have not been applied in these financial statements:-

- IAS 24 (revision) – Related Party Disclosures
- Amendments to IFRIC 14 and IAS19 – Prepayments of a minimum funding requirement
- IFRS 9 - Financial Instruments
- Improvements to IFRS (May 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements. Certain of these standards and interpretations will require additional disclosures over and above those currently included in these financial statements in the period of application.

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year. Except for Zirax LLC (see note 1(f)) the net assets and results of acquired businesses are included in the consolidated accounts from their respective dates of acquisition, being the date on which the Group obtains control.

Apart from Zirax LLC (see note 1(f)), the acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and

contingent liabilities that meet the conditions for recognition under IFRS 3 (revised 2008) are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Where the fair value of the assets and liabilities acquired in a business combination exceeds the purchase consideration, the excess is taken directly to income as a bargain gain purchase. Under IFRS 3 (revised 2008) any new amounts arising are shown in the income statement as surplus of assets acquired over consideration given.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(f) Merger accounting

The Company was incorporated in England on 11 August 2005 and entered into an agreement to acquire the entire share capital of Zirax LLC on 28 October 2005 which was completed on 15 November 2005. The acquisition was effected by way of issue of shares. The acquisition was accounted for using the merger accounting principles under accounting standard FRS 6 (Acquisitions and Mergers) as the directors believed that this was not a business combination under the scope of IFRS 3 (Business Combinations) and there was no international standard dealing with business combinations outside the scope of IFRS 3. Under this method there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill is created as balances remain at book value. Consolidated financial statements in the year of acquisition included the profit or loss and cash flows for the entire year (pre and post merger) as if the subsidiary had always been part of the Group. The aim was to show the combination as if it had always been combined.

(g) Critical accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates within the next financial year are in the evaluation of the impairment testing of goodwill. Actual results could differ from the estimates.

The Group annually test whether goodwill has suffered any impairment. The recoverable amount of the Cash Generating Unit (CGU's) have been determined based on Value-In-Use calculations and these require the use of estimates. The key estimates relate to the increase in volumes which can be achieved through a mix of expansion of international markets and deeper penetration of existing markets and the discount rates used for the calculation of Value-in-Use.

(h) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocation of resources and assessing performance of the operating segments, has been identified as the board of directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 years presented.

(a) Revenue recognition

Revenue consists primarily of sales of calcium chloride based products. Revenues are recorded net of sales taxes and recognised on the date when the risks and rewards of ownership are transferred to the customers. The risks and rewards are deemed to have been transferred when title has been passed to the customer in accordance with the particular sales contract or invoice. This may be the point when goods are delivered to the customers' warehouses, are loaded onto the trucks from our production site or loaded into the ships for export sales. Revenues are measured at the fair value of the consideration received or receivable.

(b) Employee costs

(i) Short-term benefits

Wages, salaries, social contributions, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

(ii) Pension, medical and social costs

The Group contributes to the Russian Federation state pension, medical and social insurance scheme in the normal course of business. The mandatory contributions are expensed when the associated services are rendered by the employees of the Group. There is no Group pension scheme.

(c) Foreign currency

(i) Functional and presentation currency

The individual financial statements of each Group company are recorded in the currency of the primary economic environment in which it operates (its 'functional currency'). The consolidated financial statements and the financial statements of the Company are presented in US Dollars ('USD'), which is the Group's presentational currency, to improve the comparability of the results and financial position of the Group.

Assets and liabilities are translated to the presentational currency at the exchange rate prevailing at the balance sheet date. The income statement and cash flow statement are translated at the average exchange rate for the period. The resulting exchange differences are recognised in the translation reserve.

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 exchange rate at the balance sheet date.

(ii) Transactions and balances

Monetary assets and liabilities, which are held by the Group and denominated in foreign currencies at 31 December 2010, are translated into the functional currency at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

At 31 December the official rate of exchange, as determined by the Bank of England which has been used in performing translations, was as follows:

	2010	2009
31 December	RR	RR
1 USD	30,5384	30,3135
1 GBP	47,2368	48,9480

	2010	2009
Average rate for year to 31 December	RR	RR
1 USD	30,4338	31,7409
1 GBP	46,9989	49,5332

Exchange restrictions and currency controls exist in relation to the conversion of the Russian Ruble (RR) into other currencies. The Russian Ruble is not freely convertible in most countries outside of the Russian Federation.

The exchange rates used in translating the Company's functional currency of GBP to USD were a closing rate of 1.5468 (2009: 1.6147) and an average rate of 1.5443 (2009: 1.5605).

(d) Property, plant and equipment

Property, plant and equipment is recorded at historical cost determined as purchase or construction cost. An asset's carrying amount is written down immediately to its recoverable amount when it is determined to be impaired (see note 2(g)).

Depreciation is calculated on the cost or revalued amounts of property, plant and equipment on a straight-line basis over their estimated useful economic lives, which are:

	Years
Buildings	30 to 50
Plant and equipment	2 to 20
Vehicles	3 to 10

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Property, plant and equipment also include assets under construction and advances paid to suppliers of property, plant and equipment. Assets under construction are not depreciated until they are bought into use.

(e) Intangible assets

Goodwill

Goodwill represents the difference between the fair value of consideration paid for gaining control of group companies and the fair value of the Group's share of their net identifiable assets at the date of acquisition. Goodwill is capitalised and not amortised, but is subject to an annual review for impairment. Any impairment is charged to the income statement as it arises and impairment losses are not reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the combination.

Patents and trademarks

Acquired patents and trademarks are shown at historical cost. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of 20 years and trademarks over their estimated useful lives of 10 years.

