

**OAO Nutrinvestholding and subsidiary  
undertakings**

**(“NUTRITEK GROUP”)**

**Non-Statutory Consolidated  
Financial Statements  
for the year ended  
31 March 2006**

**Contents**

Directors' Report	1
Auditors' Report	4
Consolidated Income Statement	6
Consolidated Balance Sheet	7
Consolidated Statement of Cash Flows	9
Consolidated Statement of Changes in Equity	11
Notes to the Consolidated Financial Statements	12

**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 MARCH 2006**

The directors present their report and consolidated non-statutory financial statements for the year ended 31 March 2006 for OAO Nutrinvestholding and its subsidiary undertakings ("the Group") together with the proforma results for the year ended 31 March 2005.

**Principal activities and review of the business**

The principal activity of the Group continued to be that of a producer of a wide range of dairy products, baby and other foods. The directors believe that the Group is one of the leading dairy and baby food producers in Russia holding strong positions within key regional markets.

During the year the Group's revenues increased by 15% thereby consolidating and enhancing its position within the marketplace. The Group has expanded substantially through acquisitions and the creation of new businesses and as at the balance sheet date had 26 trading subsidiaries. Included at the year end is the key acquisition of Slavex which was acquired in February 2006. Slavex owns the Vinni brand which joins the Group's stable of own brands including Kroshka, Nutrilak and Nutrien.

**Results**

The results for the year are set out on page 6.

**Directors**

The following directors have held office since 1 April 2005:

G. Sazhinov  
D. Popov  
K. Malofeev  
A. Provotorov  
D. Skuratov  
B. Pastukhov  
G. Vasiliev  
A. Baranov  
S. Ivanov (resigned 18 November 2005)  
V. Chagarovsky (resigned 28 April 2006)  
O. Rukavishnikov (resigned 18 November 2005)

**Directors' interests**

The directors direct interest in the shares of the company was as stated below:

	<b>31 March 2006</b>	<b>Ordinary shares 31 March 2005</b>
G. Sazhinov	Nil	Nil
D. Popov	Nil	Nil
K. Malofeev	Nil	Nil
A. Provotorov	Nil	Nil
D. Skuratov	Nil	Nil
B. Pastuhov	Nil	Nil
G. Vasiliev	Nil	Nil
A. Baranov	Nil	Nil
S. Ivanov	Nil	Nil
V. Chagarovsky	Nil	Nil
O. Rukavishnikov	Nil	Nil

G. Sazhinov and K. Malofeev are the joint equal beneficial shareholders of Marshall Milk Investments Limited, the immediate and ultimate parent company of OAO Nutrinvestholding.

**Directors' responsibilities**

The directors are responsible for preparing these non-statutory consolidated financial statements in accordance with International Generally Accepted Accounting Practice.

The directors have agreed to prepare non-statutory consolidated financial statements which give a true and fair view of the state of affairs of the Group and of the consolidated income statement of the Group. In preparing those financial statements, the directors have agreed to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the non-statutory consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the non-statutory financial statements comply with applicable laws. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

*NUTRITEK GROUP*

**Statement of disclosure to auditor**

(a) so far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the board



G. Sazhinov

**Director**

## **NON-STATUTORY INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OAO NUTRINVESTHOLDING**

We have audited the accompanying consolidated financial statements (the "financial statements") of OAO Nutrinvestholding and subsidiary undertakings ("the Group") for the year ended 31 March 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

As described in the Statement of Director's Responsibilities in the Directors' Report the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared, and whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

NON-STATUTORY INDEPENDENT AUDITORS' REPORT (CONTINUED)  
TO THE MEMBERS OF OAO NUTRINVESTHOLDING

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 March 2006 and of the group's profit for the year then ended;
- the information given in the Directors' Report is consistent with the financial statements; and
- the consolidated financial statements have been properly prepared

*MM Moores Rowland LLP*

MRI Moores Rowland LLP  
Chartered Accountants

3 Sheldon Square  
London  
United Kingdom  
W2 6PS

*Moores Rowland 14 December 2006*

MRI Rosexpertisa LLC

Building 3  
7 Fikhvinsky Lane  
127055 Moscow  
Moscow

*14 December 2006*

**NUTRITEK GROUP**  
Consolidated Income Statement for the year ended 31 March 2006

		Year ended 31 March 2006	Proforma Year ended 31 March 2005
	Note	'000 RUR	'000 RUR
Revenue	17	6,502,306	5,654,127
Cost of sales	17	(5,360,164)	(4,804,374)
<b>Gross profit</b>		1,142,142	849,753
Distribution expenses		(327,526)	(109,685)
Administrative expenses	18	(232,575)	(191,102)
<b>Operating profit</b>		582,041	548,966
Financial income	19	67,770	32,886
Financial expenses	19	(433,784)	(295,921)
Other income and expenses	20	(15,714)	208,108
<b>Profit before tax</b>		200,313	494,039
Taxation	16	(23,522)	(51,256)
<b>Net profit for the year</b>		176,791	442,783
<b>Attributable to:</b>			
Shareholders of the Parent Company	17	237,882	509,679
Minority interest		(61,091)	(66,896)
		176,791	442,783
		RUR	RUR
<b>Basic earnings per share</b>	12	20.38	28.32
<b>Diluted earnings per share</b>	12	20.38	28.32

The consolidated financial statements were approved by the Board of Directors of the Company on 13 December 2006.

Sazhinov G.Yu.  Ivanov S.V.   
General Director Chief Accountant

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements.



**NUTRITEK GROUP**  
*Consolidated Balance Sheet for the year ended 31 March 2006*

		<b>31 March</b>	<b>Proforma</b>
		<b>2006</b>	<b>31 March</b>
	<b>Note</b>	<b>'000 RUR</b>	<b>2005</b>
		<b>'000 RUR</b>	<b>'000 RUR</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	8	998,112	223
Property, plant and equipment	5	5,107,395	3,827,873
Biological assets	6	301,329	79,819
Investments	7	26,228	1,558
Other long term assets		7,288	5,083
		6,440,352	3,914,556
<b>Current assets</b>			
Investments	7	743,953	46,244
Inventories	9	619,903	657,961
Trade and other receivables	10	1,573,950	885,358
Cash and cash equivalents	11	936,064	26,690
		3,873,870	1,616,253
<b>Total assets</b>		10,314,222	5,530,809

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

**NUTRITEK GROUP**  
Consolidated Balance Sheet for the year ended 31 March 2006

**NUTRITEK GROUP**  
Consolidated Balance Sheet as of 31 March 2006

	Note	31 March 2006	Proforma 31 March 2005
		'000 RUR	'000 RUR
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	137	180
Share premium		1,388,212	-
Treasury shares		(10)	-
Retained earnings		1,547,026	1,325,728
<b>Total equity attributable to shareholders of the parent company</b>		2,935,365	1,325,908
Minority interest		1,062,049	999,274
<b>Total equity</b>		3,997,414	2,325,182
<b>Non-current liabilities</b>			
Loans and borrowings	13	4,076,687	607,976
Deferred income	15	91,388	16,010
Deferred tax liabilities	16	375,098	243,543
		4,543,173	867,529
<b>Current liabilities</b>			
Loans and borrowings	13	603,547	823,103
Short-term portion of long-term loans and borrowings	13	-	739,313
Income tax payable		66,926	35,326
Trade and other payables	14, 15	1,095,957	738,024
Provisions		7,205	2,332
		1,773,635	2,338,098
<b>Total equity and liabilities</b>		10,314,222	5,530,809

