

**OAO SYNERGY
(SYNERGY GROUP)**

**Consolidated Financial Statements
for the years ended
31 December 2006, 2005 and 2004**

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To: Mr. A.A. Mechetin

Chairman of Management Board of Synergy OAO

Independent auditor's report

We have audited the accompanying consolidated financial statements of Synergy OAO and its subsidiaries (hereinafter referred to as the "Group"), which comprise consolidated balance sheet at 31 December 2006, 31 December 2005 and 31 December 2004 and the consolidated income statement, statement of changes in equity and cash flow statement for the three years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Synergy OAO and its subsidiaries at 31 December 2006, 31 December 2005 and 31 December 2004, and of its financial performance and its cash flows for the three years then ended in accordance with International Financial Reporting Standards.

Samoilov E.V.

General Director

"Baker Tilly Russaudit" Ltd

22 October 2007

95 Prospect Mira, Moscow 129085 Russia



SYNERGY GROUP

Consolidated Financial Statements for the years ended 31 December 2006, 2005 and 2004
(All amounts in Russian Rubles thousand, unless stated otherwise)

Consolidated Balance Sheet

	Note	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
ASSETS				
Non-current assets				
Property, plant and equipment	5	1 724 546	803 249	658 391
Goodwill	7	102 526	35 367	-
Other intangible assets	6	184 894	24 643	10 022
Loans to related parties	11b	28 035	-	-
Other investments	8	34 023	103 784	102 963
Deferred tax assets	24	32 239	14 797	3 773
Total non-current assets		2 106 263	981 840	775 149
Current assets				
Inventories	9	1 253 136	819 107	499 976
Biological assets	10	75 930	38 081	33 889
Trade and other receivables	11a	2 081 595	1 206 446	806 980
Prepayments		338 677	957 925	83 175
Loans to related parties	8, 11b	1 412 146	417 680	-
Income tax overpaid		30 776	2 784	4 802
Cash and cash equivalents	12	293 763	180 804	62 908
Total current assets		5 486 023	3 622 827	1 491 730
TOTAL ASSETS		7 592 286	4 604 667	2 266 879

SHAREHOLDERS' EQUITY AND LIABILITIES

Equity and reserves

Owners' equity:

Share capital	13	1 160 000	1 160 000	1 160 000
Retained earnings		839 706	212 043	(17 371)
Other reserves		(478 601)	(478 601)	(478 601)
Minority interest		632 393	524 142	347 127
Total equity and reserves		2 153 498	1 417 584	1 011 155

Non-current liabilities

Loans and borrowings	14	358 550	22 000	22 000
Other long-term liabilities		-	-	138 077
Deferred tax liabilities	24	110 621	36 763	21 642
Total non-current liabilities		469 171	58 763	181 719

Current liabilities

Bond issue	14	1 000 000	-	-
Loans and borrowings	14	2 544 461	1 729 750	408 520
Trade and other payables	15	1 381 775	1 376 608	662 578
Income tax payable		43 381	21 962	2 908
Total current liabilities		4 969 617	3 128 320	1 074 006

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

		7 592 286	4 604 667	2 266 880
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Notes to the financial statements on pages 8 through 52 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board

Kim E.S., Chief Accountant

19 October 2007

SYNERGY GROUP

*Consolidated Financial Statements for the years ended 31 December 2006, 2005 and 2004
(All amounts in Russian Rubles thousand, unless stated otherwise)*

Consolidated Income Statement

	Note	2006	2005	2004
Revenue	16	7 165 676	4 241 475	3 034 886
Cost of sales	17	(5 175 813)	(3 086 134)	(2 353 986)
Gross profit		1 989 863	1 155 341	680 900
General and administrative expenses	18	(496 147)	(242 519)	(214 375)
Sales expenses	19	(811 602)	(361 119)	(265 881)
Other income	20	495 189	36 213	14 610
Other expenses	21	(221 126)	(162 421)	(49 867)
Results from operating activities		956 177	425 496	165 387
Finance costs	22	(233 324)	(57 735)	(53 757)
Finance income		46 216	3 833	2 712
Profit before tax		769 068	371 593	114 342
Income tax	23	(78 466)	(55 674)	(27 566)
Profit for the period		690 602	315 921	86 776
Attributable to:				
Equity holders of the Company		627 663	229 414	(6 381)
Minority interest		62 939	86 507	93 159
		690 602	315 921	86 778
Basic and diluted earnings per share (expressed in RUR per share)	25	54.11	19.78	(0.55)

*Notes to the financial statements on pages 8 through 51 shall be part and parcel
of these Financial Statements*

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Kim E.S., Chief Accountant _____

19 October 2007

Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Other reserves	Total shareholders' equity	Minority interest	Total
Balance at 1 January 2004	4 915	65 876	-	70 791	1 013 499	1 084 290
Acquisition of subsidiary	-	(76 866)	-	(76 866)	(155 655)	(232 521)
Sale of shares in subsidiaries	-	-	-	-	43 988	43 988
Issue of share capital of the parent company	1 155 085	-	(478 601)	676 484	(676 484)	-
Issue of share capital of a subsidiary	-	-	-	-	30 000	30 000
Dividends accrued	-	-	-	-	(1 380)	(1 380)
Total changes, not recorded into net profit	1 155 085	(76 866)	-	599 618	(759 531)	(159 913)
Net profit for the period	-	(6 381)	-	(6 381)	93 159	86 778
Balance at 31 December 2004	1 160 000	(17 371)	(478 601)	664 028	347 127	1 011 155
Acquisition of subsidiary	-	-	-	-	90 744	90 744
Dividends accrued	-	-	-	-	(236)	(236)
Total changes, not recorded into net profit	-	-	-	-	90 508	90 508
Net profit for the period	-	229 414	-	229 414	86 507	315 921
Balance at 31 December 2005	1 160 000	(212 043)	(478 601)	893 442	524 142	1 417 584
Acquisition of subsidiary	-	-	-	-	7 396	7 396
Sale of bought out shares	-	-	-	-	37 916	37 916
Total changes, not recorded into net profit	-	-	-	(3 480)	45 312	41 832
Net profit for the period	-	627 663	-	627 663	62 939	690 602
Balance at 31 December 2006	1 160 000	839 706	(478 601)	1 521 105	632 393	2 153 498

Notes to the financial statements on pages 8 through 51 shall be part and parcel of these Financial Statements

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Kim E.S., Chief Accountant _____

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Consolidated Cash Flow Statement

	Note	2006	2005	2004
Cash flows from operating activities				
Profit before income tax and finance costs		1 002 393	429 643	164 081
Adjustments for:				-
Depreciation	5	137 083	85 470	74 699
Amortisation and impairment of intangible assets	6	45 254	3 554	1 827
(Gain)/loss on disposal of property, plant and equipment		(64 795)	10 818	3 406
(Gain)/loss on sale of subsidiary's share issue		68 649	-	-
(Gain)/loss on acquisition of subsidiaries		(384 304)	-	-
(Gain)/loss on disposal of financial assets		1 423	-	-
Interest income	8	(46 216)	(3 833)	(1 185)
Changes in working capital				
Increase in inventories and biological assets		(228 276)	(221 984)	(116 499)
Increase in accounts receivable		27 890	(1 592 599)	(247 073)
Increase in accounts payable		(480 928)	1 388 779	280 635
Cash flows from operating activities		78 171	99 848	159 891
Interest paid		(199 855)	(56 004)	(53 206)
Income tax paid		(119 679)	(41 002)	(19 224)
Net cash flow from operating activities		(241 363)	2 842	87 460
Cash flows from investing activities				
Acquisition of subsidiaries	27	(767 098)	(152 576)	(90 424)
Disposal of subsidiaries		97 573	-	-
Acquisition of property, plant and equipment		(434 890)	(100 888)	(128 197)
Disposal of property, plant and equipment		112 739	3 490	21 883
Acquisition of intangible assets		(18 350)	(6 676)	(5 327)
Acquisition of financial assets		(26 429)	(5 000)	(4 350)
Disposal of financial assets		7 810	4 360	-
Loans originated		(668 995)	-	-
Loans originated repayment		94	-	12 317
Interest received		37 560	3 833	1 186
Net cash flow from investing activities		(1 659 986)	(253 458)	(192 912)
Cash flows from financing activities				
Issue of share capital		-	-	30 000
Loans received		9 222 049	2 862 750	1 284 819
Loans repaid		(7 207 740)	(2 493 689)	(1 210 740)
Dividends paid to Minority shareholders		-	(550)	(1 380)
Net cash flow from financing activities		2 014 309	368 512	102 699
Net increase/(decrease) in cash and cash equivalents		112 959	117 896	(2 753)
Cash and cash equivalents at beginning of the year	12	180 804	62 908	65 661
Cash and cash equivalents at end of the year	12	293 763	180 804	62 908