Mining licenses

Mining licenses are shown at fair value based on the report of the independent appraiser. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their validity period of ten years.

(f) Investment in subsidiaries

Investments in subsidiaries are valued at cost less provision for impairment.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets subject to amortisation are reviewed for impairment, whenever there is an indication that the asset may not be recoverable. When an asset is tested for impairment the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset concerned.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense.

An impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(i) Trade and other receivables

Trade receivables are valued initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. The effective interest rate is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount. A provision for impairment of trade 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the income statement. When a trade receivable is uncollectible, it is written off.

Other non current assets include loans to group and third parties. They are valued initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment.

(j) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Borrowings and borrowing costs

Borrowings are valued initially at fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, 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. Borrowing costs are recognised in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

(m) Provisions

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.

(n) Taxation

Taxation on profits or losses for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statement of other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(o) Share capital

The share capital of the Company consists of registered issued and fully paid ordinary shares. Except for the acquisition of Zirax LLC (see note 1(f)), any excess of the fair value of consideration received over the par value is recognised as a share premium.

3. SEGMENT INFORMATION

The Group is managed around three groups of product and services offerings: Oilfield Solutions, De-icing Solutions and Industrial Solutions. Oilfield Solutions includes all products and services aimed at providing enhanced processing capabilities offered to the Oil and Gas industry. De-icing Solutions includes all products and services aimed at providing de-icing applications for Government and municipal entities, businesses and consumers. All other customer groups are covered by Industrial Solutions with the most significant customer groups being the food, paper and mining industries.

Segmental revenues arise from external customers only and there are no transactions between segments. Segment profit is determined after deducting direct cost of sales, including customer specific distribution costs.

The segment results for the year ended 31 December 2010 are as follows:

	Oilfield Process Chemicals	De-icing Solutions	Industrial Chemicals	Total
	\$'000	\$'000	\$'000	\$'000
Revenue	22,609	14,296	6,185	43,090
Segment profit	6,057	2,570	2,584	11,211
Non customer specific distribution costs and overheads				(8,345)
Operating profit				2,866
Total segment assets	3,016	5,679	726	9,421
Assets not identifiable to a segment				28,187
Total assets				37,608

The segment results for the year ended 31 December 2009 were as follows:

	Oilfield Process Chemicals	De-icing Solutions	Industrial Chemicals	Total
	\$'000	\$'000	\$'000	\$'000
Revenue	16,249	10,776	3,050	30,075
Segment profit	4,043	1,862	552	6,457
Non customer specific distribution costs and overheads				(7,351)
Operating loss				(894)
Total segment assets	1,837	3,342	378	5,557
Assets not identifiable to a segment				23,926
Total assets				29,483

The Group derives its revenues from international sales and has no material revenues from the UK. Revenues are attributed to geographies on the basis of customer location, and the principal geography is the Russian Federation with revenues of \$31,946,000 (2009: \$24,087,000). Apart from the Russian Federation, the Group derives revenues from the US, Europe, Middle East, Africa and the CIS but no individual geography is material.

The Group has two material customers. In the Oilfield solution segment, revenues from Rosneft, through a service company, were \$10,409,000 (2009: \$11,688,000) and in the De-icing Solutions segment, revenues from the Government of Moscow city were \$4,648,000 (2009: \$6,403,000).

Non-current assets (excluding deferred tax) are located in the following geographies:

	Russian Federation \$'000	Austria \$'000	UK \$'000	Total \$'000
At 31 December 2010	14,876	1,605	1	16,482
At 31 December 2009	9,252	1,852	5	11,109

4. OPERATING PROFIT/ LOSS

	2010 \$'000	2009 \$'000
Operating profit/ loss is stated after charging:		
Depreciation and amortisation	1,458	1,246
Disclosure of Auditors' remuneration		
Fees payable to the Company's auditors for the audit of parent company and consolidated financial statements	100	134
Fees payable to the Company's auditors and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	55	57
Tax services (i)	22	35
Other services (ii)	25	61
Total audit and non-audit fees	202	287

(i) Tax services include fees in respect of tax compliance and tax advice.

(iii) Other services include advisory services and fees in respect of the 2009 interim review.

5. OTHER INCOME

Other income received in the year was received as part of a settlement agreement with Solvay. This settlement agreement was because of inconsistent quantities of Calcium Chloride being produced for Zirax LLC. A further settlement amount of \$1.0m is due in 2011.

6. STAFF INFORMATION (INCLUDING DIRECTORS)

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee costs were:				
Wages and salaries	5,299	4,507	599	596
Social security costs	1,022	704	48	62
Pension costs	92	79	17	66
Share option costs	-	25	-	25
	6,413	5,315	664	749

The Group does not operate any pension schemes. Pension costs represent contributions paid to employee's personal pension schemes.

The average number of employees (including directors) is as follows:

	Group		Company	
	2010 Number	2009 Number	2010 Number	2009 Number
Production	240	193	-	-
Administrative	95	59	4	6
Total	335	252	4	6

7. DIRECTORS REMUNERATION

Director's remuneration is as follows:

	2010 \$'000	2009 \$'000
Emoluments	273	575
Pension contributions	11	46
Compensation for loss of office	210	-
	494	621

The remuneration of the highest paid director was \$184,000 (2009: \$328,150).

Remuneration paid to directors for their services is made up of a contractual salary and a performance bonus depending on operating results. Discretionary bonuses may also be payable to directors. There is no long-term compensation plan.

