OJSC LEBEDYANSKY
International Financial Reporting Standards Consolidated Financial Statements and Auditors' Report

31 December 2005

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

AUDITORS' REPORT

To the shareholders of open joint stock company Lebedyansky :

1 We have audited the accompanying consolidated balance sheet of open joint stock company Lebedyansky and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements (as set out on pages 1 to 34) are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

ZAO PricewaterhouseCoopers Audit
Moscow, Russian Federation
16 May 2006

OJSC Lebedyansky
Consolidated Balance Sheet as at 31 December 2005
(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

LEBEDYANSKY

	Note	31 December 2005	31 December 2004
ASSETS			
Non-current assets			
Property, plant and equipment	7	115,275	87,439
Goodwill	8	486	504
Other intangible assets	9	2,535	974
Prepayments for assets under construction and equipment		5,635	1,944
Total non-current assets		**123,931**	**90,861**
Current assets			
Inventories	10	56,941	42,087
Trade and other receivables	11	81,134	56,078
Available for sale investments		321	730
Cash and cash equivalents	12	4,777	1,400
Total current assets		**143,173**	**100,295**
TOTAL ASSETS		**267,104**	**191,156**
EQUITY			
Share capital	13	432	449
Share premium	13	32	34
Treasury shares	13	(4,351)	-
Share option	14	723	-
Currency translation difference		4,870	10,350
Retained earnings		181,167	106,536
Equity attributable to the Company's equity holders		**182,873**	**117,369**
Minority interest		**3,775**	**2,948**
TOTAL EQUITY		**186,648**	**120,317**
LIABILITIES			
Non-current liabilities			
Borrowings	15	9,026	7,160
Finance leases payable	16	9,222	8,979
Deferred income tax liability	24	6,484	5,335
Other non-current liabilities		2,163	4,450
Total non-current liabilities		**26,895**	**25,924**
Current liabilities			
Borrowings	15	3,396	5,975
Finance leases payable	16	3,089	4,651
Trade and other payables	17	43,257	30,686
Tax payable	18	1,711	1,417
Other current liabilities		2,108	2,186
Total current liabilities		**53,561**	**44,915**
TOTAL LIABILITIES		**80,456**	**70,839**
TOTAL LIABILITIES AND EQUITY		**267,104**	**191,156**

Approved for issue and signed on behalf of the Board of Directors on 16 April 2006.

M. B. Tavkazakov
Executive Director

D. V. Glavnov
Finance Director

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements.

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

	Note	2005	2004
Revenue		514,629	376,003
Cost of sales	19	(294,833)	(219,935)
Gross profit		**219,796**	**156,068**
Selling and distribution costs	20	(84,157)	(54,504)
General and administrative expenses	21	(30,480)	(18,759)
Other operating expenses		(1,411)	(459)
Operating profit		**103,748**	**82,346**
Finance income	22	1,869	2,630
Finance costs	23	(2,350)	(8,817)
Profit before income tax		**103,267**	**76,159**
Income tax expense	24	(27,685)	(22,041)
Net profit for the year		**75,582**	**54,118**
Profit is attributable to:			
Equity holders of the Company		74,631	53,367
Minority interest		951	751
Net profit for the year		75,582	54,118
Earnings per share for profit attributable to the equity holders of the Company (expressed in US$ per share)			
- basic	25	3.67	2.61
- diluted		3.66	2.61

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

	Note	2005	2004
Cash flows from operating activities			
Profit before income tax		103,267	76,159
Adjustments for:			
Expense to share option program	13	747	-
Depreciation and impairment of property, plant and equipment	20	11,566	7,937
Amortisation and impairment of other intangible assets	20	138	27
Impairment of trade and other receivables	11	1,214	322
Allowance for obsolete inventory		21	83
Deferred income		(2,145)	(526)
Losses on disposals of property, plant and equipment		555	667
Interest income, expense and finance lease charges	23	710	324
Provision for impairment of promissory notes and available for sales investment		-	6,811
Gain on forgiveness of interest payable	23	-	(1,314)
Unrealised foreign exchange losses less gains on non-operating items		(1,212)	587
Operating cash flows before working capital changes		**114,861**	**91,077**
Increase in trade receivables		(15,177)	(12,080)
Increase in advances and other receivables		(5,967)	(3,352)
Increase in VAT and other tax receivables		(12,090)	(4,959)
Increase in inventories		(16,673)	(8,750)
Increase in trade and other payables		3,754	4,901
Increase/(decrease) in taxes payable		673	(616)
Cash generated from operations		**69,381**	**66,221**
Income taxes paid		(22,481)	(16,985)
Interest paid		(1,089)	(767)
Net cash generated from operating activities		**45,811**	**48,469**
Cash flows from investing activities			
Purchase of property, plant and equipment and prepayments for assets under construction and equipment		(33,702)	(30,786)
Purchase of intangible assets		(1,740)	(600)
Proceeds from sale of property, plant and equipment		524	135
Loan provided		(151)	(6,135)
Receipts from repayment of loans		570	824
Interest received		405	582
Net cash used in investing activities		**(34,093)**	**(35,980)**
Cash flows from financing activities			
Proceeds from borrowings		34,243	28,210
Repayment of borrowings		(33,622)	(20,452)
Repayment of financial lease liability		(4,810)	(3,348)
Change in promissory notes		390	(1,163)
Dividend paid net of withholding tax		-	(17,988)
Acquisition of treasury shares	13	(4,499)	-
Net cash used in financing activities		**(8,298)**	**(14,741)**
Net increase/(decrease) in cash and cash equivalents		**3,420**	**(2,252)**
Cash and cash equivalents at the beginning of the year		**1,400**	**3,522**
Net increase/(decrease) in cash and cash equivalents		**3,420**	**(2,252)**
Currency translation difference	2	**(43)**	**130**
Cash and cash equivalents at the end of the year	12	**4,777**	**1,400**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