Sazhinov G.Yu.  Ivanov S.V.   
General Director Chief Accountant

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

**NUTRITEK GROUP**  
*Consolidated Statement of Cash Flows for the year ended 31 March 2006*

	<b>Year ended 31 March 2006 '000 RUR</b>	<b>Proforma Year ended 31 March 2005 '000 RUR</b>
<b>OPERATING ACTIVITIES</b>		
<b>Profit for the year before tax</b>	200,313	494,039
Adjustments for:		
Depreciation	388,080	293,188
Provision against biological assets	(47,487)	117
Loss on disposal of property, plant and equipment	-	6,831
Loan issued to a subsidiary prior to subsidiary acquisition	-	36,000
Recognition of negative goodwill	-	(228,772)
Other non-cash items	(12,563)	44,729
Interest expense	433,784	295,921
<b>Operating profit before changes in working capital and provisions</b>	962,127	942,053
Decrease/(increase) in inventories	234,017	(199,031)
Increase in trade and other receivables	(357,889)	(89,887)
Increase/(decrease) in trade and other payables	13,181	(164,164)
(Decrease)/increase in provisions	(2,330)	2,330
<b>Cash inflow from operations before income taxes and interest</b>	849,106	491,301
Income taxes paid	(5,197)	(54,494)
Interest paid	(326,340)	(295,921)
<b>Cash inflow from operating activities</b>	517,569	140,886

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

	<b>Year ended 31 March 2006 '000 RUR</b>	<b>Proforma Year ended 31 March 2005 '000 RUR</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(1,276,976)	(151,288)
(Acquisition)/disposal of long term investments	(24,669)	2,380
(Acquisition)/disposal of short term investments	(697,709)	52,680
Purchase of biological assets	(177,907)	(30,331)
Purchase of intangible assets	-	(223)
Purchase of subsidiaries (net of cash acquired)	(1,278,648)	(491,048)
Purchase of other long term assets	(333)	(5,025)
<b>Cash outflow from investing activities</b>	<b>(3,456,242)</b>	<b>(622,855)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from share issue	1,999,612	-
Acquisition of treasury stock	(611,363)	-
Proceeds from borrowings	4,084,958	1,395,962
Repayment of borrowings	(1,732,235)	(900,605)
Grants received	107,075	-
<b>Cash inflow from financing activities</b>	<b>3,848,047</b>	<b>495,357</b>
<b>Net increase in cash and cash equivalents</b>	<b>909,374</b>	<b>13,388</b>
Cash and cash equivalents at beginning of year	26,690	13,302
<b>Cash and cash equivalents at end of year</b>	<b>936,064</b>	<b>26,690</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

**NUTRITEK GROUP**  
Consolidated Statement of Changes in Equity for the year ended 31 March 2006

'000 RUR	Attributable to shareholders of the Parent					Minority interest	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Total		
<b>Balance as of 1 April 2005</b>	180	-	-	1,325,728	1,325,908	999,274	2,325,182
Net effect of legal restructuring	(80)	-	-	-	(80)	-	(80)
Share capital issue	37	1,999,565	-	-	1,999,602	-	1,999,602
Treasury shares acquired	-	(611,353)	(10)	-	(611,363)	-	(611,363)
Foreign subsidiary translation difference	-	-	-	(16,584)	(16,584)	-	(16,584)
Acquisition of new subsidiaries	-	-	-	-	-	123,866	123,866
Net profit	-	-	-	237,882	237,882	(61,091)	176,791
<b>Balance as of 31 March 2006</b>	137	1,388,212	(10)	1,547,026	2,935,365	1,062,049	3,997,414

  

'000 RUR	Attributable to shareholders of the Parent					Minority interest	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Total		
<b>Balance as of 1 April 2004</b>	180	-	-	816,049	816,229	953,248	1,769,477
Acquisition of new subsidiaries	-	-	-	-	-	112,922	112,922
Net profit	-	-	-	509,679	509,679	(66,896)	442,783
<b>Balance as of 31 March 2005</b>	180	-	-	1,325,728	1,325,908	999,274	2,325,182

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

## **1 Background**

### **(a) Organisation and operations**

OAo Nutrinvestholding (the “Parent Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation, and companies located abroad.

The Parent Company’s registered office is 37A, block 14, Leningradskiy Prospekt, Moscow, Russia.

The Group’s principal activity is producing baby food and dairy as well as agriculture at plants and farms located in the cities and suburbs of Tallinn, Vologda, Moscow, Penza and several other cities. These products are sold in the Russian Federation and abroad.

### **(b) Russian business environment**

Whilst in recent years there have been improvements in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some 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. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group’s control.

In addition, economic conditions continue to limit the volume of activities in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary. The future business environment may differ from management’s assessment. The impact of such differences on the operations and the financial position of the Group may be significant.

## **2 Basis of preparation**

### **(a) Statement of compliance**

The Group applies IFRS 1 “First-time Adoption of International Financial Reporting Standards” to the consolidated financial statements as of 31 March 2006 as this is the first time it prepares financial statements in accordance with International Financial Reporting Standards (“IFRS”). The comparative financial statements are proforma in nature as the entities did not, in the year ended 31 March 2005, form a legal group of companies but were under common management and control throughout that period. The comparative proforma financial statements consolidate all entities under common management and control during the year, with the parent company being OAo Nutrinvest, the sole 100% subsidiary of Nutrinvestholding. The expenses of Nutrinvestholding were included in these comparative results. Following approval by the Federal

## **2 Basis of preparation (continued)**

anti-monopoly service, OAO Nutrinvestholding acquired entities from OAO Nutrinvest and became the main holding company of the Group. The reconciliation of the Group's equity and profit reported in accordance with Russian Accounting Standards ("RAS") and IFRS is provided in Note 21 "Effect of adjustments".

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards.

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of IFRS. The preparation of financial statements conforming with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant for the consolidated financial statements, are disclosed in Note 3 (y) "Critical accounting estimates and judgements".

These consolidated financial statements have been approved for issue by the Board of Directors on 13 December 2006.

### **(b) Basis for measurement**

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss and investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, Goskomstat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

### **(c) Functional and presentation currency**

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

### **(d) Going concern**

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (see Note 1 (b) "Russian business environment"). The accompanying consolidated financial statements do not include any adjustments should the Company be unable to continue as a going concern.

## **2 Basis of preparation (continued)**

### **(e) Corresponding amounts**

The directors have reanalysed certain comparative amounts in order to make their disclosure more meaningful.

### **(f) Use of estimates and judgments**

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 8 “Intangible assets”;
- Note 10 “Trade and other receivables”;
- Note 16 “Income tax expense”; and
- Note 22 “Contingencies”.