The following tables show the beneficial interests of the directors who held office at the end of the year in the ordinary shares of the Company:

	Shares held at 1 January 2010	Shares held at 31 December 2010*
Directors – shares:		
Mr. Mikhail Baranov (a)	66,979,166	60,747,868

* Mr. Baranov's shares are held indirectly through Erith Group Limited, in which he is a 50% shareholder and through 000 Yugo-Vostok Promkapital, in which he is a 44.4% shareholder. The number of shares shown in the table above represent the deemed interests of Mr. Baranov.

8. TAXATION

	2010 \$'000	2009 \$'000
Taxation expense for the year:		
Current income tax expense	(1,010)	(263)
Deferred tax	(37)	(19)
Taxation charge	(1,047)	(282)

The taxation charge for the year is higher than the standard rate of corporation tax in the UK 28.0%. The differences are explained below.

	2010 \$'000	2009 \$'000
Profit/ (loss) before taxation	3,587	(2,390)
Profit/ (loss) on ordinary activities multiplied by standard rate of corporation tax of 28.0%	(1,004)	669
Effects of:		
Adjustment in respect of foreign taxation rates	385	92
Non-deductible expenses	(31)	(147)
Unrelieved taxation losses not recognised as a deferred tax asset	(329)	(862)
Other differences	(68)	(34)
Taxation	(1,047)	(282)

Deferred taxation

In 2010, the Russian subsidiary's taxable profit was subject to taxation at 20% (2009: 20%). Deferred taxation assets/liabilities of the Russian subsidiary are calculated at 20% as at 31 December 2010. The net effect of the change in deferred taxation balances at the balance sheet dates is reflected in the income statement for the years then ended.

Deferred taxation assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Taxation effect of deductible and taxable temporary differences:

	31 December 2009 \$'000	Differences recognition and reversals \$'000	Foreign Exchange \$'000	31 December 2010 \$'000
Acquisition of subsidiaries	-	(269)	(2)	(271)
Property, plant and equipment	(50)	7	-	(43)
Inventory	(49)	9	-	(40)
Accrued expenses	124	(58)	-	66
Losses	-	55	-	55
Trade and other receivables	-	24	-	24
Total net deferred taxation	25	(232)	(2)	(209)

The group has recognised deferred tax assets amounting to \$105,000 (2009: \$25,000) and deferred tax liabilities amounting to \$314,000 (2009: NIL) resulting in the net liability position of \$209,000 shown in the above table.

On acquisition of PIK Zadonye and Nextra LLC the group acquired net deferred tax liabilities of \$210,000.

The group has unused tax losses amounting to \$5,598,023 for which no deferred tax asset has been recognised.

9. EARNINGS PER SHARE (EPS)

Basic earnings per share

	2010	2009
Profit / (loss) for the year (\$'000)	2,540	(2,672)
Weighted average number of shares in issue ('000)	172,321	172,321
Basic earnings per share (cents)	1.47	(1.55)

Diluted earnings per share

There are no potential ordinary shares outstanding as at 31 December 2010.

10. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings \$'000	Vehicles \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Cost:					
Balance at 1 January 2010	3,882	179	8,373	1,393	13,827
Additions	78	80	355	455	968
Disposals	-	-	(44)	-	(44)
Translation difference	(29)	(3)	76	(291)	(247)
Balance at 31 December 2010	3,931	256	8,760	1,557	14,504
Accumulated depreciation:					
Balance at 1 January 2010	587	167	3,274	-	4,028
Depreciation charge	140	47	1,137	-	1,324
Disposals	-	-	(42)	-	(42)
Translation difference	(5)	(2)	(43)	-	(50)
Balance at 31 December 2010	722	212	4,326	-	5,260
Net book value:					
Balance at 31 December 2010	3,209	44	4,434	1,557	9,244
Balance at 31 December 2009	3,295	12	5,099	1,393	9,799

	Buildings \$'000	Vehicles \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Cost:					
Balance at 1 January 2009	3,902	186	7,762	1,453	13,303
Additions	96	9	642	135	882
Disposals	-	(10)	(24)	-	(34)
Transfers	-	-	148	(148)	-
Translation difference	(116)	(6)	(155)	(47)	(324)
Balance at 31 December 2009	3,882	179	8,373	1,393	13,827
Accumulated depreciation:					
Balance at 1 January 2009	464	139	2,260	-	2,863
Depreciation charge	131	41	1,052	-	1,224
Disposals	-	(10)	(23)	-	(33)
Translation difference	(8)	(3)	(15)	-	(26)
Balance at 31 December 2009	587	167	3,274	-	4,028
Net book value:					
Balance at 31 December 2009	3,295	12	5,099	1,393	9,799
Balance at 31 December 2008	3,438	47	5,502	1,453	10,440

Property, plant and equipment pledged as security for borrowings amounted to \$3,856,000 (2009: \$7,169,000).

Company

	Plant and equipment \$'000	Total \$'000
Cost:		
Balance at 1 January 2010	7	7
Translation difference	(1)	(1)
Balance at 31 December 2010	6	6
Accumulated depreciation:		
Balance at 1 January 2010	3	3
Depreciation charge	1	1
Translation difference	(1)	(1)
Balance at 31 December 2010	3	3
Net book value:		
Balance at 31 December 2010	3	3
Balance at 31 December 2009	4	4

	Plant and equipment \$'000	Total \$'000
Cost:		
Balance at 1 January 2009	3	3
Additions	4	4
Balance at 31 December 2009	7	7
Accumulated depreciation:		
Balance at 1 January 2009	2	2
Depreciation charge	1	1
Balance at 31 December 2009	3	3
Net book value:		
Balance at 31 December 2009	4	4
Balance at 31 December 2008	1	1

