PAVA Open-End Joint-Stock Company
Short name: PAVA JSC

Independent Auditors' Report

Consolidated financial statements prepared in compliance with the International Financial Reporting Standards (IFRS) for the year ended 31 December 2007

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following statement, to be considered in conjunction with the description of responsibilities of the independent auditors, included in the Independent Auditors' Report presented on page 6 herein, is made to distinguish responsibilities of the management and the auditors in respect of the Consolidated Financial Statements of PAVA JSC and its subsidiaries (hereinafter referred to as "the Group").

The Group's management is responsible for preparation of the Consolidated Financial Statements, giving true and fair view, in all material respects, of the Group's financial position as of 31 December 2007, and the results of its operation, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (*"IFRS"*).

The management's responsibilities as to preparation of the consolidated financial statements cover as follows:

- ❖ Selection of appropriate accounting policies and procedures and their consistent application;
- ❖ Application of judgments, estimates and assumptions that are reasonable in the circumstances;
- ❖ Observance of IFRS requirements, or disclosure and explanation of all material departures from IFRS, if any, in the Notes to Consolidated Financial Statements; and
- ❖ Preparation of consolidated financial statements based on going-concern assumption, unless the Company's ability to continue in business in foreseeable future is presumed inappropriate.

The management is also responsible for:

- ❖ Development, introduction and implementation of effective and reliable internal controls at all enterprises of the Group;
- ❖ Keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with IFRS;;
- ❖ Provision of compliance with local legal and regulatory requirements on accounting and applicable Laws of the Russian Federation, in whose jurisdiction the Group's companies are;
- ❖ Taking authorized measures for provision of the Group's assets safety; and
- ❖ Prevention and revelation of fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2007 were approved by the management May 5, 2008 and signed on their behalf by:

A.V. Ananyin	**E.V. Popolitova**
General Director	Chief Accountant

Barnaul, Russia

May 5, 2008

BKR ИНТЕРКОМ АУДИТ

BKR-Intercom-Audit
Closed Joint-Stock Company
An Independent Member of *BKR International*
Association of independent accounting and consulting firms
across the globe

INDEPENDENT AUDITORS' REPORT

The Board of Directors
PAVA JSC

We have audited the accompanying consolidated financial statements of PAVA JSC, which comprise the consolidated balance sheet as at 31 December 2007, consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and notes to the financial statements.

Management's responsibility for preparation of the financial statements

The entity's management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards. This responsibility includes: designing, implementation and maintaining internal controls relevant to preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion
In our opinion, the accompanying consolidated financial statements give true and fair view, in all material respects, of the financial position of PAVA JSC as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BKR-Intercom-Audit
5 May 2008
Moscow, Russia

Elena Korotkikh	**Askar Akhmetov**	**Yana Menchinskaya**
Partner	Manager – IFRS Practice	Manager – ISA Practice

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

(All amounts in table below are denominated in USD '000 and RUR'000, except for earnings per share amounts denominated in USD and RUR)

	Notes	As of 31 December 2007 USD'000	As of 31 December 2006 USD'000	As of 31 December 2007 RUR'000	As of 31 December 2006 RUR'000
Net sales of goods, work and services	5	120 029	129 207	3 069 983	3 402 171
Cost of sold goods, work and services	6	(87 872)	(107 474)	(2 247 505)	(2 829 897)
Gross profit		**32 157**	**21 734**	**822 478**	**572 275**
General, administrative and commercial expenses	7	(28 388)	(23 221)	(726 077)	(611 447)
Excess of Group's share in fair value of net identifiable assets over purchase cost	4	55	42	1 405	1 102
Other operating income	8	3 635	1 461	92 979	38 464
Other operating expense	9	(160)	(651)	(4 097)	(17 127)
Operating profit		**7 299**	**(635)**	**186 688**	**(16 733)**
Finance revenue	10	238	192	6 096	5 054
Finance costs	11	(4 277)	(3 170)	(109 403)	(83 474)
Profit/loss before tax		**3 260**	**(3 614)**	**83 381**	**(95 153)**
Income tax reimbursement	12	1 244	472	31 802	12 426
Net profit/loss for the year		**4 504**	**(3 142)**	**115 183**	**(82 727)**
Attributable to:					
Equity holders of the entity		4 216	(3 072)	107 810	(80 892)
Minority interests (P&L)		288	(70)	7 373	(1 835)
Basic and diluted earnings/(loss) per share	13	USD 0,05	USD (0,04)	RUR 1,30	RUR (0,94)

These consolidated financial statements shall be considered subject to notes on pages 12-66 constituting an integral part hereof. Statement of management's responsibility for preparation and approval of the consolidated financial statements is given on page.5. Independent Auditors' Report is presented on page.6.

CONSOLIDATED BALANCE SHEET
for the year ended 31 December 2007

(All amounts in table below are denominated in USD '000 and RUR'000)

	Notes	As of 31 December 2007 USD'000	As of 31 December 2006 USD'000	As of 31 December 2007 RUR'000	As of 31 December 2006 RUR'000
ASSETS					
Non-current assets					
Intangible assets	14	4	-	87	-
Property, plant & equipment	15	50 219	21 550	1 232 680	567 430
Construction in progress	15,16	708	-	17 385	-
Long-term investments	17	342	770	8 394	20 265
Non-current loans	18	94	17	2 308	450
Deferred tax assets	12	3 560	514	87 375	13 541
Held for sale non-current assets	19	1	-	20	-
Other non-current assets	20	187	237	4 594	6 253
Total non-current assets		**55 115**	**23 088**	**1 352 843**	**607 939**
Current assets					
Inventories	21	12 951	13 454	317 901	354 253
Trade and other receivables	22	26 487	29 795	650 134	784 523
Deferred expenses	23	12	-	300	-
Current loans	18	3 504	1 071	86 004	28 209
Other current assets	24	3 241	3 454	79 565	90 935
Cash and cash equivalents	25	928	909	22 772	23 932
Total current assets		**47 123**	**48 683**	**1 156 676**	**1 281 852**
TOTAL ASSETS		**102 238**	**71 771**	**2 509 519**	**1 889 791**
EQUITY AND LIABILITIES					
Equity					
Issued capital	26	3	3	89	89
Share premium		7 995	7 995	210 521	210 521
Capital surplus		-	166	-	4 383
Revaluation provision		21 162	2 899	523 936	76 338
Exchange provision		1 571	1	-	
Retained earnings		13 035	8 216	339 728	216 339
Minority interests		-	171	-	4 514
Total equity		**43 766**	**19 451**	**1 074 274**	**512 184**
Non-current liabilities					
Long bonds payable	27	22 175	19 085	544 315	502 516
Deferred tax liabilities	12	8 716	1 389	213 948	36 562
Other non-current liabilities	28	299	416	7 343	10 943
Total non-current liabilities		**31 190**	**20 890**	**765 606**	**550 021**
Current liabilities					
Trade and other payables	29	13 631	7 970	334 572	209 870
Loans payable	30	11 794	22 869	289 505	602 179
Other current liabilities	31	1 226	123	30 083	3 234
Taxes and social security payable	32	631	468	15 479	12 303
Total current liabilities		**27 282**	**31 430**	**669 639**	**827 586**
TOTAL EQUITY AND LIABILITIES		**102 238**	**71 771**	**2 509 519**	**1 889 791**