	Attributable to shareholders of the Company						Minority Interest	Total equity
	Share capital	**Share premium**	**Treasury shares**	**Share options**	**Cumulative currency translation difference**	**Retained earnings**		
Balance at 1 January 2004	**423**	**32**	**-**	**-**	**4,393**	**71,350**	**2,043**	**78,241**
Currency translation difference (Note 2)	26	2	-	-	5,957	-	154	6,139
Net income recognised directly in equity	26	2	-	-	5,957	-	154	6,139
Profit for the year	-	-	-	-	-	53,367	751	54,118
Total recognised income	26	2	-	-	5,957	53,367	905	60,257
Dividends	-	-	-	-	-	(18,720)	-	(18,720)
Balance at 31 December 2004	**449**	**34**	**-**	**-**	**10,350**	**105,997**	**2,948**	**119,778**
Derecognition of negative goodwill (Note 8)	-	-	-	-	-	539	-	539
Adjusted balance at 1 January 2005	**449**	**34**	**-**	**-**	**10,350**	**106,536**	**2,948**	**120,317**
Share based compensation (Note 14)	-	-	-	747	-	-	-	747
Currency translation difference	(17)	(2)	148	(24)	(5,480)	-	(124)	(5,499)
Net income recognised directly in equity	**432**	**32**	**148**	**723**	**4,870**	**106,536**	**2,824**	**115,565**
Profit for the year	-	-	-	-	-	74,631	951	75,582
Total recognised income	**432**	**32**	**148**	**723**	**4,870**	**181,167**	**3,775**	**191,147**
Acquisition of treasury shares (Note 13)	-	-	(4,499)	-	-	-	-	(4,499)
Balance at 31 December 2005	**432**	**32**	**(4,351)**	**723**	**4,870**	**181,167**	**3,775**	**186,648**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

1 The OJSC Lebedyansky Group and its Operations

Open joint stock company Lebedyansky and its subsidiaries ("the Group") principal activities are production and distribution of juices, juice based drinks and baby food juices and purees. The Group's juices and juice based drinks are distributed under the brands Ya, Tonus, Fruktovy Sad, Frustail, Privet, Vitamin, Tusa Jusa, baby food juices are distributed under the brands Frutonyanya and Malysham, baby food purees under the brand Frutonyanya, ice tea is distributed under the brand Edo. The Group's manufacturing facilities are primarily based in the Lipetsk region, Russian Federation. The parent company, open joint stock company Lebedyansky ("the Company" or "Lebedyansky") was incorporated and domiciled as an open joint stock company in the Russian Federation in 1992. The major shareholders of the Company are N.I. Bortsov and Y.N. Bortsov, who held respectively 30% and 25% shares of the Company at 31 December 2005.

In March 2005 shareholders of the Company placed through an offering to the public under an open subscription 4,061,850 existing ordinary shares (RR 0.01 par value) at RR 1,016 per share. The shares have been admitted to placement and listing on the RTS Stock Exchange ("RTS") and subsequently on the Moscow Interbank Currency Exchange ("MICEX").

The principal subsidiaries consolidated within the Group and the degree of control exercised by Lebedyansky are as follows:

			% share at	
Entity	**Country of Incorporation**	**Activity**	**31 December 2005**	**31 December 2004**
OJSC Progress	Russia	Juice production	75%	75%
DP Sandance	Ukraine	Juice distribution	100%	100%
Sandance Kazakhstan	Kazakhstan	Juice distribution	100%	100%
CJSC Lebedyansky O.P.	Russia	Investing	100%	-

The registered office of the Company is ul. Matrosova 7, Lebedyan, Lipetsk region, Russian Federation.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as disclosed in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations*).*

Functional currency. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, Russian Roubles ("RR"). In the case of subsidiaries located in other territories, where the functional currency is not the RR, the financial statements have been measured in local currency and translated into presentation currency at the applicable exchange rates as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") for inclusion in these consolidated financial statements.

Translation from functional to presentation currency. These consolidated financial statements have been presented in US dollars ("US$"), which management believes is the most useful currency to adopt for users of these consolidated financial statements. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

(iii) all resulting exchange differences are recognised as cumulative currency translation difference, a separate component of equity.

2 Basis of Preparation and Significant Accounting Policies (continued)

Translation from functional to presentation currency (continued). At 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.78 (2004: USD 1 = RR 27.7487). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation. Further, all transactions within Russia must be settled in Russian Roubles and 10% (25% prior to 27 December 2004 and 50% prior to 10 July 2003) of foreign currency receipts from transactions with foreign entities must be converted into Russian Roubles. The requirement to convert into Russian Roubles part of foreign currency receipts from transactions with foreign entities was cancelled by decision of CBRF dated 27 March 2006.

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

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

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

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement . An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Number of years
Buildings and constructions	10 to 50
Machinery and equipment	7 to 15
Computer Hardware	3 to 5
Motor Vehicles	3 to 7

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised patents, trademarks and licences. Acquired licenses, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Software licences are amortised using the straight-line method over their useful lives of 5-7 years.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

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

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change. At 31 December 2005 and 2004 the Group did not have trading investments on its balance sheet.