Notes to the financial statements on pages 8 through 51 shall be part and parcel of these Financial Statements

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Kim E.S., Chief Accountant _____

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NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Reporting entity**

OAO "Synergy" (the "Company") is domiciled in Russia as an open joint-stock company under the laws of the Russian Federation. The address of the Company's registered office is Building 7, 9 Trekhpudny Pereulok, Moscow, Russia.

The consolidated financial statements of the Company as shown herewith comprise the Company and its subsidiaries (together referred as the "Group").

The Company primarily is involved in the production of distilled alcohol and food products and operation of wholesale and sales business thereof.

On 12 October 2004 a reorganisation was executed under contract to establish OAO Synergy as new parent company of the Group. Prior to this, the parent company was OAO Synergy-Vostok.

OAO Synergy-Vostok did not hold any ownership interests in its subsidiary companies. However it received substantially all of the benefits related to their operations and net assets based on the terms of agreements, which were established between the respective companies. Consequently, OAO Synergy-Vostok consolidated such entities and classified them as subsidiaries. Such companies named below:

KVEN OAO	72.77%
Ussuriysky Balsam OAO	69.85%
Nahodkinsky Meat-Packing Factory OAO	50.00%
Ussuriysky Dairy Plant OAO	50.00%
Permsky Uralalko Distillery OAO	57.01%
Sinergy-Vostok OAO	100.00%
Mikhailovskaya Poultry Plant OAO	83.60%

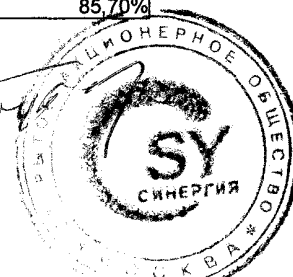
Due to the nature of the reorganisation, the valuation of the shares differed from the fair value of the acquired assets at the acquisition date. The excess of the value of the shares at the reorganisation, over the value of the acquired net assets, RUR 478 601 thousand, is recognised directly in equity in 2004.

Group company	Share of the Group in ordinary voting share capital as at 31 December 2004, %	Share of the Group in ordinary voting share capital as at 31 December 2005, %	Share of the Group in ordinary voting share capital as at 31 December 2006, %
Synergy OAO	Parent company		
Alviz OAO	54,64%	27,86%	22,75%
Alviz Rosalko ZAO	100,00%	50,99%	51,00%
Balzam-Invest OAO	100,00%	69,84%	Disposed in 2006
Finansist OOO	50,00%	50,00%	50,00%
Frenk OOO	55,54%	55,54%	55,54%
Habarovskiy Distillery OAO	Acquired in 2005	0,00%	51,00%
Kolizei OOO	*0,00%	*0,00%	Disposed in 2006
KVEN ZAO	72,77%	72,69%	72,77%
Lysogorskaya Poultry Plant OAO	19,50%	16,72%	51,39%
Mikhailovskaya Poultry Plant OAO	83,60%	84,79%	85,70%

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Group company	Share of the Group in ordinary voting share capital as at 31 December 2004, %	Share of the Group in ordinary voting share capital as at 31 December 2005, %	Share of the Group in ordinary voting share capital as at 31 December 2006, %
Nahodkinsky Meat-Packing Factory OAO	50,00%	50,00%	90,00%
PPZ Tsarevshinsky-2 OAO	Acquired in 2005	84,79%	85,70%
Rodstor ZAO	*0,00%	*0,00%	*0,00%
Rodimaya Storonka Trading House OAO	*0,00%	*0,00%	Disposed in 2006
Rodimaya storonka ZAO	*0,00%	*0,00%	Disposed in 2006
Stoik OOO	*0,00%	*0,00%	Disposed in 2006
Synergy-Capital OAO	100,00%	100,00%	100,00%
Synergy-Vostok OAO	100,00%	100,00%	100,00%
Trading House of Habarovskiy Distillery OOO	Acquired in 2005	*0,00%	*0,00%
Mir Produktov Trading House OAO	*0,00%	*0,00%	Disposed in 2006
Ussuriysky Balsam Trade Network OOO	*0,00%	94,27%	94,27%
Permsky Uralalko Distillery OAO	57,01%	57,00%	83,50%
Ussuriysky Dairy Plant OAO	50,00%	50,00%	93,83%
Ussuriysky Balsam OAO	69,85%	69,84%	69,85%
AKA and K OOO	Acquired in 2006	Acquired in 2006	100,00%
Zorinsky breeding farm of 1 level OAO	Acquired in 2006	Acquired in 2006	85,70%
Permspirit OOO	Established on December 31, 2005	100,00%	100,00%
Dakgomz OAO	Acquired in 2006	Acquired in 2006	98,49%
Dakgomz-Torg OOO	Acquired in 2006	Acquired in 2006	98,49%
Chugunovsky Distillery OAO	Acquired in 2006	Acquired in 2006	43,00%
Akrus OOO	Acquired in 2006	Acquired in 2006	0,00%
Mariinsky Distillery OAO	Acquired in 2006	Acquired in 2006	71,96%
ROOM ZAO	Acquired in 2006	Acquired in 2006	99,97%
Saratov-Broiler ZAO	Acquired in 2006	Acquired in 2006	*0,00%
Zavod sortovyh kolbas OOO	Acquired in 2006	Acquired in 2006	100,00%

*Although the Group does not hold any ownership interest in this entity it receives substantially all of benefits related to its operations and net assets based on the terms of agreements under which the entity was acquired. Consequently, the Company consolidates these entities (see effective share of the Group in Note 32).

2. Summary of significant accounting policies

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs").

Group companies maintain their accounting records and prepare statutory financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") and legal and statutory regulations effective in Russian Federation. As such, the accounting policies and reporting procedures adopted may

Mechetin A.A., Chairman of Management Board _____

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NOTES TO THE FINANCIAL STATEMENTS (continued)

differ from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Groups statutory based accounting records, reflect adjustments and reclassifications necessary for the financial statements to be presented in accordance with IFRS.

2.2. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for biological assets, which are measured at fair value less point-of-sale costs.

The Company's first IFRS financial statements were produced for the period ending 31 December 2004. As a first time adopter, the Company was able to apply IFRS 1 "First time adoption of IFRS". Doing so the Company elected to apply the voluntary exemption rule, thus providing relief from retrospectively having to apply IFRSs.

In particular, the Company has used this option in respect of the valuation of property, plant and equipment where the fair value has been treated as the deemed cost as at the date of transition.

The Company has not presented a reconciliation statement on transition to IFRS as the Group only existed in its current form from 12 October 2004 and no consolidated accounts have been prepared under Russian GAAP for any present period.

Functional and presentation currency

The consolidated financial statements are presented in Russian Rubles (RUR) which is both the Company's functional and presentation currency.

2.3. Principles of consolidation

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over their operations.

Subsidiaries are consolidated from the date as which control is transferred to the Group and are no longer consolidated from the date that control ceases.

An intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, accounting policies are changed for subsidiaries to ensure consistency with the policies adopted by the Group.

The consolidated financial statements include the financial statements of the head company and the controlled companies (subsidiaries) at 31 December of each reporting year. The Group exercises control when it may govern the financial and operating policies of the investee to obtain benefits from its operations.