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CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007

(All amounts in table below are denominated in USD '000 and RUR'000)

	Notes	As of 31 December 2007 USD'000	As of 31 December 2006 USD'000	As of 31 December 2007 RUR'000	As of 31 December 2006 RUR'000
Opening balance	25	**909**	**411**	**23 932**	**10 812**
Operating activities					
Cash inflows, including:					
Operating revenues		130 481	93 489	3 337 311	2 461 663
Other income		25 500	74 313	652 213	1 956 737
Cash outflows, including:					
Purchase of goods, work and services		(115 675)	(173 626)	(2 958 611)	(4 571 755)
Labor costs		(5 565)	(4 501)	(142 329)	(118 523)
Loan interest expenses		(4 445)	(3 134)	(113 689)	(82 517)
Tax and social security expenses		(1 692)	(3 766)	(43 265)	(99 153)
Payments to off-budget funds		(964)	(617)	(24 668)	(16 246)
Other operating expenses		(14 540)	(2 836)	(371 899)	(74 681)
Net cash flows from operating activities		**13 100**	**(20 678)**	**335 063**	**(544 475)**
Investing activities					
Proceeds from sale of property, plant and equipment		111	542	2 830	14 278
Proceeds from sale of share or debt financial instruments		2 893	10 550	73 996	277 791
Interest received		77	128	1 980	3 364
Revenues from loan disbursement by external companies		9 922	492	253 784	12 968
Purchase of property, plant and equipment		(1 650)	(235)	(42 205)	(6 181)
Acquisition of share-based or debt financial instruments		(1 313)	(9 993)	(33 593)	(263 122)
Loans to external companies		(11 011)	(1 215)	(281 631)	(31 987)
Net cash flows used in investing activities		**(971)**	**269**	**(24 839)**	**7 111**
Financing activities					
Proceeds from loans to external companies		143 142	176 282	3 661 137	4 641 705
Repayment of borrowings (interest free)		(155 316)	(155 376)	(3 972 521)	(4 091 221)
Net cash flows used in financing activities		**(12 174)**	**20 906**	**(311 384)**	**550 484**
Translation to presentation currency		64	1		
Net increase in cash and cash equivalents for the year		**(44)**	**497**	**(1 160)**	**13 120**
Closing balance	25	**928**	**909**	**22 772**	**23 932**
Net foreign exchange difference		-	-	-	-

These consolidated financial statements shall be considered subject to notes on pages 12-66 constituting an integral part hereof. Statement of management's responsibility for preparation and approval of the consolidated financial statements is given on page.5. Independent Auditors' Report is presented on page.6.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007
(All amounts in table below are denominated in RUR'000)

	Issued capital	Share premium	Capital surplus	Provision for property, plant and equipment revaluation	Currency translation provision	Retained earnings	Minority interests	Total equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Balance at 31 December 2005	**89**	**210 521**	**4 383**	**93 176**	**-**	**288 197**	**13 300**	**609 666**
Net loss for the year	-	-	-	-	-	(80 892)	(1 835)	**(82 726)**
Repayment of revaluation amount related to property, plant and equipment depreciation and disposals in 2006	-	-	-	(16 838)	-	16 838	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	(6 951)	**(6 951)**
Dividends paid to shareholders	-	-	-	-	-	(7 804)	-	**(7 804)**
Translation to presentation currency	-	-	-	-	-		-	-
Balance at 31 December 2006	**89**	**210 521**	**4 383**	**76 338**	**-**	**216 339**	**4 514**	**512 185**
Net profit for the year	-	-	-	-	-	107 810	7 373	**115 183**
Repayment of revaluation amount related to property, plant and equipment depreciation and disposals in 2007	-	-	-	(16 786)	-	16 786	-	-
Dividends paid to shareholders	-	-	-	-	-	(5 591)	-	**(5 591)**
Loan discounting	-	-	(4 383)	-	-	4 383	-	-
Revaluation of property, plant and equipment as at 31.12.2007	-	-	-	464 384	-	-	-	**464 384**
Acquisition of subsidiaries	-	-	-	-	-	-	(11 887)	**(11 887)**
Translation to presentation currency	-	-	-	-	-	-	-	-
Balance at 31 December 2007	**89**	**210 521**	**-**	**523 936**	**-**	**339 727**	**-**	**1 074 274**

These consolidated financial statements shall be considered subject to notes on pages 12-66 constituting an integral part hereof. Statement of management's responsibility for preparation and approval of the consolidated financial statements is given on page.5. Independent Auditors' Report is presented on page.6.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007
(All amounts in table below are denominated in RUR'000)

	Issued capital USD'000	Share premium USD'000	Capital surplus USD'000	Provision for property, plant and equipment revaluation USD'000	Currency translation provision USD'000	Retained earnings USD'000	Minority interests USD'000	Total equity USD'000
Balance at 31 December 2005	**3**	**7 995**	**166**	**3 539**	**-**	**10 945**	**505**	**23 153**
Net loss for the year	-	-	-	-	-	(3 072)	(70)	**(3 141)**
Repayment of revaluation amount related to property, plant and equipment depreciation and disposals in 2006	-	-	-	(639)	-	639	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	(264)	**(264)**
Dividends paid to shareholders	-	-	-	-	-	(296)	-	**(296)**
Translation to presentation currency	-	-	-					
Balance at 31 December 2006	**3**	**7 995**	**166**	**2 899**	**-**	**8 216**	**171**	**19 450**
Net profit for the year	-	-	-	-	-	4 216	288	**4 504**
Repayment of revaluation amount related to property, plant and equipment depreciation and disposals in 2007	-	-	-	(656)	-	656	-	-
Dividends paid to shareholders	-	-	-	-	-	(219)	-	**(219)**
Loan discounting	-	-	(166)	-	-	166	-	-
Revaluation of property, plant and equipment as at 31.12.2007	-	-	-	18 919	-	-	-	**18 919**
Acquisition of subsidiaries	-	-	-	-	-	-	(465)	**(465)**
Translation to presentation currency					1 571		6	**1 577**
Balance at 31 December 2007	**3**	**7 995**	**-**	**21 162**	**1 571**	**13 035**	**-**	**43 766**

These consolidated financial statements shall be considered subject to notes on pages 12-66 constituting an integral part hereof. Statement of management's responsibility for preparation and approval of the consolidated financial statements is given on page.5. Independent Auditors' Report is presented on page.6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007
(All amounts in tables below are denominated in USD '000 and RUR '000)

1 General

(a) Description of Company's activities

PAVA JSC (hereinafter the "Company/Group") is an open-end joint-stock company organized under the Laws of the Russian Federation.
The Company was established in 1999 as a private entity named APK Khleb Altaya JSC (hereinafter the "Company"). At the annual general meeting of shareholders held June 29, 2005, the Company's name was changed to PAVA JSC. The Company is listed in the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX).