## **3 Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

### **(a) Exemptions from full retrospective application elected by the Group:**

#### **(i) Business combinations exemption**

The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to 1 April 2004.

#### **(ii) Fair value as deemed cost exemption**

The Company has elected to measure certain property, plant and equipment at fair value as at 1 April 2004.

### **(b) Basis for consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 31 March 2006.

The purchase method of accounting is used to account for the acquisition of subsidiary undertakings except where otherwise stated.



### **3 Significant accounting policies (continued)**

#### **(i) Subsidiaries**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The comparative proforma financial statements include entities which were not part of the legal Group during the entire year ended 31 March 2005. However, as these entities were under common management throughout the period the entities have been accounted for as subsidiaries from the date in which they came under common management and control.

#### **(ii) Special purpose entities**

The Group operates with a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

#### **(iii) Acquisitions and disposals of minority interests**

Any difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as goodwill or negative goodwill.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Group's interest in the subsidiary including attributable goodwill, is recognised in the income statement.

#### **(iv) Transactions eliminated on consolidation**

Intra-group balances and transactions and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing these consolidated financial statements.

#### **(c) Foreign currencies – company**

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

#### **(d) Foreign currencies – group**

The results and financial position of all the Group entities that have a functional currency different from the presentational currency are transferred into the presentational currencies as follows:

### **3 Significant accounting policies (continued)**

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- (ii) income and expenses for each income statement are translated at average exchange rates
- (iii) all resulting exchange differences are recognised as a separate component of equity.

#### **(e) Inflation accounting**

In the years prior to 1 January 2003, Russia was considered to be a hyperinflationary economy as defined in IAS 29 "Financial Reporting in Hyperinflationary Economies", which requires that financial statements be expressed in terms of the measuring unit current as of the balance sheet date. Accordingly, amounts indicated in the Group's financial statements prior to 1 January 2003, have been restated to account for changes in the general purchasing power of the RUR. The restatement is based on relevant price indices at the balance sheet date. The indices are derived from the inflation rates which are issued by the State Statistical Committee of the Russian Federation ("Goskomstat").

As from 1 January 2003 the Russian Federation is no longer considered to be a hyperinflationary economy, and therefore from this date the consolidated financial statements have not been adjusted for inflation. The carrying amounts of the Group's assets, liabilities and equity items at 1 January 2003 form the basis for subsequent accounting.

#### **(f) Property, plant and equipment**

##### **(i) Owned assets**

Property, plant and equipment is stated at cost/deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group's property, plant and equipment has been revalued as of 31 March 2004 by an independent valuer, American Appraisal, using a combination of the market, income and cost methods to arrive at the deemed cost for the purposes of preparation of the opening IFRS balance sheet as of 31 March 2004. American Appraisal was also commissioned to independently appraise property, plant and equipment for all subsidiaries acquired after 31 March 2004.

##### **(ii) Biological assets**

Special treatment applies to biological assets under IFRS, whereas these assets are treated as standard fixed assets under RAS. The special treatment of biological assets is outlined in IAS 41 - Agriculture. According to IAS 41, biological assets shall be reported at their fair value at each reporting date. The change in fair value may be attributable to physical changes or changes in market prices of biological assets. Changes in the fair value of a biological asset shall be recognised in the income statement as gains or losses. This implies that the income statement will reflect an assessed net growth in addition to actual livestock. The new rules also affect the

### **3 Significant accounting policies (continued)**

accounting of inventory as the initial measurement of agricultural produce shall be reported at its fair value. Nutritek Group biological assets consist of workstock, productive livestock, self-maintained herds and pig herds.

#### **(iii) Leased assets**

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance leases is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

#### **(iv) Subsequent expenditure**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

#### **(v) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 20 to 50 years
- Plant and equipment 6 to 15 years

#### **(g) Intangible assets and negative goodwill**

##### **(i) Goodwill and negative goodwill**

###### *Adoption of IFRSs*

Goodwill / negative goodwill in relation to a business combination that occurred prior to the date of adopting IFRSs, 1 April 2004, was determined at that date as the difference between the cost of acquisition of the subsidiary, adjusted for hyperinflation until the end of 2002 where applicable, and the IFRS carrying amounts of the assets and liabilities of the subsidiary in the consolidated financial statements.

###### *Other goodwill*

Other goodwill arising on an acquisition represents the excess of the cost of the acquisition over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities.

### **3 Significant accounting policies (continued)**

Goodwill is stated at cost less impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

#### *Other negative goodwill*

Other negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill is recognised immediately in the income statement.

#### **(ii) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

#### **(iii) Brands**

Brands are capitalised at fair value at the date of acquisition. Brands have a finite useful economic life and are appraised at fair value on acquisition based on the Group's methodology using discounted cash flows. Amortisation is calculated using the straight line method to allocate the fair value on acquisition over their useful economic life. The useful economic life of the brands is considered to be 10 years.

#### **(h) Segmental reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a group of assets engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

#### **(i) Financial instruments**

##### **(i) Classification**

*Originated loans and receivables* are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Group, or held to maturity.

##### **(ii) Recognition**

The Group recognises financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

### **3 Significant accounting policies (continued)**

Held-to-maturity assets are originated loans and receivables are recognised on the day they are transferred to or originated by the Group.

#### ***(iii) Measurement***

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

#### ***(iv) Gains and losses on subsequent measurement***

Gains and losses arising from a change in the fair value of available-for-sale securities are recognised in the income statement.

#### ***(j) Inventories***

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### ***(k) Trade and other receivables***

Trade and other receivables are stated at cost less provision for bad and doubtful debts.

#### ***(l) Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

#### ***(m) Impairment***

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

### **3 Significant accounting policies (continued)**

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

#### **(i) Calculation of recoverable amount**

The recoverable amount of the Group's held-to-maturity investments, and loans and receivables, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs required to bring these assets to market and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### **(ii) Reversals of impairment**

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **(n) Share capital**

##### **(i) Repurchase of share capital**

When equity share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Treasury shares are reflected at par value, the difference between the consideration paid for the treasury shares and nominal cost is adjusted through the share premium account.

##### **(ii) Dividends**

Dividends are recognised as a liability in the period in which they are declared.

#### **(o) Loans and borrowings**

Loans and borrowings are recorded at the proceeds received, net of direct issue costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Direct issue costs are amortised over the period of the loans to which they relate.

### **3 Significant accounting policies (continued)**

#### **(p) State pension funds**

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

#### **(q) Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle that obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **(r) Trade and other payables**

Trade and other payables are stated at cost.

#### **(s) Income tax**

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(t) Revenues**

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

### **3 Significant accounting policies (continued)**

#### **(u) Accounting for government grants**

Government grants related principally to biological assets on Nutritek agricultural subsidiaries. These refer primarily to the treatment of government grants which are not recognised as income initially, but rather reduce the acquisition cost of the respective item of property acquired.

Government support (grants) is allocated for the purposes of dairy cattle husbandry and bred livestock farm. Furthermore agricultural subsidiaries obtain the following government grants: acreage grants and milk production grants.

Government and other grants are recognised at their fair value when received from government or other accredited institutions.