11. INTANGIBLE ASSETS

Group

	Patents \$'000	Trademarks \$'000	Other \$'000	Goodwill \$'000	Total \$'000
Cost:					
1 January 2010	314	19	-	1,028	1,361
Additions	30	-	34	90	211
Acquired through business combination (note 30)	-	-	1,465	-	1,465
Translation difference	(14)	2	31	(79)	(117)
Balance at 31 December 2010	330	21	1,530	1,039	2,920
Accumulated amortisation:					
1 January 2010	44	7	-	-	51
Amortisation charge	21	3	110	-	134
Translation difference	(1)	-	(1)	-	(2)
Balance at 31 December 2010	64	10	109	-	183
Net book value:					
At 31 December 2010	266	11	1,421	1,039	2,737
At 31 December 2009	270	12	-	1,028	1,310
	Patents \$'000	Trademarks \$'000	Other \$'000	Goodwill \$'000	Total \$'000
Cost:					
1 January 2009	326	20	-	1,010	1,356
Translation difference	(12)	(1)	-	18	5
Balance at 31 December 2009	314	19	-	1,028	1,361
Accumulated amortisation:					
1 January 2009	25	4	-	-	29
Amortisation charge	19	3	-	-	22
Balance at 31 December 2009	44	7	-	-	51
Net book value:					
At 31 December 2009	270	12	-	1,028	1,310
At 31 December 2008	301	16	-	1,010	1,327

Impairment testing of goodwill

Goodwill acquired through business combinations has to be allocated for impairment testing purposes to individual cash-generating units ('CGU's') each representing the lowest level within the Group at which the goodwill is monitored for internal management purposes. CGUs in the Group correspond to operations in a particular country and the Goodwill has been allocated to the Austrian CGU.

The impairment test involves determining the recoverable amount of the CGU and value in use calculations have been used to do this. Value in use is the present value of the future cash flows which are expected to be generated by the CGU. Future cash flows are based on business plans for a period of 5 years which reflect management's expectation based on past experience, adjusted to reflect market trends, economic conditions and key risks as appropriate. Cash flows beyond 5 years are extrapolated using an estimated terminal growth rate of 1% which does not exceed the average long term growth rate of the market in which the CGU operates.

A pre-tax discount rate of 8.2% has been applied to cash flow projections, based on market data and reflecting the risk profile of the CGU. No impairment loss was recognised during the year and reasonably possible changes in the key assumptions listed above would not cause the recoverable amount of the CGU to fall below the carrying amount.

12. LOANS GRANTED (LONG TERM)

During the year a loan amounting to \$985,000 was granted to the ultimate parent company Erith Group. This loan is interest bearing at 2% above LIBOR and is due for repayment by 7 July 2015.

13. OTHER NON CURRENT ASSETS

Other non current assets includes a balance of \$3,416,000 (2009: NIL) in relation to a promissory note which is held by PIK Zadonje a subsidiary of Zirax LLC. The promissory note was acquired utilising cash which was previously deposited with Inkarobank (see also note 26). The group also holds a promissory note amounting to \$2,870,000 (2009: NIL) against which there is a full provision (see also note 16). The balance also includes \$100,000 (2009: NIL) in relation to VAT receivable on capital advances paid by Zirax LLC and its subsidiary Zirax Nefteservice LLC.

14. INVENTORIES

	Group	
	2010 \$'000	2009 \$'000
Materials and consumables	1,756	1,614
Work in progress	305	115
Finished products	2,297	3,689
	4,358	5,418

The cost of inventories recognised as an expense in the year and included in costs of sales in the income statement amounted to \$24,618,000 (2009: \$18,033,000). This includes \$9,000 (2009: \$117,000) for inventory written down to net realisable value.

In 2010, inventories with a carrying amount of \$2,559,000 (2009: \$1,705,000) were pledged as security for certain of the Group's borrowings.

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables	8,676	5,240	-	-
Amounts owed by group undertakings	-	-	2,439	3,767
Receivables from related parties (note 26)	1,948	892	-	-
VAT recoverable	632	424	29	34
Other receivables	1,049	1,476	20	42
	12,305	8,032	2,488	3,843

Trade receivables are denominated in Russian Rubles, except for \$806,005 and \$2,272,324 denominated in USD and EURO respectively as at 31 December 2010 and \$6,235 and \$1,242,037 denominated in USD and EURO respectively as at 31 December 2009.

At 31 December 2010, trade receivables of \$6,550,000 (2009: \$2,341,000) were fully performing. Trade receivables of \$2,126,000 (2009: \$2,899,000) were outstanding for more than 60 days, but not impaired. None of the financial assets that were fully performing have been renegotiated in the year.

Trade receivables are considered on a case by case basis for possible impairment with reference to historical information about default rates. Where there are particular concerns about certain customers the business seeks to obtain advance payment before product delivery. Trade receivables due for more than 360 days with no guarantee available from the client are impaired. At 31 December 2010 trade receivables of \$4,000 were impaired (2009: \$5,000). The total impairment expense against trade receivables was \$15,302 (2009: \$1,364).

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
RR denominated cash and cash equivalents	2,548	3,689	-	-
Other currency balances with banks	1,810	1,210	1,243	718
	4,358	4,899	1,243	718

16. CASH AND CASH EQUIVALENTS (continued)

	Group	
	2010 \$'000	2009 \$'000
Cash at bank and on hand	4,358	1,468
Short-term bank deposits	-	3,431
	4,358	4,899

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash and cash equivalents	4,358	4,899	1,243	718
Bank overdrafts (note 17)	(468)	(671)	-	-
	3,890	4,228	1,243	718

In 2009 a provision of \$2,870,000 was carried against cash balances held at financial institutions where access was restricted. In 2010 the cash balances were used to fund the acquisition of promissory notes (see note 13).