Company's registered office: **68a Molodezhnaya St., Barnaul, Altai Territory, 656031, Russia.**

Official web-site with information on the Company: **www.apkhleb.ru**.

The Company holds the following licenses:
License: ***30-EV -000317 (3K)***
Date of issue: (reissue of license No. 30-EV-000317 of 18.08.2004)
Expiry date: ***18.08.2009***
License issuing body: ***the Federal Environmental, Technological, and Nuclear Supervision Office.***
Activities: ***operation of explosive production facilities.***

Presently, PAVA JSC is a parent company of a major Russian grain processing holding. The holding also comprises 5 subsidiaries. The subsidiaries and the Company's share in their capital as of 31 December 2007 and 31 December 2006 are detailed in *Note 4.*

The Company's production is based on processing local wheat growing at the Company's production facilities location: in Altai and Krasnoyarsk Territories. Flour, crushed grain products, mixed feed are produced by three milling plants having their own grain elevators and railway lines. Milling plant production lines are equipped with domestic hardware manufactured under Buhler (Switzerland) license. Two milling plants are located in Altai Territory: in regional communities of Mikhailovskoe and Rebrikha. The third milling plant is located in Krasnoyarsk Territory (Achinsk).
In order to continuously supply high-quality production stock and reduce the risk of raw stock price variation, the Company develops its own plant cultivating sector, growing wheat (80% of area), peas, barley, oats, sunflower, rye.
The Company's products are supplied to over 68 Russian regions. More details related to the Company's business sector are given in Note 33.

In 2007, the average number of employees made 1820 (2209 in 2006)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007
(All amounts in tables below are denominated in USD '000 and RUR '000)

1 General (continued)

(b) Operating environment

The Russian Federation continues to demonstrate some features of emerging market. These features include, but are not limited to, existence of currency which is not freely converted in the majority of countries other than the Russian Federation, limited exchange controls and relatively high inflation. The Russian tax, foreign currency and customs laws and regulations are subject to different interpretations and amendments, which may be introduced rather often.

The future of the Russian economy depends, to a considerable extent, on the effectiveness of the government's economic, financial and money and credit reforms, as well as development of tax, legal, power and political systems.

(c) Business environment in the Russian Federation

As mentioned above, the Russian Federation is undergoing political and economic changes, which have impacted or are expected to further impact the companies doing their business in Russia. Hence, the business in the Russian Federation is connected with risks, which are not typical for other market economies.
The accompanying consolidated financial statements reflect the management's judgments and estimates as to possible influence of economic situation on the Group's activity and its financial position. The further progress of the situation can depart from the judgments and estimates made by the management.
The detailed description of operational, financial, legal and other risks and their possible impact on economic and financial activity of the Group are represented in *Notes 40-44*.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements for the year ended 31 December 2007 have been prepared by the Group in accordance with *International Financial Reporting Standards* ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by the *International Accounting Standards Board ("IASB"), including International Accounting Standards* ("IAS") and interpretations published by the *International Financial Reporting Standards Interpretation Committee* ("IFRIC"). These consolidated financial statements shall be reviewed in conjunction with the consolidated financial statements for the year ended 31 December 2006.

Compliance with the new and amended standards and interpretations issued by IASB and IFRIC as at the date of approval of these consolidated financial statements of the Group and required to be adopted with regard to final consolidated financial statements for the years beginning on or after 1 January 2007, is disclosed in *Note 2(h)*.

2 Basis of preparation (continued)

(b) Reclassification

In Russia, the accounting policies and procedures differ considerably from generally accepted policies and procedures as stipulated in appropriate IFRS. In this connection, corrections were made to the consolidated financial statements, prepared on the basis of reporting forms of the Group's companies having the Russian jurisdiction (such reporting forms were compiled in conformity with the Russian standards) to comply with IFRS requirements.

Such corrections to the financial statements included reclassification of certain assets and liabilities, income and expenditure as to appropriate items of the balance sheet and income statement to disclose the economic nature of operations

(c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except as follows:

- ❖ Assets and liabilities of acquired subsidiaries have been measured at fair value in accordance with *IFRS 3 - Business Combinations*;
- ❖ Financial instruments have been measured based on current market quotations in accordance with *IAS 39 – Financial Instruments: Recognition and Measurement*;
- ❖ Property, plant and equipment have been measured by an independent appraiser at fair value as of 31.12.2007.

(d) Adjustments for Inflation

Before January 1, 2003, adjustments and reclassifications made to the Russian accounting data to comply with IFRS requirements included adjustment of balances and operations to record the change of current purchasing power of the Russian rouble according to *IAS 29 - Financial Reporting in Hyperinflationary Economies*. According to *IAS 29*, financial statements, prepared in national currency of hyperinflation economy, must be adjusted for current purchasing power of the national currency as at the balance sheet date. Since the economic situation in the Russian Federation indicates that there is no hyperinflation, as from January 1, 2003, the Group has abandoned the accounting procedure as stipulated by *IAS 29*.

(e) Functional and reporting currency

The national currency of the Russian Federation is the Russian rouble (*RUR*), which is functional currency of the Group as it reflects economic nature of operations and state of affairs in the Group.

2 Basis of preparation (continued)

The consolidated financial statements are presented in the US dollars (*USD*), as to the Group's management's opinion, using this currency for reporting is more convenient for external foreign users of the financial statements and it provides its comparability with financial statements of other companies in the sector of economy in which the Group operates. Values in US dollars are rounded to the nearest thousand.
Translation from roubles (functional currency of the Group) into US dollars (reporting currency) is performed as follows:

- All assets and liabilities (both monetary and non-monetary), and also all items, included in the shareholder's equity, except profit for the reporting period, are converted at the rate of exchange as at balance sheet date (for each balance sheet issued);
- All items of income statements are converted at the average exchange rate for reporting periods; and
- All exchange rate differences resulting from conversion are recorded in shareholder's equity.

The RF Central Bank official RUR/USD exchange rate as of 31 December 2007 was 24.5462 (as of 31 December 2006 – 26.3311), the average RUR/USD rate in 2007 was 25.5770.

The Russian rouble is not freely convertible currency outside the Russian Federation. Hence, the presentation of rouble assets and liabilities in US dollars for purpose of these consolidated financial statements does not mean that the Group can or intends to realize in future its assets or discharge its liabilities in dollar amounts as reported in the financial statements.