#### **(v) Financial income and expenses**

Financial income and expenses comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, dividend income, foreign exchange gains and losses, gains and losses on the revaluation and disposal of investments held for trading or designated at fair value through profit and loss, and impairment losses and gains and losses on the disposal of available-for-sale investments.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses.

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in other companies, dividend income is recognised on the date that the dividend is declared.

#### **(w) Other expenses**

##### **(i) Operating leases**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

##### **(ii) Social expenditure**

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

#### **(x) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 March 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.



### **3 Significant accounting policies (continued)**

The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

#### **(y) Critical accounting estimates and judgements**

Estimates and judgements are consistently evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The accounting estimates will therefore seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are as follows:

##### **(i) Brands**

After 1 April 2004, the Group acquired two brands as part of corporate acquisitions as described further in Note 8 "Intangible assets". The management has estimated the value of the brands acquired using the methodology of discounted cash flows and by obtaining an independent appraisal of the intangible assets acquired.

##### **(ii) Estimated impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policies. The recoverable amounts of cash generating units have been determined based on value in use calculations. The calculations require the use of estimates.

##### **(iii) Income taxes**

Significant judgement is required in determining the provision for income taxes. The Group recognises tax liabilities based on their estimate of whether tax will be due. However, following the annual tax audit, there may arise tax assessments which are different from the amounts that were initially recorded. Such differences will impact the income tax and deferred tax provision in the period in which such determinations are made.

#### **4 Businesses acquired**

On 1 February, 2006 the Group acquired 56% of OAO Khorolsky Molochno-Konservnyi Kombinat (“Khorolsky MKK”), a company incorporated in Ukraine, from a third party. Khorolsky MKK specialises in the production of dairy baby food products, dry milk powder, butter, and whole milk (dairy) products. The plant is located in Khorol, Ukraine. In March 2006 the Group acquired an additional 12% of Khorolsky MKK. Khorolsky MKK revenue for the year ending 31 March 2006 amounted to RUR 511,873 thousand.

On 1 March, 2006 the Group acquired 100% of Slavex Group from a third party. Slavex Group includes a trading company ZAO TD Slavex, a non-dairy baby food plant ZAO Moskovsky Zavod Detskogo Pitaniya (MZDP), a subsidiary producing special baby water OOO Aqua-Pak, and a headquarters company ZAO Slavex-Centre. All subsidiaries of Slavex Group are located in Moscow, Russia. Slavex Group’s revenue for the year ending 31 March 2006 amounted to RUR 661,847 thousand.

In June 2004, the Company acquired 70.3% of ZAO Plemzavod Zarya farm for cash consideration of RUR 64,851 thousand from third parties. Plemzavod Zarya farm produces raw milk. The fair value of net assets acquired exceeded the purchase price of the subsidiary by RUR 198,733 thousand. The resulting negative goodwill was included in the income statement.

In October 2004 the Group’s ultimate shareholder acquired 100% of the issued shares in OU Estmilk and AS Agro Piim, companies incorporated in Estonia, for cash consideration of RUR 438,396 thousand. Agro Piim farms produce raw milk. The fair value of the net assets acquired exceeded the purchase price of the subsidiary by RUR 30,139 thousand. The resulting negative goodwill was included in the income statement. The results of this acquisition are included in the consolidated financial statements for 31 March 2005 on a proforma basis. On 24 August 2005 100% of shares in Irmgard Assets Ltd., the owner of 100% of the issued shares in OU Estmilk and AS Agro Piim were contributed to the Group by its ultimate shareholder at no further cost to the Group.

On 28 August 2005 50% of shares in ZAO Kompania Nutritek were contributed to the Group by its ultimate shareholder at no further cost to the Group.

#### **Financial results of the two new acquisitions between the date of acquisition and the financial year ended 31 March 2006**

'000 RUR	Khorolsky MKK	Slavex Group
Revenues	125,783	140,571
(Loss) / profit	(5,242)	7,098

## 4 Businesses acquired (continued)

### Breakdown of the goodwill

'000 RUR	Khorolsky MKK		Slavex Group	
	Recognised fair value on acquisition	Book Value prior to acquisition	Recognised fair value on acquisition	Book Value prior to acquisition
<b>Net assets acquired</b>				
<i>Non-current assets</i>				
Intangible assets	39,270	-	291,297	18
Property, plant and equipment	320,436	162,515	70,190	43,733
Long term finance assets	1,845	1,845	27	27
Deferred tax assets	-	-	2,654	2,654
<i>Current assets</i>				
Inventories	112,744	112,744	83,215	83,215
Trade and other receivables	29,428	29,428	301,275	301,275
Cash and cash equivalents	2,031	2,031	3,321	3,321
<i>Total assets</i>	<u>505,754</u>	<u>308,563</u>	<u>751,979</u>	<u>434,243</u>
<i>Non-current liabilities</i>				
Loans and borrowings	29,796	29,796	-	-
Deferred tax liabilities	49,247	-	82,083	-
<i>Current liabilities</i>				
Loans and borrowings	8,522	8,522	11,358	11,358
Trade and other payables	20,118	20,118	308,862	308,862
Provisions	7,205	7,205	-	-
<i>Total liabilities</i>	<u>114,888</u>	<u>65,641</u>	<u>402,303</u>	<u>320,220</u>
<i>Net assets acquired</i>	<u>390,866</u>	<u>242,922</u>	<u>349,676</u>	<u>114,023</u>
Share of Nutritek (%)	68.31		100.00	
Net assets attributable to Nutritek	267,001		349,676	
Total consideration	307,000		977,000	
<b>Goodwill</b>	<u>39,999</u>		<u>627,324</u>	
<b>Goodwill on acquisition:</b>				
Khorolsky MKK	39,999			
Slavex Group	<u>627,324</u>			
	<u>667,323</u>			

## 5 Property, plant and equipment

'000 RUR	Land and buildings	Plant and equipment	Construction in progress	Total
<b>Cost /Deemed cost</b>				
As of 1 April 2005	3,543,212	3,099,931	358,323	7,001,466
Acquisitions through business combinations	149,905	240,721	-	390,626
Additions	467,444	855,229	(45,697)	1,276,976
Disposals	-	-	-	-
As of 31 March 2006	4,160,561	4,195,881	312,626	8,669,068
<b>Accumulated depreciation</b>				
As of 1 April 2005	(1,671,515)	(1,502,078)	-	(3,173,593)
Depreciation charge	(147,367)	(240,713)	-	(388,080)
Disposals	-	-	-	-
As of 31 March 2006	(1,818,882)	(1,742,791)	-	(3,561,673)
<b>Net book value</b>				
As of 31 March 2005	1,871,697	1,597,853	358,323	3,827,873
As of 31 March 2006	2,341,679	2,453,090	312,626	5,107,395

  