17. BORROWINGS

	Group	
	2010 \$'000	2009 \$'000
Short-term borrowings:		
Bank overdrafts (note 16)	468	671
Bank borrowings	3,711	7,582
	4,179	8,253
Long-term borrowings:		
Bank borrowings	8,524	615
	8,524	615

The interest rates at the balance sheet date were as follows:

	2010			2009		
	Rate	Currency	Amount \$'000	Rate	Currency	Amount \$'000
Bank overdrafts	5.8%	Euros	468	5.8%	Euros	671
Short-term bank borrowings	9.5%	Russian Roubles	3,599	15.4%	Russian Roubles	6,032
Short-term bank borrowings	2.6-4.5%	Euros	111	15.0%	Euros	1,431
Short-term bank borrowings	2.6-4.5%	Euros	-	2.6% - 4.3%	Euros	119
Long-term bank borrowings	11%	Russian Roubles	8,072	-	-	-
Long-term bank borrowings	2.6-4.5%	Euros	453	2.6% - 4.3%	Euros	615
			12,703			8,868

Borrowings are secured with fixed or floating charges over the Group's assets.

The maturity profile of borrowings and their key terms are disclosed in note 28.

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade payables	1,606	1,222	281	64
Amounts due to related parties (note 26)	114	46	833	-
Other payables and accruals	1,747	1,117	-	235
	3,467	2,385	1,114	299

19. CURRENT TAX LIABILITIES

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Income taxes	8	-	-	-
VAT payable	547	52	-	-
Property and other taxes	241	155	-	23
	796	206	-	23

20. SHARE CAPITAL
Group and Company

	2010 \$'000	2009 \$'000
Authorised:		
500,000,000 ordinary shares of 1p each	8,602	8,602
Issued and fully paid:		
172,321,429 ordinary shares of 1p each	2,965	2,965

There are no potential issues of ordinary shares as at 31 December 2010.

21. SHARE-BASED PAYMENTS

The Group has granted equity options to certain directors with a fixed exercise price equal to the placing price of the shares at the date of admission to AIM. Following delisting from AIM on 23 February 2010 and the resignation of certain directors, the options lapsed with immediate effect. There were no options outstanding as at 31 December 2010.

A reconciliation of option movements is as follows:

	Number (^{'000})	Weighted average exercise price
Outstanding at 1 January 2010	6,893	15p
Granted	-	-
Exercised	-	-
Expired	6,893	15p
Outstanding at 31 December 2010	-	-
Exercisable at 31 December 2010	-	-

22. SHARE PREMIUM

	Group \$'000	Company \$'000
At 31 December 2009 and 31 December 2010	11,194	11,194

23. OTHER RESERVES

Group	Merger reserve \$'000	Translation reserve \$'000	Other reserve \$'000	Total \$'000
At 1 January 2009	3,430	(2,045)	(920)	465
Effect of exchange rates	-	201	-	201
Share options credit	-	-	25	25
At 31 December 2009	3,430	(1,844)	(895)	691
Effect of exchange rates	-	(151)	-	(151)
At 31 December 2010	3,430	(1,995)	(895)	540

The other reserve principally relates to the difference upon consolidation resulting from merger accounting as discussed below.

On 15 November 2005, the Company acquired the entire share capital of Zirax LLC and the Group accounted for the combination using merger accounting. The consideration was satisfied by the issue of 90,625,000 equity shares of \$1,559,000. The premium of \$3,430,000 on the issue of these shares was taken to the merger reserve. The difference of \$1,177,000 arising on consolidation between the value of Zirax Limited shares issued (\$4,989,000) and the nominal value of Zirax LLC shares acquired (\$3,812,000) was debited to other reserves.

Company

	Merger reserve \$'000	Translation reserve \$'000	Other reserve \$'000	Total \$'000
At 1 January 2009	5,730	(2,617)	405	3,518
Effect of exchange rates	-	1,608	-	1,608
Share options credit	-	-	25	25
At 31 December 2009	5,730	(1,009)	430	5,151
Effect of exchange rates	-	(488)	-	(488)
At 31 December 2010	5,730	(1,498)	430	4,663

24. PROFIT AND LOSS ACCOUNT

	Group \$'000	Company \$'000
At 1 January 2009	5,845	(3,079)
Profit/(loss) for the year	(2,672)	(4,649)
At 31 December 2009	3,173	(7,728)
Loss for the year	2,514	(483)
At 31 December 2010	5,687	(8,211)

The directors have not presented an individual income statement for the Company, as permitted by s408 of the Companies Act 2006, although the Company's income statement has been approved by the Board.

25. ULTIMATE CONTROLLING PARTY

The Group's ultimate parent company is Erith Group Limited, a company incorporated in the British Virgin Islands. Erith Group Limited is jointly controlled by Mr. M Baranov and Mr. E Azizov through controlled trust arrangements. Mr. Baranov and Azizov act in concert with regard to the affairs of Erith Group Limited and are thus considered by the Group to be the ultimate controlling party. Zirax Limited is the highest group member to produce group accounts.

26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if subject to common control, or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2010 and 31 December 2009 are detailed below. In accordance with IAS 24 disclosure is not required of transactions and balances between Group companies where such transactions are eliminated upon consolidation.

With the exception of Zirax-Nefteservice LLC, which is a subsidiary company, the related parties are determined as being companies where Mr. M Baranov and Mr. E Azizov have significant influence through share ownership, management positions or both.