(f) Going concern basis

The consolidated financial statements have been prepared on a going concern basis providing for the disposal of assets and discharge of liabilities in the course of common business activity. The financial statements do not incorporate any adjustments which would be required if the Group could not further continue carrying out its financial and business activity in accordance with the going concern principle.

(g) Significant accounting judgments, estimates and assumptions

In preparation of the consolidated financial statements under IFRS, the Group's management made a number of assumptions and estimates related to reporting assets and liabilities and disclosing contingent assets and liabilities. Estimates and judgments are under constant consideration; they are based on management's individual experience, previous experience, current and expected economic conditions and other factors. The real results may differ from those estimates. In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations. The judgements which may have the most significant impact on the amounts recognized in the financial statements, and the estimates which may result in significant adjustments to be made to the amounts of assets and liabilities during the following financial year, include as follows:

2 Basis of preparation (continued)

Useful life of property, plant and equipment

The fair value of property, plant and equipment of the Group has been measured by independent appraisers in accordance with International Valuation Standards. Moreover, the management estimate the residuary useful life of property, plant and equipment in accordance with the current technical state of assets and the accounting period, during which these assets will bring economic benefit to the Group. The estimates related to replacement cost, depreciated replacement cost and the residuary useful life impact the carrying amount and depreciation of property, plant and equipment. The real results may differ from those estimates.

Allowance for doubtful trade and other receivables

Allowance for doubtful trade and other receivables is based on consideration of probability of repayment of receivables by individual contractors. In case of decrease in the total solvency of buyers, or if the real level of debt non-payment by contractors exceeds the estimated level, the real results may differ from the estimates.

Economic obsolescence of assets

The Group's management considers as at every reporting date if there are factors indicating that the replacement cost of assets decreased as compared to the book value. The replacement cost of assets is the larger of the following quantities: their fair value less sales costs or value in use. In case of identification of such decreasing, the book value of assets will decrease to replacement cost. The decreasing amount is included in the consolidated income statement in the period, when this decreasing is identified. Should the conditions change and the management decide that the cost of the assets, other than goodwill, has increased the provision for economic impairment will be recovered in full or in part.

Contingent tax liabilities

The Russian tax legislation permits different interpretations and is subject to frequent changes. When, in the opinion of the Group's management, maintenance of the Group's position from the viewpoint of tax legal and regulatory requirements is rather doubtful, appropriate liabilities are recognized in financial statements under IFRS.

Contingent assets and liabilities

It is assumed due to the nature of contingent assets and liabilities that they will be realized in case of the presence or absence of one or more future events. Measurement of such contingent assets and liabilities is associated with the application, to a significant extent, of an individual judgement and estimates of results of future events.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007
(All amounts in tables below are denominated in USD '000 and RUR '000)

2 Basis of preparation (continued)

(h) New accounting standards

In 2007, the Company adopted all applicable *International Financial Reporting Standards (IFRS)* and amendments and interpretations, which became effective as from 1 January 2007.

As of 1 January the Group adopted *IFRS 7 – Financial Instruments: Disclosures* and amendments to *IAS 1 – Presentation of Financial Statements – Capital Disclosures.* Amended IFRS 7 requires more detailed disclosures about financial instruments. Amendment to IAS 1 extends the scope of disclosures on capital and processes of capital management. Adoption of IFRS 7 has not impacted measurement and classification of financial instruments.

The following new and amended standards have not become effective and have not been early adopted by the Company in the course of preparation of the consolidated financial statements:

- *IFRS 8 – Operating Segments* will become effective for financial years beginning on and after 1 January 2009. The standard will supersede *IAS 14 – Segment Reporting*. The standard requires that the Company's operating segments performance be reported "from the management's viewpoint". In general, the reported information shall be that intended for internal use by the management in segment operation assessment and making decisions on allocating resources to operational segments. Such information may differ from that used for preparation of income statement and balance sheet. Thus, IFRS requires clarifications on the basis of preparation of segment information and its harmonization with the figures in the income statement and the balance sheet. It is expected that adoption of IFRS 8 will have no effect on the Group's consolidated financial statements.
- Amendment to *IAS 23 Borrowing Costs* will become effective for the annual periods beginning on or after 1 January 2009. The amendment to IAS 23 eliminates immediate expensing of the borrowing costs, to the extent that are directly attributable to the assets, bringing of which to use or disposal takes considerable time. It is expected that that implementation of those amendments will have no effect on the Group's consolidated financial statements.
- Amendments to *IAS 1 Presentation of Financial Statements* will become effective on or after 1 January 2009. The main change to IAS 1 concerns replacement of income statement for statement of recognized income and expense, which will also include all non-owner changes in equity, such as revaluation of financial assets available for sale. Revised IAS 1 also requires that statement of financial position (previously "balance sheet") be presented as at the beginning of the earlier comparable period, when comparables were changed by the Company subject to reclassification, amendments to accounting polices, or corrective action.

  It is expected that adoption of the above amendments will effect presentation of consolidated financial statements rather than recognition or measurement of individual transactions and balances.
- *IFRIC 13 Customer Loyalty Programs* applies to financial years beginning on and after 1 July 2008. IFRIC 13 addresses as follows: whether it is necessary to recognize and measure liabilities of a company, provide in future goods and services free of charge or at a discount; if consideration is allocated to award credits what amount of this consideration is required; when the revenues must be recognized; if the awards are supplied by a third party how the revenues must be measured.

  It is expected that adoption of IFRIC 13 will have no impact on the Group's consolidated financial statements.

3 Summary of significant accounting policies

Significant accounting polices of the Group applied in preparation of the consolidated financial statements are described below. The accounting policies have been applied consistently.

(a) Significant accounting estimates, judgments and assumptions. Basis of consolidation

Subsidiaries
Subsidiaries mean entities controlled by the Company and its other subsidiaries (the "Group"). The control exists when the Group can manage, directly or indirectly, entity's financial and business policy in order to obtain economic benefits from its activities. Subsidiaries financial statements are included in the Group's consolidated financial statements during the period from the date of establishment to the date of termination of such control.

Acquired subsidiaries are carried based on the purchase method. Purchase cost is determined as fair value of assets assigned, share-based financial instruments issued, and assumed or possible liabilities as at the date of transaction, plus acquisition costs. The date of acquisition is the date of transaction.

(b) Goodwill and minority interests

Goodwill means the excess of purchase cost over the fair value of the portion of net assets, liabilities and contingent liabilities of acquired subsidiary as at the date of acquisition. Goodwill is measured for possible impairment at least on an annual basis, and also if any signs of impairment are in place. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units.
If the buyer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities is in excess over business combination costs it is recognized income generated from subsidiary acquisition in income statement.

Minority interests mean a portion of profit or loss and net assets of a subsidiary, related to the interest in the share capital not owned, directly or indirectly through subsidiaries, by the parent company. Minority interest in the acquiree amounts to minority interest in net fair value of its assets.