'000 RUR	Proforma	Land and buildings	Plant and equipment	Construction in progress	Total
<b>Cost /Deemed cost</b>					
As of 1 April 2004		2,647,565	2,779,752	410,943	5,838,260
Acquisitions through business combinations		839,549	240,667	-	1,080,216
Additions		56,098	147,810	(52,620)	151,288
Disposals		-	(68,298)	-	(68,298)
As of 31 March 2005		3,543,212	3,099,931	358,323	7,001,466
<b>Accumulated depreciation</b>					
As of 1 April 2004		(1,561,761)	(1,380,111)	-	(2,941,872)
Depreciation charge		(109,754)	(183,434)	-	(293,188)
Disposals		-	61,467	-	61,467
As of 31 March 2005		(1,671,515)	(1,502,078)	-	(3,173,593)
<b>Net book value</b>					
As of 31 March 2004		1,085,804	1,399,641	410,943	2,896,388
As of 31 March 2005		1,871,697	1,597,853	358,323	3,827,873

## 5 Property, plant and equipment (continued)

Included below are assets held under finance leases as follows (see also Note 13 “Loans and borrowings”):

<b>'000 RUR</b>	<b>Plant and equipment</b>
<i>Net book value</i>	
At 31 March 2005	628,850
At 31 March 2004	677,223
<i>Depreciation charge for the year</i>	48,373

There were no finance lease agreements as at 31 March 2006.

### **Assets pledged as collateral**

As of 31 March 2006 building, machinery and equipment with carrying value of RUR 299,000 thousand (as of 31 March 2005: RUR 1,647,677 thousand) were pledged as collateral for loans received by the Group from banks and other financial institutions (refer to Note 13 “Loans and borrowings”). Those assets belong to the following Group companies: OAO Zelenodolsky Molochnyi Kombinat and OAO Konservny Zavod Dinskoy.

### **Determination of deemed cost**

In 2005 management commissioned American Appraisal (AAR), Inc. to independently appraise property, plant and equipment as at 31 March 2004 in order to determine its deemed cost. The fair value of property, plant and equipment was determined to be RUR 2,896,388 thousand. American Appraisal was also commissioned to independently appraise property, plant and equipment for all subsidiaries acquired after 31 March 2004.

## 6 Biological assets

The Group is engaged in milk production for supply to various customers and for internal production. At 31 March 2006, the Group held 9,593 cows able to produce milk (mature assets) (2005: 7,112) and 12,369 calves that are being raised to produce milk in the future (immature assets) (2005: 9,194). The Group produced 43,797 tonnes of milk with a fair value of RUR 293,439 thousand to external customers and 7,754 tonnes of milk for internal production in the year ended 31 March 2006 (2005: 32,353 tonnes of milk with a fair value of RUR 210,292 thousand to external customers and 5,728 tonnes of milk for internal production).

## 6 Biological assets (continued)

'000 RUR	Workstock	Productive livestock	Pig herd	Self-maintained herd	Total
At 1 April 2005	8,054	34,427	531	36,807	79,819
<i>Animal yield</i>	-	-	83	31,259	31,342
<i>Body-weight increase</i>	-	-	829	43,205	44,034
<i>Additions</i>	-	-	194	177,713	177,907
<i>Pithed</i>	-	-	(93)	(2,297)	(2,390)
<i>Disposals</i>	-	-	(531)	(13,388)	(13,919)
<i>Mortality</i>	(805)	(8,595)	-	(2,180)	(11,580)
<i>Transfers</i>	-	101,732	-	(101,732)	-
<i>Fair value adjustment</i>	(261)	(3,572)	(51)	-	(3,884)
At 31 March 2006	<u>6,988</u>	<u>123,992</u>	<u>962</u>	<u>169,387</u>	<u>301,329</u>

'000 RUR Proforma	Workstock	Productive livestock	Pig herd	Self-maintained herd	Total
At 1 April 2004	-	-	-	-	-
<i>On acquisition</i>	8,363	27,666	571	20,317	56,917
<i>Animal yield</i>	-	-	57	766	823
<i>Body-weight increase</i>	-	-	60	967	1,027
<i>Additions</i>	-	9,302	-	21,029	30,331
<i>Pithed</i>	-	-	(30)	(205)	(235)
<i>Disposals</i>	-	-	(40)	(1,033)	(1,073)
<i>Mortality</i>	-	-	(47)	(612)	(659)
<i>Fair value adjustment</i>	(309)	(2,541)	(40)	(4,422)	(7,312)
At 31 March 2005	<u>8,054</u>	<u>34,427</u>	<u>531</u>	<u>36,807</u>	<u>79,819</u>

### Biological assets financial results for the year ended 31 March 2006

'000 RUR	Workstock	Productive livestock	Pig herd	Self-maintained herd	Total
Revenue	-	8,705	701	19,834	29,240
Cost of goods sold	(805)	(8,595)	(624)	(17,865)	(27,889)
Gain / (loss)	<u>(805)</u>	<u>110</u>	<u>77</u>	<u>1,969</u>	<u>1,351</u>

## 7 Long and short term finance assets

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
<i>Long term finance assets</i>	26,228	1,558
	26,228	1,558
<i>Short term finance assets</i>		
Refundable deposit	562,446	-
Available-for-sale promissory notes (bearing no interest)	181,507	46,244
	743,953	46,244

## 8 Intangible assets

The management has estimated the value of the brands acquired to be RUR 330,548 thousand using the discounted cash flow methodology. An independent appraisal of the intangible assets (brands) acquired was performed by American Appraisal amounted to RUR 386,288 thousand. In addition American Appraisal valued the client list of Slavex Group at RUR 257,632 thousand. For the purposes of these financial statements the Group management did not allocate any value to Slavex Group client list because the client base of Slavex Group was the same as Nutritek Group's existing client base. If these estimates were to be adjusted following an independent valuation, a reduction will be required to goodwill and a potential increase in the client list.

<b>'000 RUR</b>	<b>Goodwill</b>	<b>Brands</b>	<b>Other intangible assets</b>	<b>Total</b>
<i>Deemed cost and net book value</i>				
As of 1 April 2005	-	-	223	223
Acquisitions through business combinations	667,323	330,548	18	997,889
As of 31 March 2006	667,323	330,548	241	998,112

## 9 Inventories

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
Raw materials and consumables	308,792	215,373
Finished goods and goods for resale	240,181	275,325
Work in progress	70,930	167,263
	619,903	657,961
	619,903	657,961

## 10 Trade and other receivables

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
Accounts receivable – trade	1,071,049	601,066
Other receivables	367,889	108,388
Provision for doubtful accounts	(38,467)	(10,453)
Prepaid expenses	23,377	82,098
VAT receivable	150,102	104,259
	1,573,950	885,358
	1,573,950	885,358

## 11 Cash and cash equivalents

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
<b>Cash and cash equivalents comprise the following:</b>		
RUR denominated cash on hand and balances with banks	632,129	21,030
Foreign currency denominated balances with bank	18,935	5,660
Promissory notes	285,000	-
	936,064	26,690
	936,064	26,690



## 12 Share capital

As of 31 March 2005 the issued share capital of the proforma consolidating parent company amounted to RUR 180,000 (18,000,000 ordinary shares with the nominal value of RUR 0.01 each).