All sales between the Group and its related parties are based on the market prices current at the time of sales. All inventory purchases made by the Group from its related parties are based on the market prices current at the time of purchase.

(i) Balances with related parties:

	2010	2009
Balance sheet:	\$'000	\$'000
Trade receivable from and prepayments to:		
OAO Kaustik	1,855	887
OOO European Chemical Company	-	2
Kaustik Europe BV	93	2
Zirax-Nefteservice LLC	-	1
	1,948	892
Cash and cash equivalents with:		
Inkarobank	-	3,435
	-	3,435
Trade payables to:		
OAO Plastcard	100	-
OAO Kaustik	20	-
OOO European Chemical Company	4	1
VTC LLC	-	45
	124	46
Short-term borrowings with:		
Inkarobank	-	1,431
	-	1,431

(ii) Transactions with related parties:

	2010	2009
Income statement:	\$'000	\$'000
Revenue from transactions with:		
OAO Kaustik	446	267
OOO European Chemical Company	-	2
Kaustik Europe BV	770	2
Zirax-Nefteservice LLC	2	1
	1,218	272

Revenue from transactions with OAO Kaustik arises mainly from the sale of by-products and raw materials.

	2010	2009
Income statement:	\$'000	\$'000
Inventory purchases:		
OAO Kaustik	11,529	9,240
OAO Plastcard	4	1
OOO European Chemical Company	106	70
Zirax-Nefteservice LLC	4	-
VTC LLC	82	814
	11,725	10,125
Interest receivable:		
Inkarobank	73	202
Interest payable:		
Inkarobank	-	68

(iii) Other related party matters

On 1 September 2005 Zirax LLC entered into a 20 year term framework agreement with OAO Kaustik for the supply of raw materials and the provision of utilities and services. This agreement has been entered into on an "arms' length basis". The prices for the supply of goods and services under the framework agreement and any other contract entered into between the parties pursuant thereto are determined for the first year of its term and subject to review thereafter in accordance with the formula set out therein. Pursuant to this framework agreement the parties executed several one-year agreements for the supply of hydrochloric acid, liquid calcium chloride, lime-milk, hot water, steam, natural gas, settled water, power, maintenance and repair, transport and telecommunications, waste purification and disposal services.

(iv) Key management compensation

The Group's key management are the directors of the Company. Information regarding their compensation is given below in aggregate for each category specified in IAS 24 'Related Party Disclosures':

	2010 \$'000	2009 \$'000
Short-term employee benefits	273	575
Post employment benefits	11	46
Termination benefits	210	-
Share based payments	-	25
	494	646

(v) Related party transactions of the Company

The Company received interest from Zirax LLC of \$34,820 (2009: \$81,000) on a loan which was fully redeemed in 2010 (2009: outstanding balance of \$2,188,526). The Company has a liability to pay interest to Zirax LLC of \$ 1,923 (2009: \$nil) on a loan of \$ 832,704 (2009:\$nil). At the year end, loans to other subsidiaries were \$5,042,134 (2009: \$6,258,643), however, there is a provision against the balance owed by Zirax UK Limited of \$2,602,588 (2009: \$2,492,036). During the year, the company used the loan from Zirax LLC to fund a loan to Erith Group, the ultimate parent company. The company is owed \$984,959 (2009: \$nil) by Erith Group at 31 December 2010.

During the year, the company purchased consultancy services regarding REACH registration for the Group from OAO Kaustik amounting to \$49,637 (2009: \$nil). No balance was owed to OAO Kaustik at 31 December 2010. During the year the company paid \$30,942 (2009: \$nil) on behalf of Whatton Investments, a company connected with Mr Baranov. This balance has been provided for in the year to 31 December 2010.

27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

(i) Contingent liabilities

Following the acquisition of Zirax GmbH (formerly Solith) in 2008, contingent consideration of up to \$5.0m, is payable via a two-tier performance related earn out arrangement for the sale of product in Austria over a maximum period of six years. At the date of acquisition, it was not considered probable that these monies would be payable and there is no change in this assessment at the year end.

(ii) Lease commitments

At 31 December 2010, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods were:

	2010 \$'000	2009 \$'000
Within one year	135	143
Between one and five years	428	452
After five years	849	866
	1,412	1,461

Lease and sub-lease payments recognised as an expense in the year were \$133,000 (2009: \$399,000).

(iii) Operating environment

The Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside the Russian Federation, restrictive currency controls, and relatively high inflation. The Russian economy is significantly dependant on the commodities prices in the international markets, mostly oil, since Russia is a major oil exporter into the world economy and oil export revenues add a significant portion to Russian GDP. The Russian banking and other financial systems are not well developed and significantly depend upon the global speculative financial capital which is attracted into the country when the Russian economy is growing following price increases in the global commodities markets, including oil, and is quickly repatriated from the country at an early stage of a slowdown in the economy, thus aggravating the economy difficulty.

A significant and sustainable decrease in the oil and other commodities prices in the international markets will adversely affect the Russian economy, and its financial institutions might encounter capital flight from the country. This might affect Russian companies, including Zirax LLC by way of liquidity constraints which might have a material adverse effect on the Group's business.

(iv) Concentration risk

The Group relies significantly on certain key customers and suppliers.

The Group is dependant on good relationships with two key clients who together account for 33% of Group revenue (2009: 60%). One client is in the Oilfield segment (Rosneft); the other client is in the De-icing segment (Moscow Government).

We derived revenue of \$10.4m from business with Rosneft in 2010, which accounts for 49% of Oilfield segment and 24% of total Group revenue. However, in 2010 we managed to extend the portfolio of our Oilfield clients and our dependence on this key client reduced significantly compared to the previous year, when revenues with this client accounted for 72% of the Oilfield segment and 39% of total Group revenue.