The purchase method of accounting is used for the acquisition of a subsidiary, subsidiary's assets, liabilities, and contingent liabilities are measured at fair value thereof at the acquisition date. If acquired identifiable net assets are in excess of fair value thereof, such difference is recorded as goodwill. Any amount in excess of fair value of acquired identifiable net assets over cost of purchase is directly recorded in the profit and loss statement in the period of such acquisition. Share of minority shareholders is recorded as minority interest in fair value of recognised assets and liabilities. Subsequently, losses related to the minority shareholders in

Mechetin A.A., Chairman of Management Board

Kim E.S., Chief Accountant

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NOTES TO THE FINANCIAL STATEMENTS (continued)

excess of minority interest are recorded in owners' equity.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.4. 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 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.

2.5. Revenue recognition

Revenue is recognised at fair value of contribution received or receivable, and represents amounts receivable for the goods and services sold in the course of normal operations, net of value added tax, excise duties, rebates and discounts and after eliminating intra-group operations.

Sales of goods are recognised when a Group company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services are recognised in the accounting period when the respective services were rendered, upon completion of a respective transaction measured against a share of the respective service in the total volume of all services to be rendered.

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

Dividend income is recognised when the right to receive payment is established for the shareholder.

2.6. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

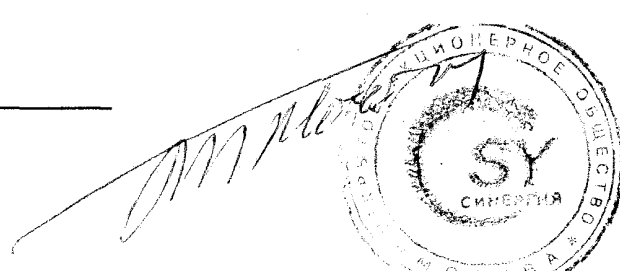
Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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NOTES TO THE FINANCIAL STATEMENTS (continued)**2.7. Finance costs**

All finance costs are charged to the profit and loss statement over the period during which those occurred.

2.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.9. Accounts receivable

Accounts receivable due within 12 months after the balance sheet date are recognised and recorded in the financial statements against the amounts specified in the respective invoices, less provision for doubtful and bad debts. A provision for doubtful and bad debts is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Accounts receivable due in more than 12 months after the balance sheet date are measured at discounted value.

2.10. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, if applicable, direct labour, other general costs borne to bring inventories in their current condition and location. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated expenses to complete the works and applicable selling expenses.

2.11. Biological assets

Biological assets, which include poultry, are measured at its fair value less estimated point-of-sale costs. The fair value of poultry is determined based on market value of poultry of similar age, breed and genetic merit. Poultry market value is based on market prices in the local area.

2.12. Impairment of assets

At each balance sheet date, the Group tests the carrying amount of tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indications of such impairment, the recoverable amount of a respective asset is assessed. If the asset generates no cash flows independently of other assets, the Group measures the recoverable amount of the cash-generating unit, which includes such asset.

Intangible assets that have an indefinite useful life are annually tested for impairment.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the

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NOTES TO THE FINANCIAL STATEMENTS (continued)

purposes of assessing value in use, projected future cash flows are adjusted against current value through using an interest rate, which reflects current assessments of time value of money and risks out of the asset, to which future cash flows were not adjusted.

If carrying amount is in excess of asset's recoverable amount, asset's carrying amount is decreased to its recoverable amount. Impairment loss is recognised as expense in the period when impairment occurred.

If impairment loss is reversed afterwards, asset's (cash generating unit's) carrying value is increased to the reviewed estimate of recoverable amount so as the increased carrying amount was less than the carrying amount by which the respective asset (cash generating unit) would be recorded unless loss from its impairment was recognised before.

Reversal of the impairment loss is immediately recognised as income.

2.13. Property, plant and equipment

Land and buildings comprise mainly factories, retail outlets and offices. Land and buildings is stated at historic cost less depreciation.

Historic cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying value of replaced parts is derecognised.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on all other assets is calculated using the straight-line method in order to allocate their cost over their estimated useful lives, as follows:

Group of property, plant and equipment	Useful life
Buildings and constructions	5-30 years
Machinery and equipment	3-15 years
Vehicles	5-10 years
Tools and fixtures	3-10 years
Furniture and office equipment	3-15 years

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

Gains and losses on disposals are determined by company the proceeds with the carrying amount and are recognised within other income or other expenses in the income statement.

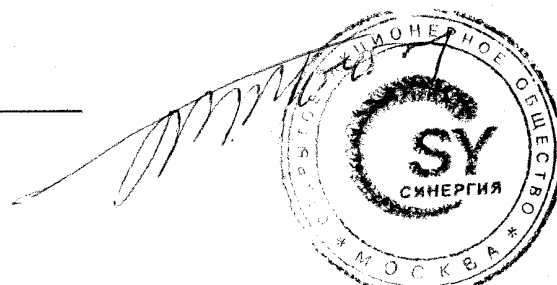
2.14. Brands and other intangible assets*Intangible assets acquired separately*

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of intangible assets with the finite useful lives is charged on a straight-line basis over their estimated useful lives.

Mechetin A.A., Chairman of Management Board _____

Kim E.S., Chief Accountant _____

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Group of intangible assets	Useful life
Software	3-5 years
Patents and licenses	2-10 years

Useful lives of intangible assets are reviewed, and adjusted, if required, at each balance sheet date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Brands

Capitalised brands are regarded as having indefinite useful lives. These brands are protected in Russian Federation by trademarks, which are renewable indefinitely. Further there are not believed to be any legal, regulatory or contractual provisions that limit the useful life of these brands.

Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, written down to the extent impaired.

Internally-generated intangible assets – research and development expenditure

Research expenditure in respect of drink and food products and package design is written off in the period in which it is incurred.

Any subsequent development expenditure in the period leading up to a product launch that meets the necessary recognition criteria set in the relevant standard is capitalised.

2.15. Financial assets, financial liabilities and equity instruments

Financial assets and financial liabilities are recognised in the Group balance sheet when the Group is a party to a financial instrument contract.

Financial assets, financial liabilities and equity instruments are classified based on the substance of the assumed contractual commitment.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are stated at the proceeds received, less direct issue costs.

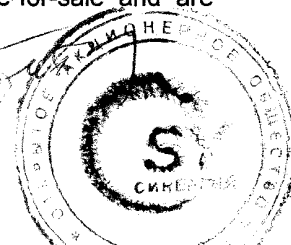
2.16. Investments

Investments are recognised and written-off at the purchase or sale date and are initially recognised at cost, including transaction costs. Investments are classified as held-for-trading or available-for-sale and are

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NOTES TO THE FINANCIAL STATEMENTS (continued)

evaluated at fair value at every reporting date. If investments are classified as held-for-trading, then income and expenses from changes in fair value are stated in net profit or loss for the period. For assets available-for-sale, gains and losses out of changes in fair value are directly recognised in equity, up to disposal or impairment of investment, when accumulated gains or losses recognised in equity are included in net profit or loss for the period.

2.17. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

2.18. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

2.20. Borrowings

Borrowings are initially recognised at cost, which is fair value of proceeds net of transaction costs.

Borrowings are subsequently stated at amortised cost using the effective interest method: any difference between fair value of the proceeds (net of transaction costs) and the redemption value is recognised as interest expenses within the borrowing period.

Borrowings are classified as short-term, unless the Group has a preemptive right to delay any liability repayment for the term not less than 12 months from the balance sheet date.

2.21. Trade accounts payable

Trade accounts payable are stated at their nominal amount.

2.22. Provisions

Provisions are recognised when a company has a legal or constructive obligation at the balance sheet date as a result of past events and when it is more likely than not that an outflow of resources, embodying

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NOTES TO THE FINANCIAL STATEMENTS (continued)

economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are reviewed on every balance sheet date and are adjusted to show the current, most sound estimates.

Where there are a number of similar obligations, the likelihood that an outflow of economic benefits will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be little.