As of 14 July 2005 the Group restructuring was completed and an adjustment to reflect the proforma shares processed (see the movement in share capital below). The consolidating parent company was changed from OAO Nutrinvest to OAO Nutrinvestholding. OAO Nutrinvestholding additional issue of shares was registered with the Federal Financial Markets Service of the Russian Federation on 20 October 2005.

As at 31 March 2006 the issued share capital of the parent company equalled to RUR 137,500 (13,750,000 ordinary shares with the nominal value of RUR 0.01 each).

In August 2005 the Group completed a placement of its shares with private investors and with Marshall Milk Investments. Proceeds attributable to the Group from the placements amounted to RUR 1,999,606 thousand. In accordance with the private placement agreement the Group acquired treasury shares for RUR 611,363 thousand.

The Group's shareholders' structure is as follows:

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
Marshall Milk Investments <sup>1</sup>	70.43%	-
Private placement investors	22.10%	-
Treasury shares	7.47%	-
OOO Trade Invest	-	50%
OOO Interconsult	-	37%
ZAO Depository Company Uralsib (nominal shareholder)	-	13%
	<u>100%</u>	<u>100%</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

No dividends were declared or paid during the year ended 31 March 2006.

The movement on share capital in the year is as follows:

	<b>Share capital</b>
	<b>'000 RUR</b>
As of 1 April 2005	180
Net effect of legal restructuring	(80)
Share capital issue	37
As of 31 March 2006	<u>137</u>

<sup>1</sup> Beneficial owners of Marshall Milk Investments Limited are G. Sazhinov and K. Malofeev.

## 12 Share capital (continued)

### Treasury shares

At the balance sheet date the Group held 1,027,920 of its own shares (see Note 26 “Events subsequent to the balance sheet date”).

### Earnings per share

Basic earnings per share are calculated by dividing profit for the financial year of RUR 237,882 thousand (2005 - RUR 509,679 thousand) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of 11,674,658 (2005: 18,000,000). Diluted earnings per share is weighted average number of ordinary shares in issue adjusted for the potential ordinary share dilution from share options and shares to be issued being 11,674,658 (2005: 18,000,000). There are no dilutive financial instruments.

## 13 Loans and borrowings

	<b>31 March 2006 '000 RUR</b>	<b>Proforma 31 March 2005 '000 RUR</b>
<b>Non-current</b>		
Secured bank loans	-	607,976
Unsecured loans from international financial institutions (Credit Loan Notes)	2,876,687	-
Unsecured loans from local financial institutions (Russian Bonds)	1,200,000	-
	4,076,687	607,976
<b>Current</b>		
<b><i>Loans and borrowings</i></b>		
Secured bank loans	596,630	814,803
Short term portion of unsecured borrowings from regional state authority	6,917	8,300
	603,547	823,103
<b><i>Short-term portion of long-term loans and borrowings</i></b>		
Short term portion bank loans	-	261,084
Short term portion of secured loans from other financial institution	-	478,229
	-	739,313
	603,547	1,562,416

### 13 Loans and borrowings (continued)

Loans and borrowings as of 31 March 2006 have the following interest rate and repayment schedule:

'000 RUR	Total	Under 1 year	1-5 years
Secured bank loans:			
RUR: 10.5-12%	530,000	530,000	-
USD: 10.5-11.5%	66,630	66,630	-
Unsecured loans from other financial institutions			
RUR: 12%	1,200,000	-	1,200,000
USD: 10.5%	2,876,687	-	2,876,687
Unsecured borrowings from regional state authority:			
RUR: 0%	6,917	6,917	-
	4,680,234	603,547	4,076,687

Interest accrued at 31 March 2006 in the amount of RUR 107,444 thousand (2005: nil) is included in current liabilities.

Loans and borrowings from banks and other financial institutions were secured by the pledging of machinery and equipment (refer to Note 5 "Property, plant and equipment") and shares in consolidated subsidiaries (refer to Note 24 "Principal subsidiaries"). Pledged equipment belongs to the following Group production subsidiaries: OAO Zelenodolskiy Molochnyi Kombinat and OAO Konservnyi Zavod Dinskoy.

Loans and borrowings as of 31 March 2005 have the following interest rate and repayment schedule:

'000 RUR	Proforma	Total	Under 1 year	1-5 years
Secured bank loans:				
EEK: 3-6.5%		440,940	83,450	357,490
RUR: 15-22%		267,170	164,170	103,000
USD: 15-15.25%		975,753	828,267	147,486
Secured loans from other financial institutions				
RUR: 24-27%		478,229	478,229	-
Unsecured borrowings from regional state authority:				
RUR: 0%		8,300	8,300	-
		2,170,392	1,562,416	607,976

### 13 Loans and borrowings (continued)

#### Finance lease

<b>'000 RUR</b>	<b>Proforma 31 March 2005</b>
Current net obligations under finance leases contracts	478,229

The buy back lease liability was refinanced during the year ended 31 March 2006.

### 14 Trade and other payables

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
Accounts payable – trade	865,721	546,845
Taxes payables	43,385	35,190
Payables to employees	42,164	31,360
Other payables and accrued expenses	53,842	56,596
Advances received	25,674	31,909
Deferred income	65,171	36,124
	<u>1,095,957</u>	<u>738,024</u>

### 15 Deferred income

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
Non-current government grants	91,388	16,010
Non-current deferred income	-	-
	<u>91,388</u>	<u>16,010</u>
Current government grants	8,845	4,216
Current deferred income	56,326	31,908
	<u>65,171</u>	<u>36,124</u>
	<u>156,559</u>	<u>52,134</u>

## 15 Deferred income (continued)

The Group received government grants related to buildings, machinery and agricultural assets:

	<b>31 March 2006</b>	<b>Proforma 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
Estonian subsidiaries grants received	119,409	-
Russian subsidiaries grants received	8,073	-
	<u>127,482</u>	<u>-</u>

Long term grants are recognised as income on a systematic basis over the period of usage of the corresponding assets.

## 16 Income tax expense

	<b>Year ended 31 March 2006</b>	<b>Proforma Year ended 31 March 2005</b>
	<b>'000 RUR</b>	<b>'000 RUR</b>
Current income tax expense	20,643	16,815
Deferred income tax expense	2,879	34,441
	<u>23,522</u>	<u>51,256</u>

The Group's applicable tax rate for current and deferred tax is 24%.

## 16 Income tax expense (continued)

Deferred tax assets and liabilities are attributable to:

'000 RUR	Assets		Liabilities		Net	
	Proforma		Proforma		Proforma	
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	31 March 2006	31 March 2005	31 March 2006	31 March 2005	31 March 2006	31 March 2005
Property, plant and equipment	3,724	5,610	367,546	238,433	(363,822)	(232,823)
Trade and other receivables	2,450	-	-	-	2,450	-
Deferred income	-	-	8,211	6,570	(8,211)	(6,570)
Provisions	1,729	2,001	-	-	1,729	2,001
Trade and other payables	-	-	7,244	6,151	(7,244)	(6,151)
Tax assets / (liabilities)	7,903	7,611	383,001	251,154	(375,098)	(243,543)

Any deferred tax charge or credit is recognised in the income statement.