We derived revenue of \$4.6m from business with the Moscow government in 2010, which accounts for 32% of De-icing segment and 10% of total Group revenue. However, in 2010 we also managed to extend the portfolio of our de-icing clients and our dependence on this key client reduced by approximately half compared to the previous year, when revenues with this client accounted for 59 % of the De-icing segment and 21% of total Group revenue.

The Group is also dependant on a good relationship with Kaustik which is a key supplier of hydrochloric acid (an important raw material in calcium chloride production) and chemical park infrastructure for operations of Zirax LLC in Volgograd, Russia. Whilst Zirax LLC has a long-term supply contract with Kaustik which is mutually beneficial (in that it provides for a reliable off-take for Kaustik's hydrochloric acid produced as a by-product of its activities and a cost effective source of supply of hydrochloric acid for Zirax LLC), it cannot be excluded that the cost of supply of hydrochloric acid will be increased in due course. Furthermore, the contract may be terminated at a relatively short notice by either party. The ongoing relationship with Kaustik is therefore a material factor in the Group's ongoing success.

(v) Taxation

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 Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the 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. 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.

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

(vi) Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related to environmental pollution. As obligations are determined, they are provided 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 enforcement climate, under existing legislation, management believes that there are no significant liabilities for environmental damage.

(vii) Capital risk management

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

The Group's current capital is as follows:

	2010	2009
	\$'000	\$'000
Borrowings	12,703	8,868
Less short term working capital borrowings	(4,179)	(7,464)
	8,524	1,404
Equity	20,386	18,023
Total Capital	28,910	19,427

(viii) Insurance

The Group holds insurance policies to cover risks related to its public and product liability both in the Russian and international markets, director's liability, as well as risks related to damage of the Group property.

(ix) Company guarantees

The company has issued guarantees of \$1.4m relating to the borrowings of its subsidiary Zirax GmbH.

28. FINANCIAL INSTRUMENTS

Financial assets and liabilities

Under IAS 39, the Group's trade receivables and other receivables and cash and cash equivalents are classified as 'Loans and receivables', and trade and other payables, short-term borrowings and long-term borrowings are classified as 'Financial liabilities measured at amortised cost'.

The carrying values of the Group's loans and receivables and financial liabilities measured at amortised cost approximate their fair value.

Interest receivable in the income statement relates wholly to financial instruments classified as loans and receivables and interest payable and similar charges relates wholly to financial liabilities measured at amortised cost.

Financial Risk

(i) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and deposits with financial institutions. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history; in certain circumstances payment is required in advance of product delivery. The carrying amount of accounts receivable, net of provisions for impairment, represents the maximum amount exposed to credit risk.

The Group has concentrations of credit risk with Rosneft, Government of Moscow city and certain financial institutions. Credit risk with Rosneft and the Government of Moscow city are managed through regular customer communication. Although 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.

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group does not have formal arrangements to mitigate the foreign exchange risks of the Group's operations.

At 31 December 2010, if the Russian Ruble had weakened/strengthened by 10% with all other variables held constant, post-tax profit for the year would have been \$194,000 higher/lower (2009: \$120,000 higher/lower), mainly as a result of foreign exchange gains/losses on USD trade receivables. The corresponding effect on equity would be \$194,000 lower/higher.

At 31 December 2010, if the Euro had weakened/strengthened by 10% with all other variables held constant, post-tax profit for the year would have been \$269,000 higher/lower (2009: \$66,000 higher/lower) mainly as a result of foreign exchange gains/losses on Euro cash at bank balances and Euro loans granted. The corresponding effect on equity would be \$269,000 lower/higher.

At 31 December 2010, if the USD had weakened/strengthened by 10% with all other variables held constant, post-tax profit for the year would have been \$88,000 higher/lower (2009: \$25,000 higher/lower) mainly as a result of foreign exchange gains/losses on USD trade receivables and USD cash at bank balances. The corresponding effect on equity would be \$88,000 lower/higher.

At 31 December 2010, if the GBP had weakened/strengthened by 10% with all other variables held constant, post-tax profit for the year would have been \$210,000 higher/lower (2009: \$nil) mainly as a result of foreign exchange gains/losses on Euro loans granted and Euro cash at bank balance. The corresponding effect on equity would be \$210,000 lower/higher.

(iii) Interest rate risk

The Group has borrowings to fund its working capital needs. The borrowings bear fixed interest, but a significant portion of these borrowings are located in the Russian Federation where borrowings for working capital usually need to have a short period of maturity not exceeding two years. If money market interest rates increase at the date that borrowings are re-financed, higher interest on the new borrowings would be charged to the Group.

At 31 December 2010, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been \$102,000 higher/lower (2009: \$14,000 higher/lower). The corresponding effect on equity would be \$102,000 lower/higher.

(iv) Liquidity risk

The Group uses bank funding to meet its working capital needs. Most funds are raised in the Russian banking market and secured on the assets of Zirax LLC. The Russian banking market usually provides funding for working capital of 1-2 years, with banking regulations requiring full repayment at the end of the term without any possibility of rolling the loan over. Once repaid, new loans can be agreed with either the same lenders or new lenders. The Group will have to re-finance \$11.6m of working capital borrowing in the period September 2011-February 2012, where:

- \$1.6m is due in September 2011
- \$2.0m is due in November 2011
- \$1.2m is due in January 2012
- \$6.8m is due in February 2012

Most of the re-finance dates conveniently fall into the winter period when most sales to de-icing segment are usually already completed and cash is coming in from the de-icing customers. With average revenues from De-icing segment of \$11.3m during the last five years (2006-2010) the Board expects that the Group will have sufficient cash to repay the borrowings. Unless the general economic environment significantly deteriorates, the Board see no reason for the banks not to provide new working capital funding to the Group.