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

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. At 31 December 2005 and 2004 the Group did not have held to maturity investments on its balance sheet.

All other financial assets are included in the available-for-sale category.

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

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

Value added tax. Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

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

Sales are shown net of VAT, sales tax and discounts and after eliminating sales within the Group.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Segment reporting. In the context of IAS 14 "Segment information" the Group has one reportable business and geographical segment.

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

Share based compensation. The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

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

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. 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. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Goodwill impairment calculations. The group test annually whether goodwill has suffered any impairment, in accordance with the policy stated in Note 2. The recoverable amount of cash generating units have been determined based on value in use calculations. These calculation require the use of estimates (Note 8).

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'. Certain new disclosures and changes in presentation required by the revised standard were made in these financial statements.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. The Group has not discovered any material error in its prior period financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group now derecognises the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

IAS 17 (revised 2003) Leases. Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. Inception is the earlier of the date of the lease agreement and the date of commitment to the principal provisions of the lease. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard.

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements.

IAS 27 (revised 2003) Consolidated and Separate Financial Statements. The Group's policies were changed to remove limited exceptions from consolidation. IAS 27 now requires consolidation of all subsidiaries of the parent.

IAS 28 (revised 2003) Investments in Associates and IAS 31 (revised 2003) Interests in Joint Ventures. The Group's policies were revised and the equity method no longer applies to investments that would otherwise be associates or jointly controlled entities held by the Group's subsidiaries which qualify as venture capital organisations. Such investments are now categorised for measurement purposes as at fair value through profit or loss. An investor must now consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognising its share of losses of the associate. Previously, SIC-20 limited the recognition of the investor's share of losses to the carrying amount of its investment in the equity of the associate. Additional disclosures required by the revised standards were made in these financial statements.

IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation. The Group amended its policies to classify as liabilities puttable shares and similar instruments previously classified as equity or compound instruments. Additional disclosures required by the revised Standard were made in these financial statements.

IAS 33 (revised 2003) Earnings per Share. IAS 33 was revised to provide additional guidance and illustrative examples on selected complex matters. The additional guidance did not affect the Group's accounting policies.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 36 (revised 2004) Impairment of Assets. The Group now performs impairment tests of goodwill, intangible asset not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these financial statements. Management now assesses reasonableness of the assumptions on which the Group's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

IAS 38 (revised 2004) Intangible Assets. The revised IAS 38 is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination. The Group's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortised but tested for impairment at least annually. The Group has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38.

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans, and receivables or bills of exchange that are not quoted in an active market. The Group may now designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited. The Group no longer recognises gains and losses on available-for-sale financial assets in profit or loss but in equity.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Group has not redesignated any financial instrument into 'at fair value through profit or loss' or 'available for sale' categories at the date of initial application of the revised IAS 39.

IAS 40 (revised 2003) Investment Property. In accordance with the transitional provisions the Group can now classify operating leases as investment property under the fair value model provided that the rest of the definition of investment property is met. Such operating leases would be accounted for as if they were finance leases. This classification alternative is available on a property–by–property basis and was not used by the Group.

IFRS 3 (issued 2004) Business Combinations. The Group applies transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3 by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest. The Group ceased amortising goodwill on 1 January 2005. Accumulated amortisation was eliminated with a corresponding decrease in the cost of goodwill on 1 January 2005. Goodwill is now tested for impairment annually, or when there are indications of impairment also at interim balance sheet dates. The excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") is now recognised immediately in profit or loss. The Group previously amortised negative goodwill over the remaining weighted average useful life of the identifiable depreciable assets acquired. Negative goodwill that existed at 1 January 2005 was offset against retained earnings on that date.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 3 (issued 2004) Business Combinations (continued). Transitional provisions of IFRS 3 require prospective application of changes in accounting policies for equity method investments acquired before 31 March 2004. From 1 January 2005, the Group discontinued including the amortisation of deemed goodwill in the determination of its share of the profits or losses of associates. Negative goodwill included in the carrying amount of associates was derecognised against retained earnings on 1 January 2005.

IFRS 4 (issued 2004) Insurance Contracts. The Group does not underwrite insurance risks – product warranties issued directly by a manufacturer, dealer or retailer are outside of the standard's scope. IFRS 4 amended the definition of financial derivatives in IAS 39. The Group retrospectively amended its policies to exclude non-financial variables specific to the entity to the contract from giving rise to financial derivatives.

IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations. The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. The Group's accounting policies now describe assets 'held for sale' as those that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as 'held for sale' are now measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet. IFRS 5 resulted in reclassification of assets disclosed in into the 'held for sale' category in the balance sheet.

IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate now alter the previously recognised revaluation surplus or deficit for assets carried at valuation or adjust the cost of the related asset in the current period for assets carried under the cost model.

IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments. Shares are now equity only if the Group has an unconditional right to refuse their redemption.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted:

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss. The Group believes that these instruments meet the definition of "at fair value through profit or loss" category as restricted by the amendment to IAS 39.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007). The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

5 New Accounting Pronouncements (Continued)

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007). The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

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

6 Balances and Transactions with Related Parties

For the purposes of this consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. 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 2005 and 31 December 2004 are detailed below.

i LLC Pervomayskoe

LLC Pervomayskoe is a company controlled by one of the Group's major shareholders (Note 1). The Group purchased articles of food and rent transport from OOO Pervomayskoe in the amount of US$ 41 for the year ended 31 December 2005.