Associates
Associates are companies on which the Group has a significant influence, but does not control their financial and operating activity. The Group's share in total profits and losses of the associates is proportionately consolidated from the date on which such influence is established to the date on which the influence ceases. If the Group's losses exceed the carrying value of investments to the associate, the carrying value is reduced to nil, and no losses other than Group's liabilities to the associate are further reported.

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3 Summary of significant accounting policies (continued)

Transactions excluded from consolidation
Balances and turnovers related to intracompany settlements and transactions, as well as unrealized profit resulting from such transactions are not included by the Group in the consolidated financial statements. The Group also does not report the portion of unrealized profit from transactions with associates equal to the Group's share in those associates.
The portion of unrealized profit from transactions with associates equal to financial investments made by the Group to those associates is also excluded. Unrealized losses are excluded in a way similar to that used for unrealized profit, unless there is an evidence of impairment of financial investments to associates.

(c) Foreign currency

Transactions in foreign currencies are translated to Russian rubles at the rate of exchange on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to rubles at the rate on the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies that are carried at historical cost are translated to rubles at the rate on the date of operation. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are translated to rubles at the rate on the date on which their fair value was measured. Exchange differences resulting from translation are reported in income statement.

(d) Property, plant and equipment

Owned assets
Property, plant and equipment are stated at actual or probable cost of purchase or non-contracted construction, less accumulated depreciation and impairment losses. Cost of property, plant and equipment constructed on a non-contractual basis includes direct material and labor costs and related overheads. If property, plant and equipment item consists of several components having different useful lives, such components are carried as separate property, plant and equipment items.

Cost of property, plant and equipment as at the date of transition to IFRS was determined based on their fair value revaluated as at the above date by an independent appraiser duly qualified and experienced in valuation of similar items.

3 Summary of significant accounting policies (continued)

Property, plant and equipment are further carried by the Group based on revaluation model (recent revaluation s at 31.12.2007). The Group's management believe that it will result in more fair presentation of the Group's financial position and its business performance. Revaluation of property, plant and equipment must be performed on a regular basis. Revaluation frequency depends on variation in property, plant and equipment fair value.

Any property, plant and equipment revaluation surplus is credited to the equity section, except to the extent it reverses a revaluation decrease of the same asset previously recognized in income statement. In such a case, the reversing is also recognized in income statement. Property, plant and equipment revaluation deficit is recognized in income statement, except to the extent it reverses a revaluation increase of the same asset previously recognized in the equity section. In this case, the reversing is also recognized in the equity section.

Any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Upon derecognition or disposal of the asset, the revaluation increase relating to the particular asset and included in equity is transferred to retained earnings.

Upon disposal of the asset, a transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation amount based on the revalued carrying amount of the asset and depreciation amount based on the asset historical cost.

Deferred tax liabilities (assets) relating to property, plant and equipment revaluation are recognized by the Group in equity.

If the item of property, plant and equipment comprises several components having different useful lives, such components are carried as separate items of property, plant and equipment.

Profits and losses arising on disposal of property, plant and equipment are recognized in the income statement when they arise.

Leased assets
The lease providing for assignment to the Group of all risks and benefits resulting from the ownership is classified as financial leasing. Property, plant and equipment acquired under financial leasing are stated at the lower of the fair value and discounted value of minimal rentals on the effective date of the lease agreement, less accumulated depreciation and impairment losses.

3 Summary of significant accounting policies (continued)

Rentals under financial leasing are calculated based on effective interest method and are allocated to lease financing costs, included in interest paid, and redemption of the debt principal, reducing lease liabilities with respect to a lessor.

Subsequent expenses
Expenses related to replacement of fixed assets item component, carried separately, are capitalized at the time of write-off of disposed component cost. Other subsequent expenses are capitalized if only they result in increased future economic benefit from using such fixed assets item. All other expenses are allocated to the financial result of the period when they were incurred.

Depreciation
Depreciation is calculated for the probable useful life of certain items of property, plant and equipment based on a straight-line method and is allocated to the financial result. Leased property, plant and equipment are amortized during the shorter of useful life or leasing period.

Depreciation begins when the asset becomes available for use, i.e. when location and condition of the asset provide for its using as planned by the management, and as to the assets constructed on a non-contractual basis – from the date of completion of construction and preparation to further use. Amortization is ceased at derecognition of the asset. No depreciation of land is provided for.

Useful lives of different assets are shown below:

▪ Buildings and facilities	20 - 100 years
▪ Plant and equipment	5 - 30 years
▪ Other	2 - 5 years

Capital construction in progress
Capital construction in progress includes all expenses related to capital investments to non-current assets.

The cost of capital construction in progress also includes financing expenses incurred during the period when the item was acquired and erected, if borrowings are used for financing. Those assets are amortized beginning from the month following the month of their commissioning and is calculated based on the method used for similar property, plant and equipment. The carrying value of construction in progress items is reviewed on a regular basis in order to assess whether it is fair and whether appropriate provision for impairment is required.

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3 Summary of significant accounting policies (continued)

(e) Intangible assets

Intangible assets acquired by the Group and having a finite useful life are stated at purchase cost less accumulated depreciation and impairment losses. Expenses related to goodwill and trademarks are written off accordingly when they are incurred. Intangible assets are amortized over the useful economic life based on a straight-line method with allocation of amortization to the financial result.

The Group recognizes intangible assets resulting from research and development (or research and development in progress – internal projects), when it can only demonstrate all of the following features:

- Technical feasibility of completing the intangible asset, so that it will be available for use or sale;
- Intention to complete and ability to use or sell the intangible asset;
- Capability to use or trade the intangible asset
- How the intangible asset will generate future economic benefits;
- Availability of sufficient technical, financial, and other resources required to complete the asset and use or sell the intangible asset;
- Capability to measure reliably the expenditures during the development.

Useful lives of different intangible assets are shown below:

▪ Software	1 - 20 years
▪ Licenses, permits	1 - 5 years

(f) Financial investments

Financial investments are included in (excluded from) accounting registers of the Group, when the Group acquires (loses) control over rights inherent to the appropriate asset. Except for the cases mentioned below, financial investments are accounted for as follows:

- Securities held to maturity, including promissory notes, are initially stated at purchase cost. Then they are accounted for at amortized cost with reflecting the difference between the historical cost and the cost of redemption in income statement over the whole period to maturity, with adjustment made for an actual interest rate (discount).
- Other investments of the Group are classified as those available for sale and are carried at fair value, with profits or losses charged to the equity.

The fair value of securities for resale is the seller's price as at the balance sheet date. Investments in unquoted securities, whose fair value cannot be determined by any other way, are accounted for at historical cost net of losses on impairment.

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3 Summary of significant accounting policies (continued)

(g) Derivative financial instruments

Initially, derivative financial instruments are accounted for at primary cost. After initial recognition, the derivative financial instruments are stated at fair value, and the subsequent profits and losses from their realization are allocated to financial results.