2.23. Segment information

A business segment is a group of assets and operations, engaged in producing goods or rendering services that are subject to risks and returns different from those of other segments.

A geographical segment is engaged in producing goods or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

2.24. Employee benefits

Group companies operate defined contribution plans. The companies of the Group pay contributions to pension funds on the mandatory basis. The companies have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no other obligations in respect of employees' pensions or termination benefits.

2.25. Profit tax

Income tax is stated in the financial statements in accordance with the effective legislation. Income tax expenses in the profit and loss statement for the period comprise current and deferred income tax. Current income tax is calculated on the basis of taxable profit for the period, using the tax rates in effect at the balance sheet date. Deferred income tax is calculated on the basis of the balance sheet method.

Deferred income tax assets are recognised with allowance for all temporary differences, that decrease the tax base, and not used tax assets and liabilities are carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences that decrease the tax base, or unrealised tax assets and not settled liabilities to be carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, if the deferred asset in respect of income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Carrying amount of income tax deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred income tax assets and liabilities are determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences resulting from investments in subsidiaries, associated companies and joint ventures, with the exception of the cases when the term of utilisation of temporary differences could be controlled, and, with high degree of probability, temporary differences would not be utilised in the foreseeable future.

Deferred tax is charged or credited in the profit and loss statement, unless otherwise it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

3. Critical accounting estimates and judgments 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 judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments 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 and changes occur frequently.

The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group's entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest.

The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances review may cover larger periods.

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 judgments 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. Judgment 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

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NOTES TO THE FINANCIAL STATEMENTS (continued)*Impairments for bad and doubtful debts*

Management estimate impairments against recoverable amounts of trade receivables based on the ageing of trade receivables. Individual trade receivables are written off when management believe that the amounts will not be recoverable.

Provision for doubtful and bad debts is created based on the following criteria:

Ageing of accounts receivable	Provision
Over 3 years	To be written off
Over 1 year	80%
6 to 12 months	30%
3 to 6 months	5%
Less than 3 months	0%

4. Adoption of new or revised standards and interpretations

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the Group has not early adopted:

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. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and 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.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management does not expect IFRS 8 to affect the Group's financial statements.

Other new standards or interpretations.

The Group has not early adopted the following other new standards or interpretations:

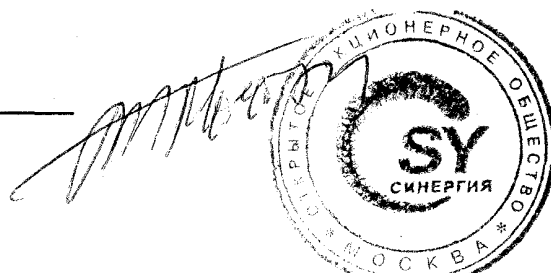
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).

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- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

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

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SYNERGY GROUP

Consolidated Financial Statements for the years ended 31 December 2006, 2005 and 2004
(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Property, plant and equipment

	Land and buildings	Machines and equipment	Vehicles	Tools and fixtures	Furniture and office equipment	Assets under construction	Total
Cost							
At 01.01.2004	647 137	413 625	110 894	69 897	78 733	33 075	1 353 361
Additions	23 262	54 492	7 934	17 908	10 542	14 059	128 197
Reclassification	11 915	15 881	-	259	671	(28 726)	-
Disposals	(11 857)	(17 168)	(7 154)	(1 188)	(5 211)	(171)	(42 749)
At 01.01.2005	670 457	466 830	111 674	86 876	84 735	18 237	1 438 809
Acquisition of subsidiaries	59 213	55 887	6 073	5 792	5 729	11 080	143 774
Additions	11 199	47 432	7 603	10 478	7 030	17 120	100 862
Reclassification	3 792	7 728	-	1 824	1	(13 345)	-
Disposals	(13 578)	(11 538)	(4 313)	(876)	(3 491)	(2 595)	(36 391)
At 01.01.2006	731 083	566 339	121 037	104 094	94 004	30 497	1 647 054
Acquisition of subsidiaries	278 675	291 655	20 503	3 401	20 519	42 171	656 924
Additions	39 066	143 289	20 070	21 492	49 084	180 716	453 717
Reclassification	2 881	6 098	180	102	3 762	(13 023)	-
Disposals	(16 716)	(29 964)	(3 363)	(6 378)	(7 009)	(16 502)	(79 932)
At 31.12.2006	1 034 989	977 417	158 427	122 711	160 360	223 859	2 677 763
Depreciation							
At 01.01.2004	406 297	153 074	70 623	35 348	58 373	-	723 715
Charge for the year	16 233	31 602	9 821	7 947	9 096	-	74 699
Disposals	(4 250)	(4 991)	(5 265)	(723)	(2 767)	-	(17 996)
At 01.01.2005	418 280	179 685	75 179	42 572	64 702	-	780 418
Charge for the year	17 748	38 966	10 081	9 436	9 239	-	85 470
Disposals	(12 274)	(3 151)	(3 303)	(520)	(2 835)	-	(22 083)
At 01.01.2006	423 754	215 500	81 957	51 488	71 106	-	843 805
Charge for the year	23 977	73 327	14 656	11 576	13 548	-	137 084
Disposals	(9 908)	(9 607)	(2 428)	(3 562)	(2 167)	-	(27 672)
At 31.12.2006	437 823	279 220	94 185	59 502	82 487	-	953 217
Carrying amount							
At 31.12.2006	597 166	698 197	64 242	63 209	77 873	223 859	1 724 546
At 31.12.2005	307 329	350 839	39 080	52 606	22 898	30 497	803 249
At 31.12.2004	252 177	287 145	36 495	44 304	20 033	18 237	658 391

Security

At 31 December 2006, bank borrowings were secured on land and buildings and equipment for the value of RUR 233 516 thousand (at 31 December 2005 RUR 175 574 thousand; at 31 December 2004 RUR 98 523 thousand).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Intangible assets

	Software	Patents and licenses	Brands	Total
Cost				
At 01.01.2004	10 106	14 004	-	24 110
Additions	915	4 321	-	5 236
Disposals	(8)	(5 184)	-	(5 192)
At 01.01.2005	11 013	13 141	-	24 154
Acquisition of subsidiaries	565	953	10 354	11 872
Additions	587	6 088	-	6 675
Disposals	(670)	(1 998)	-	(2 668)
At 01.01.2006	11 495	18 184	10 354	40 033
Acquisition of subsidiaries	592	10 219	147 778	158 589
Additions	2 090	16 259	-	18 349
Disposals	(436)	(2 779)	-	(3 215)
At 31.12.2006	13 741	41 883	158 132	213 756
Amortisation				
At 01.01.2004	9 778	7 273	-	17 051
Charge for the year	127	1 699	-	1 826
Disposals	(7)	(4 738)	-	(4 745)
At 01.01.2005	9 898	4 234	-	14 132
Charge for the year	540	3 386	-	3 927
Disposals	(670)	(1 998)	-	(2 668)
At 01.01.2006	9 768	5 622	-	15 390
Charge for the year	1 217	6 321	-	7 538
Impairment	-	-	8 944	8 944
Disposals	(231)	(2 779)	-	(3 010)
At 31.12.2006	10 754	9 164	8 944	28 862
Net book value				
At 31.12.2006	2 987	32 719	149 188	184 894
At 31.12.2005	1 727	12 562	10 354	24 643
At 31.12.2004	1 115	8 907	-	10 022

Brands are stated at fair value on acquisition. The principal brands are as follows:

Brand's name	Product	Remaining amortisation period	Carrying amount as at 31.12.06	Carrying amount as at 31.12.05
Tretiy time	Vodka	Indefinite life	41 511	43 473
Russkiy prazdnik	Vodka	Indefinite life	20 841	-
Tretiy toast	Vodka	Indefinite life	19 871	21 284
Nizegorodskiy Kreml	Vodka	Indefinite life	126	-
Cherpachok	Vodka	Indefinite life	117	117
Russkiy lyod	Vodka	Indefinite life	102	118
Total			82 568	235

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NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31.12.2004 the Group had only internally generated brands.