No Group borrowings contain financial covenants; however they all contain the equivalent of material adverse change clauses. There are no undrawn committed facilities.

Details of the contractually agreed, undiscounted cash flows of the Group's financial liabilities based on the earliest contractual maturity date are given below.

	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000
As at 31 December 2010				
Bank overdrafts	468	-	-	-
Bank borrowings	3,711	8,293	231	-
Trade and other payables	3,475	-	-	-

	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000
At 31 December 2009				
Bank overdrafts	671	-	-	-
Bank borrowings	7,582	146	424	180
Trade and other payables	2,385	-	-	-

29. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Group

During the year Zirax LLC acquired a controlling interest in two further companies: Nextra LLC in which Zirax LLC holds a 50% interest and PIK Zadonye in which Zirax LLC holds a 95% interest. These two companies are consolidated into Zirax LLC accounts and so the investment in these subsidiaries is nil in the Zirax LLC accounts which are used for the Group consolidation.

29. INVESTMENT IN SUBSIDIARY UNDERTAKINGS (continued)

Company	2010 \$'000	2009 \$'000
At 1 January 2010	7,339	6,581
Translation difference	(307)	758
At 31 December 2010	7,032	7,339

Details of the subsidiary undertakings whose results are consolidated in this financial information are as follows:

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
Zirax LLC – producer and distributor of chemicals ⁽¹⁾	Russia	Ordinary	100%
Zirax (UK) Limited – distributor of chemicals ⁽¹⁾	England	Ordinary	100%
Zirax GmbH (formerly Solith Anlagenbau und Service GmbH) – producer and distributor of chemicals ⁽¹⁾	Austria	Ordinary	100%

(1) Investment held by the Company

Group

Details of the subsidiary undertakings whose results are consolidated in this financial information are as follows:

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
Zirax LLC – producer and distributor of chemicals ⁽¹⁾	Russia	Ordinary	100%
Zirax (UK) Limited – distributor of chemicals ⁽¹⁾	England	Ordinary	100%
Zirax GmbH (formerly Solith Anlagenbau und Service GmbH) – producer and distributor of chemicals ⁽¹⁾	Austria	Ordinary	100%
Zirax Nefteservice LLC – provider of oilfield services ⁽²⁾	Russia	Ordinary	90%
Nextra LLC – distributor of chemicals to consumers ⁽²⁾	Russia	Ordinary	50%
PIK-Zadonye – producer of limestone ⁽²⁾	Russia	Ordinary	95%

(1) Investment held by Company

(2) Investment held by Zirax LLC

30. GAIN ON BARGAIN PURCHASE

On 18 March 2010, the Group obtained control of PIK Zadonje LLC through the purchase of 95% of the share capital of that company. The principal activity of PIK Zadonje is the operation of a limestone quarry in Volgograd, Russia. The acquisition of this company was to help Zirax LLC ensure the supply of a key raw material for production of high quality calcium chloride. The materials which are extracted from the quarry are utilised in all segments of the Group.

The bargain gain on the purchase of PIK Zadonje arose as a result of the strong position of Zirax LLC, as purchaser, due to the position of and the product produced by the quarry.

Assets acquired	Book Value (\$'000)	Fair Value Adjustment (\$'000)	Fair Value (\$'000)
Cash and cash equivalents	8	-	8
Deferred tax asset	39	-	39
Mining License	-	1,465	1,465
Inventories	19	-	19
Trade and other receivables	69	-	69
Trade and other payables	(102)	-	(102)
Borrowings	(183)	-	(183)
Deferred tax liabilities	-	(294)	(294)
Net assets	(150)	1,171	1,021

The amounts recognised at acquisition date in respect of trade receivables acquired in the business combination approximate their fair value. The trade receivables are short-term in nature and therefore the amounts recognised at acquisition date equal the gross contractual amounts receivable. All other book amounts are considered to approximate their fair values.

	\$'000
Total consideration	344
Non controlling interest	51
	395
Net assets	1,021
Gain on bargain purchase	626

Since the acquisition by Zirax LLC PIK Zadonye has generated a loss of \$370,000. The annualised result for the period to 31 December 2010 is a loss of \$420,000

31. INVESTMENT IN NEXTRA LLC

Nextra is a new project of Zirax Group to create, produce, market and distribute chemicals to consumers. It started with de-icing products offered to consumers, the second product line is the dishwashing chemicals. This subsidiary produces products across the de-icing and industrial segments of the Group.

Assets acquired	Book Value (\$'000)	Fair Value Adjustment (\$'000)	Fair Value (\$'000)
Property, plant and equipment	4	-	4
Intangible assets	26	-	26
Cash and cash equivalents	18	-	18
Deferred tax asset	45	-	45
Inventories	151	-	151
Trade and other receivables	163	-	163
Trade and other payables	(375)	-	(375)
Borrowings	(211)	-	(211)
VAT	1	-	1
Net liabilities	(178)	-	(178)

	\$'000
Total consideration	1
Non controlling interest	87
	88
Net liabilities	(178)
Goodwill	(90)

Since the acquisition by Zirax LLC, Nextra LLC has generated a profit of \$105,000. The annualised result for the period to 31 December 2010 is a loss of \$137,000

32. POST BALANCE SHEET EVENTS

There are no events to report after the balance sheet date.