### Reconciliation of effective tax rate:

	Year ended 31 March 2006 '000 RUR	Proforma Year ended 31 March 2005 '000 RUR
Profit before tax and minority interest	200,313	494,039
Income tax at applicable tax rate of 24%	48,075	118,569
Tax effect of:		
Non-taxable profits for Estonia	-	(9,024)
Effect of gain from subsidiary acquisition	-	(54,905)
Non-taxable profits for baby food in Ukraine	(19,614)	-
Other non-taxable items	(4,939)	(3,384)
	23,522	51,256

## 17 Segmental reporting

	<b>Year ended 31 March 2006 '000 RUR</b>	<b>Proforma Year ended 31 March 2005 '000 RUR</b>
<b>Milk products</b>		
Revenues	5,030,243	4,550,853
Cost of sales	(4,322,657)	(4,025,253)
Gross profit	707,586	525,600
<b>Baby and special food</b>		
Revenues	1,472,063	1,103,274
Cost of sales	(1,037,507)	(779,121)
Gross profit	434,556	324,153
Total revenues	6,502,306	5,654,127
Total cost of sales	(5,360,164)	(4,804,374)
Total gross profit	1,142,142	849,753

During the year under review, over 75% of the Group's revenue, segment results and assets originated from within Russia and not more than 10% arose from within any other individual geographical segment. On this basis, no geographical segmental analysis is included, in accordance with IAS 14.

## 18 Administrative expenses

	<b>Year ended 31 March 2006 '000 RUR</b>	<b>Proforma Year ended 31 March 2005 '000 RUR</b>
Wages and salaries	217,638	168,536
Lease of head office building (Leningradsky Prospect)	14,783	2,684
Other administrative expenses	154	19,882
	232,575	191,102

Average number of employees in the year ended 31 March 2006 was 4,396 (in the year ended 31 March 2005: 3,807).

## 19 Financial income and financial expenses

	<b>Year ended 31 March 2006 '000 RUR</b>	<b>Proforma Year ended 31 March 2005 '000 RUR</b>
<b>Financial income</b>		
Foreign exchange gain	101,660	5,229
Foreign exchange loss	(41,524)	-
Interest income and other financial income	7,634	27,657
	<u>67,770</u>	<u>32,886</u>
<b>Financial expenses</b>		
Interest expense from loans and borrowings	(433,784)	(295,921)
	<u>(366,014)</u>	<u>(263,035)</u>

## 20 Other income and expenses

	<b>Year ended 31 March 2006 '000 RUR</b>	<b>Proforma Year ended 31 March 2005 '000 RUR</b>
Research and development costs expensed as incurred	(22,461)	(39,853)
Negative goodwill	-	228,772
Government grants	12,289	29,733
Loss on disposal of property, plant and equipment	-	(6,831)
Other expenses	(5,542)	(3,713)
	<u>(15,714)</u>	<u>208,108</u>



## 21 Effect of adjustments

Following the requirements of IFRS 1 “First-time Adoption of International Financial Reporting Standards” the Group has prepared the following reconciliation between equity and profit reported under RAS and IFRS.

### Reconciliation of Equity as 31 March 2006 and 31 March 2005

	<b>31 March 2006 '000 RUR</b>	<b>Proforma 31 March 2005 '000 RUR</b>
Equity reported per RAS consolidated financial statements	6,339,728	2,620,728
<u>Effect of adjustments related to differences in treatment of:</u>		
Effect of IFRS consolidation adjustments	(1,993,937)	(503,127)
Property plant and equipment, including adjustments related to recognition at deemed cost	449,687	449,687
Depreciation	(380,106)	(190,053)
Elimination of statutory revaluation reserve	(135,082)	-
Buy back lease treated as operating lease per statutory accounts	204,765	157,343
Gain on lease refinancing	26,345	-
Tax and deferred tax accrual	(136,440)	(121,440)
Capitalisation of bank commissions	28,064	-
Provision against accounts receivable	(135,630)	-
Accruals	(108,807)	-
Other	(161,173)	(87,956)
Minority interest	(1,062,049)	(999,274)
Equity reported per IFRS non-statutory consolidated financial statements	2,935,365	1,325,908

## 21 Effect of adjustments (continued)

### Reconciliation of Profit for the year ended 31 March 2006

	Year ended 31 March 2006 '000 RUR	Proforma Year ended 31 March 2005 '000 RUR
Profit reported per RAS consolidated financial statements	630,233	414,202
<u>Effect of adjustments related to differences in treatment of:</u>		
Minority interest	61,091	52,571
Property, plant and equipment	(252,573)	(190,053)
Negative goodwill	-	228,772
Provision against accounts receivable	(135,630)	-
Accruals	(107,502)	-
Gain from debt refinancing	26,345	-
Income tax accrual	(15,000)	-
Audit fees accrual	6,727	(1,959)
Capitalisation of investment banks commission	28,064	-
Other	(3,873)	6,146
Profit reported per IFRS non-statutory consolidated financial statements	<u>237,882</u>	<u>509,679</u>

## 22 Contingencies

### Litigation

From time to time and in the normal course of business, claims against the Group are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

### Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may

## **22 Contingencies (continued)**

remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

For tax reduction purposes the Group operates with special purpose entities (SPEs) in which it does not hold any direct or indirect equity interest and does not appoint management. The methods used by the SPEs to reduce taxes may not comply with interpretations of applicable tax legislation by government officials. Management of these SPEs is responsible for the correctness and timeliness of the tax payments by the SPEs. However, the Group may also indirectly be held responsible.

Based on the facts available, no provision for potential tax and import duties liabilities has been made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such obligations.

Management has determined that it is not practicable to estimate the amount of potential tax and import duties liabilities, relating to the current and previous financial years, which could ultimately be imposed on the SPEs or on the Group as a result of the above.

The parent company of the Group, OAO Nutrinvestholding, borrows money at market interest rates and lends them to its subsidiaries at interest rates below market rate. As a result, interest paid might not be recognised as an expense by the tax authorities. Management believe such an outcome is unlikely, however the potential risk in this respect is estimated at RUR 25,000 thousand.

### **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 the environmental damage.

### **Government subsidies redemption**

Government grants have been recognised in accordance with the disclosed accounting policies. However, there is a risk that certain criteria for the provision for the grants have not been fulfilled which means that the grants, or a portion thereof, be repaid.

### **Capital commitments**

As at 31 March 2006 the Group was committed to capital expenditure of approximately RUR 27,420 thousand with respect to OOO "Contractor XXI" (construction of a new office building in Moscow). As at 31 March 2005 the Group had no capital commitments.