The Group also owns internally generated brands, such as "Gosudarev Zakaz" and "Sily Prirody". These internally generated brands are not capitalised within the balance sheet in accordance with the group stated accounting policies.

The amortisation and impairment charge is recognised in the following items in the income statement:

	2006	2005	2004
Cost of sales	13 487	2 619	385
General and administrative expenses	1 310	574	1 036
Sales expenses	745	361	406
	<u>15 542</u>	<u>3 554</u>	<u>1 827</u>

7. Goodwill

Goodwill arising on consolidation relates to the acquisitions of subsidiaries and acquisitions of minority interest. Details of acquisitions are disclosed in Note 27.

Cost

At 01.01.2004	-
At 01.01.2005	-
Acquisition through business combination	35 367
At 01.01.2006	35 367
Acquisition through business combination	59 564
Acquisition of minority interest	37 307
At 31.12.2006	<u>132 238</u>
Accumulated impairment losses	
At 01.01.2004	-
At 01.01.2005	-
At 01.01.2006	-
Impairment loss for the year	29 712
At 31.12.2006	<u>29 712</u>
Net book value	
At 31.12.2004	-
At 31.12.2005	<u>35 367</u>
At 31.12.2006	<u>102 526</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated by segments as follows:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Distilled spirit production	59 926	30 074	-
Food	42 600	5 293	-
	102 526	35 367	-

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of cash generating units are determined from value in use calculations. The key assumptions for value in use calculation are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specific to the cash generating units. The growth rates are based on management forecasts. Changes in selling prices and direct costs are based on historic practice and expectation of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budget approved by management for the next 4-5 years.

The rate used to discount the forecast cash flows is 16,65%.

8. Investments

Long-term financial assets include equity participations, stock, debt securities and interest-bearing borrowings maturing after 12 months and more after the balance sheet date.

Short-term financial assets include interest-bearing borrowings maturing within 12 months after the balance sheet date.

Long-term financial assets

Investee	31.12.2006	31.12.2005	31.12.2004
ОАО Varyag	-	3 274	3 274
ОАО Era	-	32 905	32 905
ОАО Sibneftgazpererabotka	24 944	62 336	62 336
ОАО Sakzhzaso	-	-	4 350
ООО Permspirit	-	-	-
ОАО CB Dzemgi	3 311	-	-
ООО TK Rifey-Perm	5 512	-	-
Other	176	5 103	98
Total equity participation and stock	33 943	103 618	102 963
Debt securities			
Bonds issued by Vneshtorgbank	80	166	-
Total debt securities	80	166	-
Total long-term financial assets	34 023	103 784	102 963

Equity participations, stock, and bonds are recognised according to original cost. Group's Management considers that this cost approximates fair value of the assets.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Inventories

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Raw materials	1 030 930	672 325	425 511
Work-in-progress	69 331	68 728	32 113
Finished goods	152 875	78 054	42 352
	<u>1 253 136</u>	<u>819 107 *</u>	<u>499 976</u>

At 31 December 2006, bank borrowings were secured on inventories with a carrying value of RUR 354 976 thousand (at 31 December 2005 RUR 96 259 thousand; at 31 December 2004 RUR 42 286 thousand).

10. Biological assets

Biological assets comprise chickens. At 31 December 2006, there were 1 332 152 chickens (at 31 December 2005 – 1 230 337; at 31 December 2004 – 1 143 646).

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Animals at fair value	<u>75 930</u>	<u>38 081</u>	<u>33 889</u>

The movement in valuation, particularly during 2006, is principally driven by an increase in the proportion of poultry sold for consumption as meat. This has a higher market value than the other poultry produce sold by the Group. The valuation is not materially affected by any other factor.

11. Trade and other receivables

a) Trade and other receivables

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Trade accounts receivable	1 463 253	793 086	410 207
Provision for doubtful debts	(37 000)	(24 448)	(29 419)
	<u>1 426 253</u>	<u>768 638</u>	<u>380 788</u>
Other accounts receivable	505 106	253 399	307 507
VAT and excises recoverable	150 236	184 409	118 685
	<u>2 081 595</u>	<u>1 206 446</u>	<u>806 980</u>

b) Loans to related parties

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Current			
Non-interest bearing	762 625	417 680	-
Interest bearing	649 521	-	-
	<u>1 412 146</u>	<u>417 680</u>	<u>-</u>
Non-current loans to related parties	28 035	-	-
	<u>1 440 181</u>	<u>417 680</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Non-interest bearing loans are provided to related parties principally in order to finance acquisitions made on behalf of the Group. Related parties are used for such purposes in order to preserve confidentiality of the Group's intent. Such anonymity is considered to reduce the potential for the Group becoming commercially prejudiced whilst undertaking acquisitions.

Amounts due to related parties in respect of non-interest bearing loans also exist and are shown with Note 14. Such amounts are principally recycled, i.e. used to finance acquisitions made by other related parties in favour of the Group as detailed above.

Interest bearing loans are also provided to finance the short-term working capital requirement of new acquired businesses. Such loans attract interest at a rate of 11% - 13% per annum.

12. Cash and cash equivalents

Cash and cash equivalents at the end of each financial year as shown in the cash flow statements can be reconciled to the related items in the balance sheet as follows:

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Cash on hand	9 413	5 723	1 625
Cash in banks	207 407	140 626	48 155
Cash in transit	76 943	34 455	13 128
	<u>293 763</u>	<u>180 804</u>	<u>62 908</u>

At 31 December 2004, 31 December 2005 and 31 December 2006, there are no effective restrictions on the use of cash.

13. Share capital

Share capital is the authorised capital of the parent company.

	Number of ordinary shares (thousands)	Share capital
At 31 December 2004	11 600	1 160 000
At 31 December 2005	11 600	1 160 000
At 31 December 2006	11 600	1 160 000

Synergy OAO issued 11 600 000 ordinary shares of RUR100 each at par. All issued shares are fully paid.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Borrowings

Non-current liabilities:

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Secured bank loans	358 550	22 000	22 000
	<u>358 550</u>	<u>22 000</u>	<u>22 000</u>

Current liabilities:

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Bond issue	1 000 000	-	-
Bank overdrafts	332 318	-	-
Unsecured bank loans	127 871	-	-
Secured bank loans	1 125 294	793 702	408 520
Unsecured loans from related parties	958 978	936 048	-
	<u>3 544 461</u>	<u>1 729 750</u>	<u>408 520</u>

Interest rates on the bank credits are fixed at 11 through 14% p.a. in the years 2006 and 2005 and at 14 through 18% p.a. in 2004 (see Note 30) in Rubles depending on the borrower and the terms of the respective contract.

Repayment schedule

The maturity of loans and borrowings is as follows:

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
On demand or within one year	3 544 461	1 729 750	408 520
Between the first and second year	232 550	22 000	22 000
Between the second and fifth years	75 000	-	-
After five years	51 000	-	-
	<u>3 903 011</u>	<u>1 751 750</u>	<u>430 520</u>

The interest rate paid on bank borrowings during 2006 and 2005 ranged from 11% to 14% and 14% to 18% in 2004. For more information about Group's exposure to interest rate risk see Note 30. The Group does not have foreign currency denominated loans and borrowings.