The Group sold to LLC Pervomayskoe property and equipment, other services and materials, rented assets in the amount of US$ 65 for the year ended 31 December 2005. Receivable from LLC Pervomayskoe were US$ 683 and US$ 639 at 31 December 2005 and at 31 December 2004, respectively.

Before 2005 the Group had acquired promissory notes of LLC Pervomayskoe at par value. The notes are interest free and payable upon demand. The Group held US$ 1,312 and US$ 1,362 of promissory notes issued by LLC Pervomayskoe at 31 December 2005 and at 31 December 2004 respectively. At 31 December 2005 and 31 December 2004 management recognised impairment provision in the full amount against promissory notes of LLC Pervomayskoe.

The Group also pledged inventories with carrying value US$ 2,331 and US$ 2,418 at 31 December 2005 and at 31 December 2004 for bank loans raised by LLC Pervomayskoe (Note 10).

6 Balances and Transactions with Related Parties (Continued)

ii LLC Orisfey

LLC Orisfey is a company engaged in the production and sale of low alcoholic cocktails and is controlled by one of the Group's major shareholders (Note 1).

In April 2004 the Group and LLC Orisfey entered into a licensing agreement, pursuant to which LLC Orisfey acquired the right to use the Company's registered trademark "Trex Trax" for a period of two years for its products. The amount payable to the Company under the licensing agreement is RR 10,000 per year.

In 2004 the Group provided LLC Orisfey with a RR denominated loan in the amount US$ 6,135 for the acquisition of equipment and maintaining working capital. In the year ended 31 December 2005 an addition loan of US$ 106 was provided to LLC Orisfey by the Group. The loan bears interest of 2% per annum and is payable 31 December 2005. LLC Orisfey paid US$ 147 and repaid US$ 569 of the loan in the year ended 31 December 2005. The amount of loan principle due from LLC Orisfey was US$ 4,985 and US$ 5,552 at 31 December 2005 and at 31 December 2004 respectively. Management recognised an impairment provision against the full amount of the loan outstanding at 31 December 2005 and at 31 December 2004.

In 2004 the Group incurred advertising and marketing expenses in the amount of US$ 1,344 on behalf of LLC Orisfey and recharged these expenses to LLC Orisfey at cost. At 31 December 2005 and at 31 December 2004 US$ 952 and US$ 1,344 was due from LLC Orisfey. The amount is included in advances to suppliers and other receivables balance. Management recognised an impairment provision in the amount of US$ 601 and US$ 109 at 31 December 2005 and 31 December 2004 against this receivable.

The Group had sold to LLC Orisfey services, purchased finished goods and other assets in the amount of US$ 58 for the twelve months ended 31 December 2005. Payables to LLC Orisfey were US$ 59 and US$ nil at 31 December 2005 and at 31 December 2004 respectively.

In the year ended 31 December 2005 the LLC Orisfey sales to the Group amounted to US$ 113. Receivable from LLC Orisfey was US$ 26 and US$ 77 at 31 December 2005 and at 31 December 2004.

iii LLC Pharma Trade

LLC Pharma Trade is a company owned by LLC Orisfey and is engaged in the production and sale of oxygenated cocktails. In the year ended 31 December 2004 the Group acquired RR denominated, interest free and payable upon demand promissory notes of LLC Pharma Trade at par value US$ 541. The Group had receivable for the promissory notes from LLC Pharma Trade amounting to US$ 295 and US$ 541 at 31 December 2005 and at 31 December 2004 respectively.

The Group purchased oxygenated cocktails from LLC Pharma Trade in the amount of US$ 405 for the year ended 31 December 2005. In the year ended 31 December 2005 the Group used promissory notes of LLC Pharma Trade to settle the liability for the oxygenated cocktails in the amount of US$ 226. The Group had trade payable to LLC Pharma Trade amounting to US$ 113 and US$ 49 at 31 December 2005 and at 31 December 2004.

iv LLC Assol

LLC Assol is a company controlled by certain of the Group shareholders and engaged in supply to the Group of granulated sugar and corrugated cardboard products. In the twelve months ended 31 December 2005 the Group has sold to LLC Assol finished goods, other materials and services in the amount of US$ 33.

In the year ended 31 December 2005 the Group has purchased from LLC Assol sugar in the amount of US$ 8,124, packaging materials in amount of US$ 7,824, equipment and services in the amount of US$ 165.

The Group's accounts receivable from LLC Assol were US$ nil and US$ 2 at 31 December 2005 and at 31 December 2004. The Group's accounts payable to LLC Assol were US$ 37 and US$ 1,437 at 31 December 2005 and at 31 December 2004.

v Transactions with shareholders

In April 2005 the Group acquired from one of the Company's major (Note 1) shareholders 122,468 ordinary shares of Lebedyansky for US$ 4,499 at RR 1,022.47 per share (market price at the date of agreement was RR 1,092 per share). The Company reserved these treasury shares for a share option program for senior management (Note 7).

6 Balances and Transactions with Related Parties (Continued)

vi Key management personnel compensation

Compensation paid to directors for their services in full or part time executive management positions is made up of a contractual salary and a discretionary bonus depending on operating results. Discretionary bonuses are payable to directors, which are approved by the shareholders, provided the Group has profit for the period.