(i) Inventories

Inventories are carried at lower of the purchase cost and net possible realization value. Net possible realization value means possible realization value in the course of ordinary business, net of possible for the completion of works and realization.

Inventories are carried at average cost and include stock purchase costs, delivery and bringing to present condition.

In production of inventories, appropriate part of production overheads, calculated based on key personnel direct payroll expenses, is included in the finished product cost and cost of work in progress.

(j) Trade and other receivables

Trade and other receivables are stated at historical cost net of losses on impairment. Based on annual stock count results, the Group makes provision for past due doubtful trade and other receivables.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on bank settlement accounts, deposits at short notice and bank promissory notes with the primary maturity of maximum 90 days. The data on bank overdrafts payable on demand and being the inherent part of the Group's cash flow management process are included as cash and cash equivalents component in the Cash Flow Statement

(l) Impairment of assets

The book value of the Group's assets, other than inventories and deferred taxes, is revised as at every balance sheet date to identify their impairment. If any impairment is identified, the assets book value will decrease to recoverable amount. The impairment of asset is recognized if book value of this asset exceeds the recoverable amount. All impairment losses are allocated to financial result.

3 Summary of significant accounting policies (continued)

Calculation of recoverable amount

Recoverable amount of securities held to maturity, and that of loans and trade and other receivables of the Group is calculated as present value of future cash flows discounted at actual current interest rate applicable to the asset. Current trade and other receivables are not discounted.

Recoverable amount of other assets is determined as the higher of fair value less costs to sell and asset value in use. To determine asset value in use, the anticipated future cash flows are discounted at before-tax discount rate which reflects the current market value of cash subject to change in the course of time and risks related to this asset.

For the assets, which do not generate cash flows, independent from cash flows generated by other assets, recoverable amount is determined for the whole group of cash generating assets to which such asset belongs.

Reversing asset impairment losses

Loss on impairment of securities held to maturity, loans or trade and other receivables shall be reversed, if after reporting the loss the event occurred resulting in increase of recoverable amount. Loss from impairment of other assets shall be reversed if the values used to determine recoverable amount have changed. Such amount of loss from impairment is only reversed so that the book value of asset does not exceed the amount, which would be determined (net of depreciation or amortization) if loss from impairment was not recognized.

(m) Repurchase of treasury shares

If the shares prior accounted for in the share capital are repurchased, paid–out amount, including transaction direct expenses, is accounted for as changes in equity.

(n) Loans and borrowings

Loans and borrowings are initially carried at par value. Then loans and borrowings are reported at amortized cost with the difference between historical cost and cost of redemption recorded in the Income Statement over the effective period of loan or borrowing, subject to actual interest rate.

(o) Employee remuneration

The Group effects payments to the Russian Pension Fund to the Group employees benefit in compliance with RF legislation on pension security. The above amounts are written-off as soon as payment is processed. The Group has no other special retirement benefit plans.

3 Summary of significant accounting policies (continued)

(p) Provisions

Provision is recorded in Balance Sheet if the Group's liability appears de jure or de facto as a result of a certain past event, and there is a probability that some cash outflow will be required to meet the liabilities. If the influence of discounting is material, the amounts of provisions will be determined by discounting of expected future cash flows at before tax discount rate which reflects the current market value of temporary cost of cash and risks, as appropriate, related to this liability.

Restructuring
Restructuring provision is recognized when the official plan of restructuring is approved by the Group, and related work has been commenced, or official notification on such restructuring has been made. The provision for future operating expenses is not made.

Provisions for leaves
The Group makes provision for future employee leave payments.
The provision amount is measured based on anticipated annual expenses for employee leaves, including single social tax to be imposed. The provision is made subject to all planned leaves in the reported year, including leaves for the previous years, provided those leaves were not covered by the carry forward provision.

(q) Trade and other payables

In initial recognition, trade and other payables are reported at fair value and subsequently accounted for at amortized cost based on effective interest rate method.

(r) Income tax

Income tax for the year includes current and deferred part. Income tax is reported in the Income Statement in full, with the exception of amounts, related to the operations recorded on equity's accounts, with deferred tax on such operations being included in equity. The expenses related to payment of current part of income tax are formed subject to expected amount of tax payable, calculated on the basis of taxable profit for year, using effective rates or rates as at the balance sheet date, and adjustments to tax amount for previous years payable.

Deferred tax is carried based on the balance sheet method of reporting assets and liabilities and is calculated with respect to time differences arising between the Balance Sheet data and similar data used for tax purposes.

3 Summary of significant accounting policies (continued)

The time differences are not taken into consideration in calculation of deferred taxes for the following items:

- ❖ initial recognition of goodwill;
- ❖ initial reporting of assets and liabilities which do not influence profit either for financial accounting or tax purposes;
- ❖ financial investments in subsidiaries where parent company can control recovery of time difference and probability exists that time difference will be not realized in foreseeable future.
- ❖ The amount of deferred tax is determined according to the method which the Group is supposed to apply to realize or repay the book value of its assets or liabilities based on the tax rates, existing or declared as at the balance sheet date.
- ❖ Deferred tax asset is reported to the extent that probability exists that taxable profit will be gained in future, sufficient for repayment of this asset. Deferred tax asset is subject to decreasing to the extent that there is low probability that related tax deductions can be realized.
- ❖ In the consolidated financial statements, the current tax asset of one company in the Group is set off against current tax liability of other company in the Group if only these companies have legal basis for processing or receiving single net payment, and the companies intend to process or receive such net payment or reimburse an asset and disburse a liability.

(s) Sales

Proceeds from sale of goods are reported in income statements as at the date of transfer to the buyer of all material risks and benefits arising out of ownership.

(t) Finance revenue and finance costs

Finance revenue and finance costs include interest expenses on loans and borrowings, accumulated interests on provisions, interest-bearing gains on financial investments, dividends received, positive and negative foreign exchange differences, income and losses from revaluation and disposal of investments available for resale.

Borrowing costs are capitalized if they relate to acquisition, construction, or production of a qualified asset, provided that there is a strong probability of future economic benefits and the costs can be measured reliably.

If the borrowings were specifically obtained by the Group for acquisition, construction, or production of a certain qualified asset, the amount of costs to be capitalized is determined as actual expenses incurred when obtaining a loan in the reporting period, less any revenues from short-term investment of those borrowed funds prior to investing them to the qualified asset.

3 Summary of significant accounting policies (continued)

If it is difficult to determine the amount of borrowed funds related to acquisition of the qualified asset, the costs amount to be capitalized is determined based on capitalization rate.

Interest-bearing gains are accounted for accordingly as they are accrued, subject to effective asset yield rate. Gains on dividends received from investments in the associates are carried as decrease in investments in the associates. Gains on dividends received from financial investments in other companies are stated as at the date on which the dividends were declared.