Terms and conditions of outstanding loans were as follows:

Loan / Debt	Nominal interest rate	Year of maturity of debt	Carrying value as at 31.12.2006	Carrying value as at 31.12.2005	Carrying value as at 31.12.2004
Bond issue	10,7%	2009	1 019 938	-	-
Secured bank loan					
Agroimpulse Bank	13,0%	2007	200 000	-	-
SberBank	12,0%	2007	54 202	-	-
SberBank	12,0%	2007	44 058	-	-
CJSC "MIB" Bank	10,75%	2007	50 173	-	-
SberBank	11,0%	2007	55 166	-	-
SberBank	11,0%	2009	55 166	-	-

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Loan / Debt	Nominal interest rate	Year of maturity of debt	Carrying value as at 31.12.2006	Carrying value as at 31.12.2005	Carrying value as at 31.12.2004
SberBank	11,0%	2008	40 121	-	-
OJSC "Vneshtorgbank"	12,75%	2007	50 541	-	-
SberBank	11,0%	2008	75 249	-	-
Bank Menatep S-P	13,0%	2007	55 078	-	-
SberBank	9,5%	2007	77 671	-	-
SberBank	10,5%	2007	45 149	-	-
SberBank	10,5%	2007	52 734	-	-
SberBank	10,0%	2007	45 000	-	-
Unsecured bank loan					
SberBank	10,5%	2007	44 266	-	-
SberBank	10,5%	2007	83 605	-	-
Unsecured bank facility					
Agropromkredit Bank	9,24%	2007	70 729	-	-
SberBank	10,5%	2007	58 765	-	-
SberBank	10,5%	2007	53 116	-	-
OJSC "Vneshtorgbank"	10,5%	2007	52 742	-	-
OJSC "Vneshtorgbank"	12,75%	2007	41 966	-	-
SberBank	9,5%	2007	55 000	-	-
Sub total			2 380 435	-	-
Related party loans			958 978	936 048	-
Other loans and debts			563 598	815 702	430 520
Total interest-bearing liabilities			3 903 011	1 751 750	430 520

All loans and facilities have been issued in Russian Rubles.

The directors estimate that the fair value of the Group's loans and borrowings is not materially different to the carrying value. Other principle features of the Group's loans and borrowings are as follows:

- 1) Bank loans totalling RUR 2 483 844 thousand are secured over guarantees and fixed assets and inventories with a total carrying value of RUR 588 492 thousand (see Notes 5 and 9).
- 2) Unsecured loans from related parties are discussed in Note 11b.
- 3) On 26 April 2006, the Group placed a certified interest-bearing non-convertible and registered bond. The interest rate payable is 10.7% per annum and the bond is redeemable in April 2009. The bond is secured over the following Group companies: Alviz OAO, Permsky Uralalko Distillery OAO, Habarovskiy Distillery OAO and Ussuriysky Balsam OAO.

According to the terms of the Offering circular, the issuer is obligated to purchase bonds on demand of bondholders, which is announced in the period of last 5 business days before payment of the third coupon (18 October 2007 – 24 October 2007). If in the stated period owners make such a demand, the relevant obligation of issuer should be executed by the 5 business days after payment of third coupon (25 October – 31 October).

Further, obligations of the issuer will arise:

- The issuer is obligated to purchase bonds under demand of bondholders, which is announced in the period of last 5 business days before payment of the fourth coupon (17 April 2008 – 23 April 2008). In case if in the stated period owners would present demand, the relevant obligation of issuer should be executed by the 5 business days after payment of fourth coupon (24 April 2008 – 30 April 2008).

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The execution will be effected if interest rates on fifth and sixth coupon were not previously determined.

- The issuer is obligated to purchase bonds under demand of bondholders, which is announced in the period of last 5 business days before payment of the fifth coupon (17 October 2008 – 23 October 2008). In case if in the stated period owners would present demand, the relevant obligation of issuer should be executed by the 5 business days after payment of fifth coupon (24 October 2008 – 29 October 2008). The execution will be effected if interest rate on sixth coupon was not previously determined.

Bonds under series 01 will be paid on the 1092nd day (22.04.2009) after the bond placement unless a notice is received as referred to above.

15. Trade and other payables

a) Trade and other payables

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Trade payables	521 169	766 186	271 948
Notes payable	-	-	91 036
Sundry taxes payable	700 119	448 954	220 175
Other payables	84 411	28 961	18 063
Advances obtained	76 076	132 507	61 356
	<u>1 381 775</u>	<u>1 376 608</u>	<u>662 578</u>

16. Revenue

	2006	2005	2004
Sales revenue	7 121 920	4 197 012	3 008 328
Other revenue	43 756	44 463	26 558
	<u>7 165 676</u>	<u>4 241 475</u>	<u>3 034 886</u>

In 2006, 44% of other revenue was made by revenue from lease and 40%, revenue from sale of services rendered by auxiliary works. Also other revenue includes revenue from sale of the services of transportation and other revenue.

Other revenue principally comprises of income generated from the rental and sub-lease of properties and supply of services such as distribution and transportation.

17. Cost of sales

	2006	2005	2004
Materials and supplies	2 548 343	1 721 242	1 392 138
Cost of finished goods purchased	1 770 256	907 712	679 332
Wages and salaries	380 334	223 850	144 431
Depreciation, amortisation and impairment	123 531	65 785	51 186
Fuel and power	105 319	85 625	15 531
Repairs and maintenance	63 205	20 052	13 841

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Other costs	184 825	61 868	57 527
	<u>5 175 813</u>	<u>3 086 134</u>	<u>2 353 986</u>

18. General and administration expenses

	2006	2005	2004
Wages and salaries	267 389	121 543	87 593
External services	75 449	44 624	39 539
Sundry taxes	74 075	23 259	20 827
Other costs	79 234	53 092	66 415
	<u>496 147</u>	<u>242 518</u>	<u>214 374</u>

19. Sales expenses

	2006	2005	2004
Wages and salaries	317 628	134 819	73 747
External services	294 130	125 090	99 149
Materials and supplies	54 580	16 587	15 700
Fuel and power	44 675	21 326	4 667
Other costs	100 589	63 297	72 617
	<u>811 602</u>	<u>361 119</u>	<u>265 880</u>

20. Other income

	2006	2005	2004
Negative goodwill	380 825	-	-
Net gain on disposal of property, plant and equipment	64 795	-	2 868
Other income	49 569	36 213	11 742
	<u>495 189</u>	<u>36 213</u>	<u>14 610</u>

21. Other expenses

	2006	2005	2004
Impairment of goodwill	29 712	-	-
Other expenses	191 414	162 421	49 867
	<u>221 126</u>	<u>162 421</u>	<u>49 867</u>

22. Finance costs

	2006	2005	2004
Interest income on bank deposits	46 216	3 833	2 712
Finance income	46 216	3 833	2 712
Interest on bank overdrafts and loans	(151 174)	(57 735)	(52 897)
Interest on bond issue	(73 288)	-	-

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Costs of arrangement of borrowings	(8 862)	-	(860)
Finance costs	(233 324)	(57 735)	(53 757)
Net finance costs	(187 108)	(53 902)	(51 045)

23. Profit tax

	2006	2005	2004
Current income tax charge	(109 672)	(62 514)	(17 033)
Deferred income tax	31 206	6 840	(10 533)
Total income tax	(78 466)	(55 674)	(27 566)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the consolidated entities as follows:

	2006	2005	2004
Profit before tax	769 068	371 593	114 342
Tax calculated at domestic tax rates applicable to profits in the respective regions	(192 890)	(89 182)	(27 442)
Income not subject to tax	124 534	39 328	6 152
Expenses not deductible for tax purposes	(10 580)	(5 819)	(6 276)
Tax charge	(78 466)	(55 674)	(27 566)

24. Deferred tax

Stated below are main deferred tax assets and liabilities recognised by the Group, and the respective changes over the reporting period.