Total compensation of key management personnel including discretionary bonuses recorded in general and administrative expenses in the consolidated income statement in the amount of US$ 4,042 for the year ended 31 December 2005. The amount includes short term benefits in the amount of US$ 3,307 and an expense on option program in the amount of US$ 747.

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and constructions	**Machinery and equipment**	**Computer hardware**	**Motor vehicles**	**Other**	**Assets under construction and equipment for installation**	**Total**
Cost							
Balance at 31 December 2004	18,973	77,303	1,383	6,411	2 ,063	6,486	112,619
Additions	11	4,803	21	59	70	40,772	45,736
Disposals	(684)	(1,097)	(36)	(932)	(66)	(1,343)	(4,158)
Internal movements	1,684	11,834	600	4,545	839	(19,502)	-
Currency translation difference	(698)	(3,041)	(60)	(294)	(88)	(524)	(4,705)
Balance at 31 December 2005	**19,286**	**89,802**	**1,908**	**9,789**	**2,818**	**25,889**	**149,492**
Accumulated Depreciation							
Balance at 31 December 2004	(3,017)	(18,514)	(587)	(2,229)	(833)	-	(25,180)
Depreciation charge	(806)	(8,319)	(417)	(1,621)	(403)	-	(11,566)
Disposals	318	336	19	653	41	-	1,367
Internal movement	-	2	-	(2)	-	-	-
Currency translation difference	116	885	29	100	32	-	1,162
Balance at 31 December 2005	**(3,389)**	**(25,610)**	**(956)**	**(3,099)**	**(1,163)**	**-**	**(34,217)**
Net Book Value							
Balance at 31 December 2004	**15,956**	**58,789**	**796**	**4,182**	**1,230**	**6,486**	**87,439**
Balance at 31 December 2005	**15,897**	**64,192**	**952**	**6,690**	**1,655**	**25,889**	**115,275**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

7 Property, Plant and Equipment (Continued)

	Buildings and constructions	Machinery and equipment	Computer hardware	Motor vehicles	Other	Assets under construction and equipment for installation	Total
Cost							
Balance at 31 December 2003	11,866	47,128	758	3,501	1,491	5,288	70,032
Additions	115	8,239	91	432	87	29,786	38,750
Disposals	(113)	(805)	(50)	(374)	(56)	(474)	(1,872)
Internal movements	6,142	18,844	513	2,538	434	(28,471)	-
Currency translation difference	963	3,897	71	314	107	357	5,709
Balance at 31 December 2004	18,973	77,303	1,383	6,411	2,063	6,486	112,619
Accumulated Depreciation							
Balance at 31 December 2003	(1,568)	(12,737)	(310)	(1,367)	(714)	-	(16,696)
Depreciation charge	(1,279)	(5,155)	(312)	(1,023)	(168)	-	(7,937)
Disposals	40	316	46	258	61	-	721
Currency translation difference	(210)	(938)	(11)	(97)	(12)	-	(1,268)
Balance at 31 December 2004	(3,017)	(18,514)	(587)	(2,229)	(833)	-	(25,180)
Net Book Value							
Balance at 31 December 2003	**10,298**	**34,391**	**448**	**2,134**	**777**	**5,288**	**53,336**
Balance at 31 December 2004	**15,956**	**58,789**	**796**	**4,182**	**1,230**	**6,486**	**87,439**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

7 Property, Plant and Equipment (Continued)

Leased assets included in the table above, where the Group is a lessee under a finance lease arrangements, comprise machinery and equipment:

	2005	2004
Cost: capitalised finance leases	39,191	35,771
Accumulated depreciation	(9,589)	(6,888)
Carrying amount at 31 December	**29,602**	**28,883**

The additions of finance leases in the year ended 31 December 2005 and 31 December 2004 amounted to US$ 4,786 and US$ 7,853 respectively.

8 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2005	2004
Gross book value as previously reported		630	594
Derecognition of accumulated amortisation against gross book value at 1 January 2005		(126)	-
Gross book value at 1 January		504	594
Accumulated impairment losses at 1 January 2005 / accumulated amortisation and impairment losses at 1 January 2004	4	-	(54)
Carrying amount at 1 January		**504**	**540**
Amortisation		-	(61)
Currency translation difference		18	25
Carrying amount at 31 December		**486**	**504**
Gross book value at 31 December		486	630
Accumulated impairment losses at 31 December 2005 / accumulated amortisation and impairment losses at 31 December 2004	4	-	(126)
Carrying amount at 31 December		**486**	**504**

The Group ceased amortising goodwill with effect from 1 January 2005; refer to Note 2. Goodwill arising on acquisitions of subsidiaries before 31 March 2004 was previously amortised over a period of 10 years.

Goodwill Impairment Test

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

	2005	2004
OJSC Progress	486	504
Total carrying amount of goodwill	**486**	**504**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

8 Goodwill (Continued)

The recoverable amount of OJSC Progress was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the 10-20 % growth rates.

For calculation of OJSC Progress value-in-use management used EBITDA of 19 % and WACC of 12%. Management determined budgeted EBITDA based on past performance and its market expectations.

Movements in negative goodwill arising on the acquisition of subsidiaries were as follows:

	Note	2004
Gross book value at 1 January 2004		(664)
Accumulated amortisation at 1 January 2004		78
Carrying amount at 1 January 2004		**(586)**
Amortisation		80
Currency translation movement		(33)
Carrying amount at 31 December 2004	**4**	**(539)**
Gross book value at 31 December 2004		(705)
Accumulated amortisation at 31 December 2004		(166)
Carrying amount at 31 December 2004	**4**	**(539)**

Negative goodwill was derecognised against retained earnings on 1 January 2005. Refer to Note 4. Negative goodwill arising on acquisitions for which the agreement date was before 31 March 2004 was previously amortised over a period of 10 years.