## 23 Related party transactions

The Group has entered into a variety of transactions with related parties during the reporting period. For the purposes of these consolidated financial statements related parties are defined by the Group as enterprises that are directly or indirectly controlled by the Group, individuals owning, directly or indirectly, an interest in the Group that gives them significant influence over the Group, and their immediate families, Directors and officers of the Group and their immediate families and enterprises in which individuals, directors or officers as described above, directly or indirectly, exercise significant influence or have control. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group has undertaken transactions of a commercial nature, purchase and sale of goods, mostly raw milk purchases and services with companies which are indicated as a related party regarding the Group production subsidiaries. These transactions are part of the normal operations of the Group and are under normal market conditions. Transactions with related parties are listed below:

'000 RUR	Trade receivables	Trade payables	Revenues	Costs
<i>At 31 March 2006</i>				
Minority shareholders of subsidiaries	3,314	38,280	6,677	79,405
Other	-	-	-	-
	<b>3,314</b>	<b>38,280</b>	<b>6,677</b>	<b>79,405</b>
<i>At 31 March 2005</i>				
Minority shareholders of subsidiaries	927	9,698	3,512	33,236
Other	-	127	-	744
	<b>927</b>	<b>9,825</b>	<b>3 512</b>	<b>33,980</b>

## 23 Related party transactions (continued)

The operations of the holding company with the consolidated subsidiaries during the year are as follows:

Name of subsidiaries	Year ended 31 March 2006 '000 RUR	Proforma Year ended 31 March 2005 '000 RUR
<i>ZAO Kompania Nutritek</i>		
Trade and other payables	3,430	-
Long term finance assets	251	-
<i>OAO Nutrinvest</i>		
Trade and other payables	61,263	-
Long term finance assets	2,826,603	-
<i>ZAO Torgovaya Kompania Nutritek</i>		
Long term finance assets	865,471	-
<i>ZAO Severnoe Moloko (Vologda plant)</i>		
Cost of sales	15,954	-
<i>Other</i>		
Trade and other receivables	271,638	233,058
Trade and other payables	115,231	225,070
Long term finance assets	120,405	-
Loans and borrowings	74,352	-

### (a) Pricing policies

Related party transactions are based on market prices.

### (b) Transactions with management and close family members

A former General Director of OAO Nutrinvestholding, acting through to September 2005, is a close family member of a controlling shareholder. The total salary, including related taxes, paid to this General Director during the year ended 31 March 2006 was RUR 4,700 thousand (during the year ended 31 March 2005: RUR 3,480 thousand).

## 23 Related party transactions (continued)

### (c) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs.

	<b>Year ended 31 March 2006 '000 RUR</b>	<b>Proforma Year ended 31 March 2005 '000 RUR</b>
	<hr/>	<hr/>
Salaries and bonuses	10,894	8,243
Contributions to State pension fund	2,400	2,400
Other long-term service benefits provided	-	-
Termination benefits	-	-
	<hr/> <b>13,294</b> <hr/>	<hr/> <b>10,643</b> <hr/>

## 24 Principal subsidiaries

The Company has the following investments in consolidated subsidiaries<sup>2</sup>, incorporated in the Russian Federation, Estonia and Ukraine, as of 31 March 2006, including subsidiaries owned by a common shareholder:

	<u>% owned</u>
OAo Nutrinvest	99.82
ZAO PTK Severnoe Moloko	93.20
OAo Zelenodolsky Molochnyi Kombinat	78.10
OAo Molochnyi Kombinat Penzensky	50.81
OAo Moloko	74.96
OAo Filimonovsky Molochno-Konservnyi Kombinat	50.81
ZAO Kompania Nutritek	100.00
OAo Sibaykonservmoloko	50.91
OAo Konservnyi Zavod Dinskoy	50.10
ZAO Molkombinat	99.82
OOO Aktiv	99.82
ZAO Biyskiy Maslo-Syrnyi Kombinat	99.82
OOO Yaroslavsky Hladokombinat	99.82
ZAO Plemzavod Zarya	70.30
OU Estmilk	100.00
AS Agro Piim	100.00
OOO Agrofirma Tverskoe	100.00
ZAO Torgovaya Kompania Nutritek	99.82
ZAO TD Slavex	100.00
ZAO Slavex-Centre	100.00
OOO Aqua-Pak	88.00
ZAO Moscovsky Zavod Detskogo Pitaniya	100.00
ZAO Khorolsky Molochno-Konservnyi Kombinat	68.31

<sup>2</sup> All incorporated subsidiaries close accounts for the purpose of consolidation as at 31 March 2006.

## 24 Principal subsidiaries (continued)

There were no shares of subsidiaries pledged as collateral for funds borrowed as of 31 March 2006.

The Company had the following investments in consolidated subsidiaries, incorporated in the Russian Federation and Estonia, as of 31 March 2005, including subsidiaries owned by a common shareholder:

	<u>% owned</u>
OAo Nutrinvest	99.82
ZAO PTK Severnoe Moloko	92.83
OAo Zelenodolsky Molochnyi Kombinat	77.96
OAo Molochnyi Kombinat Penzensky	50.81
OAo Moloko	74.96
OAo Filimonovsky Molochno-Konservnyi Kombinat	50.81
ZAO Kompania Nutritek	100.00
OAo Sibaykonservmoloko	50.91
OAo Konservnyi Zavod Dinskoy	50.01
ZAO Molkombinat	99.82
OOO Aktiv	99.82
ZAO Biysky Maslo-Syrnyi Kombinat	99.82
OOO Yaroslavsky Hladokombinat	99.82
ZAO Plemzavod Zarya	70.30
OU Estmilk	100.00
AS Agro Piim	100.00
ZAO Torgovaya Kompania Nutritek	99.82



## 24 Principal subsidiaries (continued)

Shares of the following subsidiaries were pledged as collateral for funds borrowed from banks and other financial institutions as of 31 March 2005:

	<u>% of shares owned pledged as collateral</u>
OAo Nutrinvest	51.00
ZAO PTK Severnoe Moloko	92.83
OAo Zelenodolsky Molochnyi Kombinat	77.96
OAo Molochnyi Kombinat Penzensky	50.81
OAo Moloko	74.96
OAo Filimonovsky Molochno-Konservnyi Kombinat	50.81
ZAO Kompania Nutritek	49.91
OAo Sibaykonservmoloko	50.91
OAo Konservnyi Zavod Dinskoy	50.01
ZAO Molkombinat	99.82
ZAO Biysky Maslo-Syrnyi Kombinat	99.82

## 25 Risk management

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates.

### Credit risk

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The majority of sales are made on a prepayment basis.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### Interest rate risk

The Group incurs interest rate risk primarily on loans and borrowings from banks and other financial institutions. Average effective interest rates are disclosed in Note 13 "Loans and borrowings". The Group borrows on a fixed and variable interest rate basis.

### Foreign exchange risk

The Group incurs foreign exchange rate risk on borrowings that are denominated in currency other than RUR. The currency giving rise to this risk is primarily US Dollar. Management does not consider this risk to have a significant impact on the Group's operations.

### Biological risk

By virtue of the fact that biological assets are not directly a sale item, but are a mean of reception of raw material in the form of milk for the future processing management of risks is carried out through regulation of the market price for milk produced.

### Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through adequate amounts of credit facilities. Due to the ongoing nature of the trading activities, the Group aims to maintain flexible cash reserves by ensuring sufficient credit facilities are available.

## 26 Events subsequent to the balance sheet date

In May-August 2006, the Group sold all of its treasury stock to private investors for a total amount of RUR 1,123,102 thousand.

In August 2006, the Group acquired a further 22.44% of ZAO Plemzavod Zarya from minority investors for cash consideration of RUR 5,909 thousand.