2006	Deferred tax (asset)/liability at 01.01.2006	Charged to profit tax in 2006	Acquired with subsidiaries	Disposed with subsidiaries	Deferred tax (asset)/liability at 31.12.2006
Accounts receivable	9 860	(22 091)	(1 451)	1 203	(12 479)
Other current assets	(404)	129	(434)	4	(705)
Raw materials	(5 087)	3 308	(1 198)	-	(2 977)
Property, plant and equipment	14 764	(13 338)	54 178	281	55 885
Intangible assets	4 245	(648)	35 039	-	38 636
Accounts payable and accrued liabilities	(1 412)	1 434	-	-	22
Net deferred income tax liability	21 966	(31 206)	86 134	1 488	78 382
Deferred tax assets	(14 797)				(32 239)
Deferred tax liabilities	36 763				110 621
Net deferred income tax liability	21 966	(31 206)	86 134	1 488	78 382

2005	Deferred tax (asset)/liability at 01.01.2005	Charged to profit tax in 2005	Acquired with subsidiaries	Change of tax rate	Deferred tax (asset)/liability at 31.12.2005
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Accounts receivable	5 787	5 466	-	(1 393)	9 860
Other current assets	(104)	(300)	-	-	(404)
Raw materials	(1 855)	(3 314)	-	82	(5 087)
Property, plant and equipment	12 750	(6 089)	8 288	(185)	14 764
Intangible assets	1 291	304	2 650	-	4 245
Accounts payable and accrued liabilities	-	(1 412)	-	-	(1 412)
Net deferred income tax liability	17 869	(5 345)	10 938	(1 496)	21 966
Deferred tax assets	(3 773)				(14 797)
Deferred tax liabilities	21 642				36 763
Net deferred income tax liability	17 869	(5 345)	10 938	(1 496)	21 966

2004	Deferred tax (asset)/liability 01.01.2004	Charged to profit tax in 2004	Deferred tax (asset)/liability 31.12.2004
Accounts receivable	(4 668)	10 475	5 787
Other current assets	(106)	2	(104)
Raw materials	(1 695)	(160)	(1 855)
Property, plant and equipment	13 141	(391)	12 750
Intangible assets	684	607	1 291
Net deferred income tax liability	7 336	10 533	17 869
Deferred tax assets	(2 555)		(3 773)
Deferred tax liabilities	9 891		21 642
Net deferred income tax liability	7 336	10 533	17 869

The recognition and reversals of temporary differences, as presented in the tables above, primarily relate to the revaluation of property, plant and equipment and intangible assets (brands) for the purposes of acquisitions; impairment of receivables; and provisions to write inventories down to net realisable value.

In 2006, the effective profit tax rate in Russia was 24%, excluding the Permsky Krai, where the profit tax rate makes 20%.

URALALKO Permsky Distillery OAO was registered and exists in the Permsky Krai and thus its deferred tax assets and liabilities were determined based on the profit tax rate equal to 20%.

As Management of the Group has no information about expected future changes in tax rate, all deferred tax assets and liabilities of other entities were calculated using current profit tax rate of 24%.

Some of Group companies do not pay the profit tax in accordance with the tax law of Russian Federation. Companies engaged in the production of poultry pay the unified agricultural tax. Retail companies pay the unified tax on imputed income.

25. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during period.

	2006	2005	2004
Profit attributable to equity holders	627 663	229 414	(6 381)
Weighted average number of ordinary shares in issue (thousands)	11 600	11 600	11 600

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Basic and diluted earnings per share, RUR	54.11	19.78	(0.55)
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All shares are ordinary shares and there are no dilutive potential ordinary shares. Thus, the Group does not compute diluted earnings per share.

26. Operating lease commitments

The Group leases various offices, plant and machinery and land under operation lease agreements. The lease expenditures charged to the profit and loss statement during the year are: 2006 – RUR 66 869 thousand; 2005 – RUR 41 212 thousand; 2004 – RUR 28 839 thousand.

The future aggregate lease payments under the operating leases are as follows:

	31 December 2006	31 December 2005	31 December 2004
No later than 1 year	18 314	7 886	1 029
Later than 1 year and no later than 5 years	5 397	418	1 881
Later than 5 years	42 608	33 142	32 300
	66 319	41 446	35 210

27. Business combinations

In 2005 the Group has acquired subsidiaries as follows: Habarovskiy Distillery OAO, Trading House of Habarovskiy Distillery OOO, PPZ Tsarevshinsky-2 OAO. The company acquired 51%, 100% and 84.79% respectively in the issued share capital these companies.

	Recognised value on acquisition	Fair value adjustment	Pre acquisition carrying amount
Cash and cash equivalents	3 086	-	3 086
Property, plant and equipment	132 838	53 087	79 751
Construction in progress	10 909	10 909	-
Intangible assets, including Brands	11 499	10 838	661
Inventories	101 326	-	101 326
Financial assets	257	-	257
Trade and other receivables	105 934	-	105 934
Deferred tax assets (liabilities)	(10 938)	(15 342)	4 404
Loans and credits	(14 389)	-	(14 389)
Trade and other payables	(123 222)	(9 466)	(113 756)
Net assets	217 300	50 026	167 274
Minority interests	(97 005)		
Net assets acquired	120 295		
Purchase consideration	155 662		
Result arising on acquisition, accounted as:	35 367		
Goodwill	35 367		
Negative goodwill			

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Purchase consideration settled in cash	155 662
Cash and cash equivalents acquired	(3 086)
Cash outflow on acquisition	152 576

The goodwill recognised on acquisition is attributable mainly to penetration to new regional markets and construction of vertically integrated business structure (by acquiring producers of raw materials for companies of the Group and acquiring companies which use raw materials produced by the Group) and the synergies is expected to be achieved from integrity the company into the groups existing business.

The amount of the acquirees' revenue and profit or loss since the acquisition date included in the acquirer's profit or loss for the period are as follows:

Acquiree's name	Date of acquisition	Revenue	Profit/(loss) before tax
Habarovskiy Distillery OAO	Jul 2005	384 594	66 190
Trading House of Habarovskiy Distillery OOO	Jul 2005	183 347	9 484
PPZ Tsarevshchinsky-2 OAO	Dec 2005	809	(1 892)
Total for the period from the acquisition date to 31.12.2005		568 750	73 782

If the acquisition had occurred on 1 January 2005, the revenues of the Group for the year would have been RUR 5 262 626 thousand and Group profit would have been RUR 377 486 thousand.

In 2006 the Group has acquired subsidiaries as follows: Zorinsky breeding farm of 1 level OAO, Dakgomz OAO, Dakgomz-Torg OOO, ROOM ZAO, Chugunovsky Distillery OAO, Akruks OOO, Mariinsky Distillery OAO, AKA and K OOO. The Group acquired the following effective interests in the share capital of the companies as follows:

Company	% of issued capital
AKA and K OOO	100,00
Zorinsky breeding farm of 1 level OAO	85,70
Dakgomz OAO	98,47
Dakgomz-Torg OOO	98,47
Chugunovsky Distillery OAO	58,35
Akruks OOO	100,00
Mariinsky Distillery OAO	78,15
ROOM ZAO	99,97
Saratov-Broiler ZAO	100,00
Branded sausage manufacturing plant OOO	100,00

	Recognised value on acquisition	Fair value adjustment	Pre acquisition carrying amount
Cash and cash equivalents	28 368	-	28 368
Property, plant and equipment	628 778	224 262	404 516
Construction in progress	28 034	2 254	25 780
Intangible assets, including Brands	157 651	145 224	12 427
Inventories	266 227	-	266 227
Financial assets	34 931	-	34 931
Trade and other receivables	616 135	(240)	616 375
Deferred tax assets (liabilities)	(86 134)	(89 160)	3 026
Loans and credits	(170 906)	-	(170 906)

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Trade and other payables	(423 529)	-	(423 529)
Net assets	1 079 555	282 340	797 215
Minority interests	(137 386)		
Net assets acquired	942 169		
Purchase consideration	663 159		
Result arising on acquisition, accounted as:	(279 010)		
Goodwill	59 564		
Negative goodwill	(338 574)		
Purchase consideration settled in cash	663 159		
Cash and cash equivalents acquired	(28 368)		
Cash outflow on acquisition	634 791		

The amount of the acquirees' revenue and profit or loss since the acquisition date included in the acquirer's profit or loss for the period are as follows:

Acquiree's name	Date of acquisition	Revenue	Profit/(loss) before tax
Zorinsky breeding farm of 1 level OAO	Jan 2006	66 663	(3 726)
Dakgomz OAO	Apr 2006	419 287	14 822
Dakgomz-Torg OOO	Apr 2006	259 416	28 101
Mariinsky Distillery OAO	Jul 2006	598 451	82 072
ROOM ZAO	Oct 2006	54 045	64
Chugunovsky Distillery OAO	Oct 2006	50 736	8 627
Akruks OOO	Oct 2006	271 612	2 057
AKA and K OOO	Oct 2006	-	-
Total for the period from the acquisition date to 31.12.2006		1 720 210	132 017

If the acquisition had occurred on 1 January 2006, the revenues of the Group for the year would have been RUR 10 176 537 thousand and Group profit would have been RUR 897 620 thousand.