9 Other Intangible Assets

Other intangible assets mainly consists of software licences.

	2005	2004
Cost at 1 January	1,031	334
Accumulated depreciation	(57)	(8)
Carrying amount at 1 January	**974**	**326**
Additions	1,809	635
Disposals	(1)	(33)
Amortization charge	(138)	(46)
Currency translation difference	(109)	92
Carrying amount at 31 December	**2,535**	**974**
Cost at 31 December	**2,727**	**1,031**
Accumulated depreciation	**(192)**	**(57)**
Carrying amount at 31 December	**2,535**	**974**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

10 Inventories

	2005	2004
Raw materials	34,511	26,803
Work in progress	7,062	3,281
Finished products	15,540	12,159
Less obsolescence provision	(172)	(156)
Total inventories	**56,941**	**42,087**

Inventories of US$ 2,331 (2004: 2,951 US$) in the statutory accounting reports have been pledged as collateral for borrowings. Refer to Note 15.

11 Trade and Other Receivables

	2005	2004
Trade receivables (net of provision for impairment of receivables of US$ 2,746 and US$ 1,849 at 31 December 2005 and 31 December 2004 respectively)	45,751	33,219
VAT recoverable	22,365	15,206
Advances to supplier and other receivables	12,804	7,483
Loan to OOO Orisfey	5,505	5,600
Impairment reserve against loan to OOO Orisfey	(5,505)	(5,600)
Profit tax advance	214	170
Total trade and other receivables	**81,134**	**56,078**

Trade receivables of US$ 1,340 (2004:US$ 881) net of impairment loss provisions are denominated in foreign currency, mainly Ukrainian hryvna.

12 Cash and Cash Equivalents

	2005	2004
RR denominated cash on hand and balances with bank	4,664	1,310
Foreign currency denominated balances with bank (Ukrainian hryvna)	86	60
Foreign currency denominated balances with bank (Kazahstan tenge)	27	30
Total cash and cash equivalents	**4,777**	**1,400**

Cash balances with banks bear interest from 0.5 to 6.35% per annum depending on the level of daily balances.

13 Share capital

	Number of outstanding shares [in thousands]	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2004	20,411,300	423	32	-	455
New shares issued	-	-	-	-	-
Treasury shares purchased	-	-	-	-	-
Treasury shares sold	-	-	-	-	-
Currency translation movement	-	26	2	-	**26**
At 31 December 2004	20,411,300	449	34	-	483
New shares issued	-	-	-	-	-
Treasury shares purchased	(122,468)	-	-	(4,499)	(4,499)
Treasury shares sold	-	-	-	-	-
Currency translation movement	-	(17)	(2)	148	129
At 31 December 2005	20,288,832	432	32	(4,351)	(3,887)

The issued share capital value was US$ 432 at 31 December 2005 (nominal value was RR 204,112). The authorized and issued number of ordinary shares was 20,411,300 at 31 December 2005 and 31 December 2004 with a nominal value per share of RR 0.01. All the shares were fully paid up at 31 December 2005 and 31 December 2004.

In March 2005 shareholders of the Company placed through an offering to the public under an open subscription 4,061,850 existing ordinary shares (RR 0.01 par value) at RR 1,016 per share. The shares have been admitted to placement and listing on the RTS Stock Exchange (“RTS”) and subsequently on the Moscow Interbank Currency Exchange (“MICEX”).

In April 2005 the Group acquired from one of the Company’s shareholders 122,468 ordinary shares of Lebedyansky for US$ 4,499 at RR 1,022.47 per share (market price at the date of agreement was RR 1,092 per share). The Company reserved these treasury shares for a share option program for senior management .

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For year ended 31 December 2005 net statutory profit for the Company as reported in the statutory accounting reports was US$ 71,736 at average exchange rate of RR 28,29 per US$. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in this consolidated financial information.

14 Share option plan

In March 2005 the Group granted senior management options to acquire in total 76,000 of the Company's ordinary shares at par value of RR 0.01. The options are exercisable after the Company publishes its financial results for the fourth quarter of 2007 (vesting date), subject to certain conditions, including remaining in employment in the Group by the vesting date and achievement of a targeted market capitalization. The number of vesting options is adjustable upon achievement of targeted market capitalization at the vesting date and this was considered in determining option values at the grant date. The holders of the options are allowed to exercise options before vesting date, in the event that present shareholders cease control over the Company. In case of death of the holder of the options the Group must repurchase the options at a price calculated based on a special formula, linked to EBITDA and long-term liabilities. The amount of the Company's shares granted under this option program should not exceed 122,468.

At 31 December 2005 the Group had 76,000 outstanding options with exercise price of RR 0.01 per share. The vesting and expiry date of outstanding options is publication of the Group’s financial results for the fourth quarter of 2007, which is expected to be in the first half of 2008.

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

14 Share option plan (continued)

The fair value of options granted during the period ended 31 December 2005 determined using the Black-Scholes valuation model adjusted for probability of achievement of a targeted market capitalization was US$ 2,987. The significant inputs into the model were share price of US$ 39.30, at the grant date, exercise price shown above, standard deviation of expected share price returns of 19%, option life disclosed above, an annual risk-free interest rate of 4.66%. Historical 3-year volatility of Russian stock exchange index adjusted for the Company's beta was used as a proxy for the expected volatility of the share price. In the nine months period ended 31 December 2005 the Group recognized an expense in the amount of US$ 747.