(u) Other expenses

Operating lease
Operating lease expenses are calculated on a straight-line basis and reported in income statement over the whole period of lease. The amount of related remunerations received under lease contracts is reported in income statements as an integral part of total rental.

Social expenses
When the Group incurs expenses under social programs of public benefit for society in general rather than for Group's employees only, such expenses are stated in the income statement when they are incurred.

(v) Dividends

Dividends and related taxes are reported as liabilities in the period when they are declared by the general stockholders meeting and are payable in accordance with legal and regulatory requirements. The amount of retained earnings, which, in accordance with applicable laws and regulations, may be distributed among shareholders, is determined based on financial statements of separate companies of the Group. Those amounts may differ significantly from the amounts, calculated under IFRS.

4 Subsidiaries

Presented below is the list of subsidiaries with indication of Company share in their issued capital as at 31 December 2007 and 31 December 2006, country of incorporation, and trend of activity.

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4 Subsidiaries (continued)

	Description / trend of activity	Country	Ownership or participation interest as of 31 December 2007	Ownership or participation interest as of 31 December 2006
Zauralsky Kreker JSC	Food production (cracker, sugar cookies, spice cakes)	Kurgan Region, Russia	100,00%	100,00%
PAVA ROS LLC	General wholesale trade	Altai Territory, Russia	51,00%	51,00%
PAVA-Export LLC	Wheat wholesale trade	Russia	100,00%	-
Romanovskoe ZPP JSC	Grain storage and primary processing	Altai Territory, Russia	100,00%	100,00%
Selkhozholding LLC	Crop growing and wholesale trade	Altai Territory, Russia	100,00%	75,00%

In the year ended 31 December 2007, the following changes were introduced to the structure of the Group:

- ❖ In November 2007, the Group purchased 25% of Selkhozholding LLC issued capital. Thus, the Group became 100% owner of the company.
- ❖ In November 2007, the Group established 100% controlled company (PAVA-Export LLC – wheat wholesale trade).

Purchase of 25% share of Selkhozholding LLC issued capital made the following effect on Group's financial indicators in 2007.

	Notes	Reported fair value at acquisition 2007 USD '000	Reported fair value at acquisition 2007 RUR '000
Cost of purchased share in fair value of net identifiable assets		(485)	(12 405)
Cost of financial investments		430	11 000
Excess of share in fair value of net identifiable assets over purchase cost		(55)	(1 405)
Share purchase income reported in income statement		55	1 405
		-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 Net sales

	Notes	As of 31 December 2007	As of 31 December 2006	As of 31 December 2007	As of 31 December 2006
Proceeds		USD '000	USD '000	RUR '000	RUR '000
Crop processing and wholesale trade		65 337	71 869	1 671 122	1 892 394
Food wholesale trade		48 783	55 676	1 247 730	1 466 015
Crop growing and wholesale trade		2 466	955	63 063	25 142
Pastry production		1 406	441	35 960	11 618
Services: grain storage, vehicles, handling operations		2 037	266	52 108	7 002
Total:		**120 029**	**129 207**	**3 069 983**	**3 402 171**

6 Cost of sold goods, work and services

	Notes	As of 31 December 2007	As of 31 December 2006	As of 31 December 2007	As of 31 December 2006
		USD '000	USD '000	RUR '000	RUR '000
Cost of sold goods, work and services					
Goods for resale		48 953		1 252 062	
Raw materials		32 192		823 386	
Variation in finished product balances		2 682		68 605	
Labor costs		1 381		35 335	
Social security		325		8 323	
P,P & E depreciation costs		586		14 977	
Electricity, heating, water supply		1 560		39 891	
Maintenance costs		6		145	
Other production expenses		187		4 781	
Total:		**87 872**	**107 474**	**2 247 505**	**2 829 897**

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7 General, administrative and commercial expenses

General, administrative and commercial expenses include as follows:

	Notes	As of 31 December 2007 '000 USD	As of 31 December 2006 '000 USD	As of 31 December 2007 RUR '000	As of 31 December 2006 RUR '000
General and administrative expenses					
Management		442	49	11 303	1 288
Salary, including SST		6 228	1 977	159 291	52 060
Depreciation of PP&E		1 091		27 913	
Building and facilities rent and maintenance		2 727	1 935	69 745	50 944
Commercial expenses (transportation, sales expenses)		11 666	15 651	298 385	412 099
Bank services		276	291	7 057	7 664
Communication services		55	144	1 418	3 793
Consulting and juridical services		291	333	7 435	8 777
Other professional services		205	113	5 233	2 987
Business trips		253	272	6 463	7 156
Consumables		998	57	25 531	1 503
Bad debt reserve creation expenses		1 955	1 603	49 999	42 205
Depreciation of assets		1 061	211	27 133	5 566
Fines, penalties and forfeits under business contracts		277	191	7 080	5 034
Taxes, less income tax		766	349	19 599	9 192
Other administrative expenses		97	45	2 492	1 179
Total:		**28 388**	**23 221**	**726 077**	**611 447**

8 Other operating income

	Notes	As of 31 December 2007 USD '000	As of 31 December 2006 USD '000	As of 31 December 2007 RUR '000	As of 31 December 2006 RUR '000
Other income					
Profit on sale of PP&E		219	-	5 604	-
Profit on sale of inventories excess		341	438	8 730	11 546
Profit/Loss on disposal of investments		542	266	13 861	7 000
Income on disposal of share (25%) Selkhozholding LLC		-	228	-	6 000
P, P & E value adjustment subject to prior impairment in 2005 (machines and equipment)		2 347	-	60 033	-
Recovery of provision for tax liabilities		185	-	4 742	-
Other operating income		1	529	9	13 918
Total:		**3 635**	**1 461**	**92 979**	**38 464**

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9 Other operating expenses

	Notes	As of 3 Decembe 200 USD '000	As of 31 December 2006 USD '000	As of 3 Decembe 200 RUR '000	As of 31 December 2006 RUR '000
Other expenses					
Loss from disposal of P, P & E		-	25	-	657
Goodwill impairment		-	63	-	1 655
Foreign currency exchange loss		41	-	1 060	-
Reversing prior written off trade and other payables		118	-	3 022	-
Other expenses		1	563	15	14 815
Total:		**160**	**651**	**4 097**	**17 127**

10 Finance revenue

	Notes	As of 3 Decembe 200 USD '000	As of 31 December 2006 USD '000	As of 3 Decembe 200 RUR '000	As of 31 December 2006 RUR '000
Finance revenue					
Interest-bearing income		238	192	6 096	5 054
Total:		**238**	**192**	**6 096**	**5 054**

11 Finance costs

	Notes	As of 3 Decembe 200 USD '000	As of 31 December 2006 USD '000	As of 3 Decembe 200 RUR '000	As of 31 December 2006 RUR '000
Finance costs					
Interest expenses		4 277	3 170	109 403	83 474
Total:		**4 277**	**3 170**	**109 403**	**83 474**

12 Income tax

In accordance with the Russian tax legislation, income tax rate is 24%.
Income tax charged as at the balance sheet date includes as follows:

	Notes	As of 3 Decembe 200 USD '000	As of 31 December 2006 USD '000	As of 3 Decembe 200 RUR '000	As of 31 December 2006 RUR '000
Income tax					
Income tax – current		441	490	11 291	12 913
Income tax – deferred		(1 685)	(962)	(43 093)	(25 339)
Total:		**(1 244)**	**(472)**	**(31 802)**	**(12 426)**

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12 Income tax (continued)

In 2007, income tax effective rate applied to most of Company's profits was 24% (2006: 24%). Table below demonstrates speculative income tax calculated based on official rate as reduced to actual expenses.