15 Borrowings

	2005	2004
Non-current		
Bank borrowings denominated in Euro	9,026	7,160
Total non-current borrowings	**9,026**	**7,160**
Current		
Bank borrowings denominated in Euro	2,384	1,656
Bank borrowings denominated in Russian roubles	1,012	4,319
Total current borrowings	**3,396**	**5,975**
Total borrowings	**12,422**	**13,135**

Bank borrowings denominated in Euro are unsecured and bear floating interest rates ranging from EURIBOR +0.9% to EURIBOR +1% at 31 December 2005 and EURIBOR +1% at 31 December 2004.

Bank borrowings denominated in Russian roubles are unsecured and bear fixed interest rates from 9.85% to 10.75% at 31 December 2005 and from 10% to 13% at 31 December 2004.

The Group's borrowings mature as follows:

		2005	2004
Borrowings due:	- within 1 year	3,396	5,975
	- between 2 and 5 years	8,408	6,624
	- after 5 years	618	536
Total borrowings		**12,422**	**13,135**

Management believes that the fair value of these borrowings is not materially different from their carrying amounts.

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

16 Finance leases payable

Minimum lease payments under finance leases and their present values are as follows:

	2005	2004
Finance leases liabilities – minimum lease payments		
Not later than 1 year	3,619	5,132
Later than 1 year and not later than 5 years	9,197	7,236
Later than 5 years	1,081	2,706
	13,897	15,074
Future finance charges on finance leases	(1,586)	(1,444)
Present value of finance leases liabilities	**12,311**	**13,630**
Not later than 1 year	3,089	4,651
Later than 1 year and not later than 5 years	8,171	6,382
Later than 5 years	1,051	2,597
	12,311	**13,630**

The Group leases machinery and equipment for a period of 60-96 months with an option to acquire leased assets at 5% of contract value at the end of the lease. Interest rates for finance leases are determined as LIBOR plus premium within the range of 1.65% - 4.5%.

Leased assets with carrying amount disclosed in Note 7 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

17 Trade and Other Payables

	2005	2004
Trade payables	26,889	25,838
Payables for property, plant and equipment	11,116	1,173
Accrued salaries and bonuses to personnel	4,494	3,185
Advances received	758	490
Trade and other payables	**43,257**	**30,686**

The liability for guarantees issued represents the higher of the unamortised balance of deferred fees received and the amount required to settle losses incurred on guarantees at the balance sheet date.

Trade payables of US$ 16,182 (2004: US$ 20,404) are denominated in foreign currency, mainly US Dollars and Euro.

US$ 10,983 (2004: US$ 801) of payables for property, plant and equipment are denominated in foreign currency mainly in Euro.

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

18 Tax payable

	2005	2004
Income tax	212	350
Payroll taxes	583	919
Property tax	185	110
Other taxes	731	38
	1,711	**1,417**

In 2005 the Group settled income tax liability in the amount of US$ 4,002 against VAT recoverable (2004: US$ 3,392).

19 Cost of sales

	2005	2004
Materials and components used	266,358	197,237
Labour cost	10,857	8,853
Production overheads	8,896	7,408
Depreciation	8,722	6,437
	294,833	**219,935**

20 Selling and Distribution expenses

	2005	2004
Advertising	22,218	17,925
Transportation	25,936	15,534
Labour cost	22,438	13,644
Warehousing	9,632	5,255
Other	3,933	2,146
	84,157	**54,504**

21 General and Administrative expenses

	2005	2004
Labour cost	13,372	8,903
Depreciation and amortisation	2,982	1,527
Taxes (mainly property tax)	574	454
Provision for impairment of receivables	1,214	322
Other	12,338	7,553
	30,480	**18,759**

Total depreciation and amortization expense and staff costs (including social expenses) in cost of sales, selling and distribution expenses and general and administrative expenses amounted to US$ 11,704 (2004: US$ 7,964) and US$ 46,667 (2004: US$ 31,400), respectively.

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

22 Finance Income

	2005	2004
Interest income on originated loans and bank deposits	366	656
Foreign exchange gain	1,503	660
Gain due to forgiveness of interest payable to Tetra Laval	-	1,314
	1,869	**2,630**

23 Finance Costs

	2005	2004
Interest expense on bank loans	550	297
Finance lease charge	526	683
Foreign exchange losses	328	1,026
Impairment of loan granted to OOO Orisfey	-	5,499
Impairment of promissory notes of OOO Pervomayskoe and other investments	-	1,312
Written-off acquisition cost of IFC loan	946	-
	2,350	**8,817**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

24 Income Taxes

Income tax expense comprises the following:

	2005	2004
Income tax-expense current	26,321	20,597
Deferred tax expense - origination and reversal of temporary differences	1,364	1,224
Deferred tax expense - effect of change in effective tax rate	-	220
Income tax expense for the year	**27,685**	**22,041**

A reconciliation between the expected and the actual taxation charge is provided below.