	Notes	As of 31 December 2007	As of 31 December 2006	As of 31 December 2007	As of 31 December 2006
		USD '000	USD '000	RUR '000	RUR '000
Before tax profit (loss)		3 260	(3 614)	83 381	(95 153)
Speculative tax charges at 24% rate		782	(867)	20 011	(22 837)
Permanent tax differences		(2 026)	395	(51 813)	10 411
Income tax recovery for the year		**(1 244)**	**(472)**	**(31 802)**	**(12 426)**

Deferred tax assets and liabilities refer to the following temporary difference items:

	31.12.2007	Variation of temporary differences over the period	31.12.2006
	RUR '000	RUR '000	RUR '000
Tax effect of temporary differences – increase in tax base			
P, P & E	(203 325)	163 319	(40 006)
Non-current investments	(1 187)	(105)	(1 292)
Inventories	-	(2 711)	(2 711)
Trade receivables	-	4 279	4 279
Current loans and borrowings	-	(793)	(793)
Non-current bonds payable	(1 054)	1 054	-
Other non-current obligations	(261)	4 223	3 962
Trade payables	(8 100)	8 100	-
Current loans and borrowings payable	(22)	22	-
Total deferred tax liability	**(213 948)**	**177 387**	**(36 561)**
Tax effect of temporary differences – decrease in tax base			
Construction in progress	90	196	286
Loans and borrowings	66	(66)	-
Non-current investments	16 361	(16 361)	-
Inventories	33 547	(29 322)	4 225
Trade and other receivables	27 521	(26 747)	774
Deferred expenses	2 425	(2 425)	-
Other current assets	3 105	(3 105)	-
Retained earnings	2 808	(2 808)	-
Trade payables	-	246	246
Other current liabilities	1 076	6 935	8 011
Provisions for future expenses and payments	377	(377)	-
Total deferred tax asset	**87 375**	**(73 833)**	**13 542**

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(All amounts in tables below are denominated in USD '000 and RUR'000)

12 Income tax (continued)

Translation to presentation currency		-	
Net variation of temporary differences	**(126 573)**	**103 554**	**(23 019)**
Reported in Income Statement		(43 093)	
Reported in Statement of Changes in Equity		146 648	

	31.12.2007	Variation of temporary differences over the period	31.12.2006
	USD '000	USD '000	USD '000
Tax effect of temporary differences – increase in tax base			
P, P & E	(7 950)	6 431	(1 519)
Non-current investments	(46)	(3)	(49)
Inventories	-	(103)	(103)
Trade receivables	-	163	163
Current loans and borrowings	-	(30)	(30)
Non-current bonds payable	(41)	41	-
Other non-current obligations	(10)	160	150
Trade payables	(317)	317	-
Current loans and borrowings payable	(1)	1	-
Total deferred tax liability	**(8 365)**	**6 977**	**(1 388)**
Tax effect of temporary differences – decrease in tax base			
Construction in progress	4	7	11
Loans and borrowings	3	(3)	-
Non-current investments	640	(640)	
Inventories	1 312	(1 152)	160
Trade and other receivables	1 076	(1 047)	29
Deferred expenses	95	(95)	-
Other current assets	121	(121)	-
Retained earnings	110	(110)	-
Trade payables	-	9	9
Other current liabilities	42	262	304
Provisions for future expenses and payments	15	(15)	-
Total deferred tax asset	**3 418**	**(2 905)**	**513**
Translation to presentation currency	(2)	3	1
Net variation of temporary differences	**(4 949)**	**4 075**	**(874)**
Reported in Income Statement		(1 685)	
Reported in Statement of Changes in Equity		5 734	

13 Earnings per share

Earnings per share are calculated through division of profits due to owners of ordinary shares by average weighted number of outstanding ordinary shares over the period. The Company does not have convertible bonds and share options which can be converted in future to ordinary shares.

In 2007, the average weighted number of shares made 88,421,053 (in 2006 – 88,421,053 акций).

Earnings per share (basic and diluted) for the year ended 31 December 2007 made USD 0.05 per share (RUR 1.30 per share).

Earnings (loss) per share (basic and diluted) for the year ended 31 December 2006 made a loss of USD 0.04 per share (loss of RUR 0.94 per share).

14 Intangible assets

	Note	Licenses	Software	Total
		RUR '000	RUR '000	RUR '000
Cost as at 1 January 2007		-	-	-
Acquisition of intangible assets		**61**	**56**	**117**
Acquisition of subsidiaries – cost of intangible assets		-	-	-
Revaluation of intangible assets		-	-	-
Realization of intangible assets		-	-	-
Translation to presentation currency		-	-	-
Cost as at 31 December 2007		**61**	**56**	**117**
Amortization as at 1 January 2007		-	-	-
Disposal of intangible assets		-	-	-
Accrued depreciation		**(22)**	**(8)**	**(30)**
Revaluation of intangible assets – amortization		-	-	-
Translation to presentation currency		-	-	-
Amortization as at 31 December 2007		**(22)**	**(8)**	**(30)**
Residual value as at 1 January 2007		-	-	-
Residual value as at 31 December 2007		**39**	**48**	**87**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007
(All amounts in tables below are denominated in USD '000 and RUR '000)

14 Intangible assets (continued)

	Note	Licenses	Software	Total
		'000 USD	'000 USD	'000 USD
Cost as at 1 January 2007		-	-	-
Acquisition of intangible assets		2	2	5
Acquisition of subsidiaries – cost of intangible assets		-	-	-
Revaluation of intangible assets		-	-	-
Realization of intangible assets		-	-	-
Translation to presentation currency		-	-	-
Cost as at 31 December 2007		**2**	**2**	**5**
Depreciation & Amortization as at 1 January 2007		-	-	-
Disposal of intangible assets		-	-	-
Accrued depreciation		(1)	-	(1)
Revaluation of intangible assets – amortization		-	-	-
Translation to presentation currency		-	-	-
Depreciation & Amortization as at 31 December 2007		**(1)**	**-**	**(1)**
Residual value as at 1 January 2007		-	-	-
Residual value as at 31 December 2007		**1**	**2**	**4**