	2005	2004
IFRS profit before tax	**103,266**	**76,159**
Theoretical tax charge at statutory rate of 24% (2004: 24%)	24,784	18,278
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non deductible expenses		
- Write-off of spoiled finished goods and raw material storage	480	253
- Non-production unit expenses	142	132
- Options	176	-
- Advertising	32	306
- Other non-deductible expenses	2,046	1,338
Provision against promissory notes and available for sale investments	25	1,634
Change in effective tax rate	-	225
Statutory tax concession	-	(125)
Income tax expense for the year	**27,685**	**22,041**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

24 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2004: 24%).

The net effect of the changes on deferred tax balances recognised at 31 December 2005 and 31 December 2004 are reflected in the consolidated statements of income for the year ended 31 December 2005 and 2004, respectively.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company.

The Company has not recognised deferred tax liability of US$ 1,033 and US$ 684 at 31 December 2005 and 31 December 2004 in respect of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Net deferred tax liability in the amount of US$ 4,400 and US$ 2,425 at 31 December 2005 and 31 December 2004 respectively is expected to be settled after more than 12 months from balance sheet dates.

	31 December 2004	Differences recognition and reversals	Currency translation movement	31 December 2005
Tax effects of deductible temporary differences:				
Accounts payable/ Receivable	7,038	1,356	(276)	8,118
Inventories	65	(9)	(2)	54
Tax effects of taxable temporary differences:				
Property, plant and equipment	(11,211)	(1,527)	398	(12,340)
Other	(1,227)	(1,185)	96	(2,316)
Total net deferred tax (liability)/assets	**(5,335)**	**(1,365)**	**216**	**(6,484)**

	31 December 2003	Effect of change in tax rate	31 December 2003	Differences recognition and reversals	Currency translation difference	31 December 2004
Tax effects of deductible temporary differences:						
Provision for impairment of receivables	138	8	146	(149)	3	-
Accounts payable	5,139	439	5,578	1,076	384	7,038
Inventories	-	-	-	63	2	65
Tax effects of taxable temporary differences:						
Property, plant and equipment	(8,287)	(611)	(8,898)	(1,744)	(569)	(11,211)
Other	(640)	(56)	(696)	(470)	(61)	(1,227)
Total net deferred tax (liability)/assets	**(3,650)**	**(220)**	**(3,870)**	**(1,224)**	**(241)**	**(5,335)**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

25 Earnings per Share

Basic

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during period. The weighted average number of ordinary shares for the year ended 2005 was adjusted for the effect of treasury shares acquired by the Group in April 2005.

	2005	2004
Weighted average number of ordinary shares in issue	20,411,300	20,411,300
Adjustment for weighted average number of treasury shares acquired	(91,851)	-
Weighted average number of ordinary shares outstanding	20,319,449	20,411,300
Profit for the period attributable to the equity holders of the Company	74,631	53,367
Basic earnings per share	**US$ 3.67**	**US$ 2.61**

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares under the share based compensation program (Note 14). For the share options used in the share based compensation program a calculation is done to determine the number of shares that could have been issued at 31 December 2005 if this date was the vesting date.

	2005	2004
Weighted average number of ordinary shares in issue	20,411,300	20,411,300
Adjustment for weighted average number of treasury shares acquired	(91,851)	-
Weighted average number of ordinary shares outstanding	20,319,449	20,411,300
Adjustment for weighted average number of share options	61,527	-
Weighted average number of ordinary shares outstanding	20,380,976	20,411,300
Profit for the period attributable to the equity holders of the Company	74,631	53,367
Diluted earnings per share	**US$ 3.66**	**US$ 2.61**

(all items are measured in Russian Roubles and presented in thousand of US Dollars (Note2))

26 Contingencies, Commitments and Operating Risks

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Tax legislation. 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.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision).

Capital expenditure commitments. At 31 December 2005 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US$ 15,458 (2004: US$ 17,211) .

Operating lease commitments. The Group's future minimum lease payments under non-cancellable operating leases comprised US$ 909 at 31 December 2005 (2004: US$ 1,602). Operating leases mainly represent rent of office and warehouse premises with fixed monthly charges. The maturity of operating lease liabilities (minimum lease payments) is as follows:

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2005	**2004**
Not later than 1 year	909	728
Later than 1 year and not later than 5 years	-	874
Later than 5 years	-	-
Total operating lease commitments	**909**	**1,602**

Insurance policies. The Group holds no insurance policies in relation to its assets or operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering equipment leased under finance lease agreements and motor vehicles.

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

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country 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 of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

27 Financial Risk Management

Credit risk. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables and originated loans. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable (net of provision for impairment of receivables), originated loans and available for sale investments represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. 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. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Foreign exchange risk. The Group consumes materials with US$ and Euro denominated prices and exports products to CIS countries (Ukraine, Kazakhstan) and thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The Group's finance leases are denominated in US$ and Euro. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Fair value interest rate risk. The Group is exposed to fair value interest rates (EURIBOR, LIBOR) risk through market value fluctuations of interest-bearing non-current borrowings (Note 15) and financial lease liabilities (Note 16). The interest rates on short-term borrowings are fixed . The Group has no significant interest-bearing assets.

28 Fair Value of Financial Instruments

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

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

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

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

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to note 15 for the estimated fair values of borrowings.

29 Subsequent events

Dividends. 6 May 2006 Board of Directors recommended to pay dividends in the amount of US$ 49,494 (RR 68.59 per ordinary share). Payment of dividends is subject to an approval on shareholders meeting scheduled on 30 June 2006.

Bonds. 29 April 2006 the Group made a decision to issue 2,300,000 Russian rouble denominated 5-year bonds with par value RR 1,000.