Acquisition of minority interests

In January 2006 the Group acquired an additional 26,5% interest in Permsky Uralalko Distillery OAO for RUR 42 900 thousand increasing its legal ownership from 57,0% to 83,5%. The carrying amount of Permsky Uralalko Distillery OAO net assets in the consolidated financial statements at the date of acquisition was RUR 237 348 thousand. The Group recognised a decrease in minority interest of RUR 62 897 thousand and negative goodwill of RUR 19 997 thousand.

In June 2006 the Group acquired an additional 43,8% interest in Ussuriysky Dairy Plant OAO for RUR 22 775 thousand increasing its legal ownership from 50,0% to 83,8%. The carrying amount of Ussuriysky Dairy Plant OAO net assets in the consolidated financial statements at the date of acquisition was RUR 44 705 thousand. The Group recognised a decrease in minority interest of RUR 16 102 thousand and increase in goodwill of RUR 3 336 thousand.

In July 2006 the Group acquired an additional 34,7% interest in Lysogorskaya Poultry Plant OAO for RUR 47 115 thousand increasing its legal ownership from 53,6% to 88,4%. The carrying amount of Lysogorskaya Poultry Plant OAO net assets in the consolidated financial statements at the date of acquisition was RUR 37 911 thousand. The Group recognised a decrease in minority interest of RUR 18 943 thousand and increase in goodwill of RUR 33 971 thousand.

The Group acquired an additional 40% interest in Nahodkinsky Meat-Packing Factory OAO for RUR 19 517

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thousand increasing its legal ownership from 50% to 90%. The carrying amount of Nahodkinsky Meat-Packing Factory OAO net assets in the consolidated financial statements at the date of acquisition was RUR 104 426 thousand. The Group recognised a decrease in minority interest of RUR 41 770 thousand and negative goodwill of RUR 22 253 thousand.

28. Disposal of subsidiary

On 31 December 2006 the Group disposed of its interest in the following subsidiaries:

OAO Kolizey;

OAO Trading house "Mir Produktov";

ZAO Rodimaya Storonka;

OAO Trading house "Rodimaya Storonka";

OOO Stoik;

OOO Balsam Invest.

The net assets of the subsidiaries at the date of disposal were as follows:

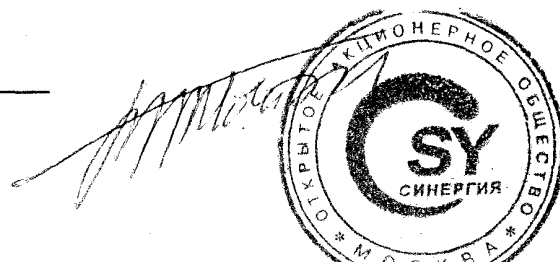
Inventories	22 384
Accounts receivable	131 654
Bank balances and cash	22 427
Short-term financial assets	215 961
Intangible assets	205
Long-term financial assets	206 794
Share of net assets of Ussuriisky balsam disposed with Balsam Invest	41 838
Property, plant and equipment	4 205
Deferred tax assets	1 735
Short-term borrowings	(70 357)
Trade and other payables	(62 118)
Non-interest-bearing loans, obtained	(113 827)
Long-term borrowings	(19 993)
Deferred tax liabilities	(190)
	<u>380 719</u>
Loss on disposal	(38 908)
Total consideration	<u><u>341 811</u></u>
Satisfied by:	
Cash	120 000
Accounts receivable from disposed subsidiaries	<u>221 811</u>
	<u><u>341 811</u></u>
Cash consideration	120 000
Bank balances and cash disposed of	<u>(22 427)</u>
Net cash inflow arising on disposal:	<u><u>97 573</u></u>

There were no discontinued operations as a result of the disposals.

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29. Business and geographical segments

For management purposes, the Group is currently organised into three divisions: Distilled spirit production, Food and Trade. These divisions are the basis on which the Group reports its primary segment information

Principal activities are as follows:

- Distilled spirit production – the production of branded distillery products, principally vodka;
- Food – cultivation and production of poultry, milk and meat products;
- Trade – wholesale and retail operations selling produced alcohol and food products along with products purchased from third parties.

Segmental information about their businesses is presented in the following tables:

29.1. Results of Group's operations by segments

Business segment

2006	Distilled spirit production	Food	Trade	Unallocated corporate transactions	Group
Revenue, including:	3 629 823	2 299 284	1 594 211	14 294	7 537 612
Proceeds of the Group from operations with third parties	3 346 254	2 225 074	1 585 672	8 677	7 165 676
Intersegment proceeds	283 569	74 210	8 540	5 617	371 936
Total cost, including	(2 507 886)	(1 731 816)	(1 257 660)	(22 139)	(5 519 501)
Cost of operations with third parties	(2 498 814)	(1 730 966)	(923 895)	(22 139)	(5 175 814)
incl. Amortisation and depreciation	(62 366)	(59 954)	(179)	(1 225)	(123 723)
Cost of intragroup operations	(9 073)	(850)	(333 765)	-	(343 687)
Gross profit	1 121 937	567 468	336 551	(7 845)	2 018 112
General and administration expenses, including:	(240 947)	(215 273)	(28 237)	(14 688)	(499 144)
General and administration expenses from operations with third parties	(240 342)	(213 395)	(27 722)	(14 688)	(496 147)
incl. Amortisation and depreciation	(7 966)	(5 024)	(625)	(588)	(14 202)
Expenses from intersegment operations	(605)	(1 877)	(515)	-	(2 997)
Selling expenses total, including:	(463 265)	(153 300)	(220 724)	(171)	(837 460)
Selling expenses from operations with third parties	(461 656)	(150 484)	(199 292)	(171)	(811 602)
incl. Amortisation and depreciation	(9 435)	(2 716)	(2 740)	-	(14 892)
Expenses from intersegment operations	(1 609)	(2 816)	(21 433)	-	(25 858)
Other income, including:	223 318	268 401	4 429	(959)	495 189
Other income from operations with third parties	223 318	268 401	4 429	(959)	495 189
Income from intersegment operations	-	-	-	-	-
Other expenses total, including	(160 972)	(44 884)	(13 380)	(1 283)	(220 520)
Other expenses from operations with third parties	(161 548)	(44 915)	(13 380)	(1 283)	(221 126)
Expenses from intersegment operations	576	31	-	-	606
Operating profit	480 071	422 412	78 639	(24 946)	956 177
Finance expenses from operations with third parties					(187 108)
Profit tax					(78 466)
Profit					690 602

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2005	Distilled spirit production	Food	Trade	Unallocated corporate transactions	Group
Revenue, including:	1 807 489	1 660 953	998 840	17 332	4 484 613
Proceeds of the Group from operations with third parties	1 597 392	1 631 444	998 224	14 414	4 241 475
Intersegment proceeds	210 097	29 509	616	2 917	243 139
Total cost, including	(1 223 266)	(1 237 728)	(836 157)	(28 613)	(3 325 762)
Cost of operations with third parties	(1 193 430)	(1 237 728)	(626 363)	(28 613)	(3 086 134)
incl. Amortisation and depreciation	(37 727)	(26 553)	(298)	(1 207)	(65 785)
Cost of intragroup operations	(29 835)	-	(209 793)	-	(239 629)
Gross profit	584 223	423 226	162 683	(11 281)	1 158 851
General and administration expenses, including:	(141 884)	(73 057)	(25 867)	(3 829)	(244 637)
General and administration expenses from operations with third parties	(141 884)	(73 057)	(23 749)	(3 829)	(242 519)
incl. Amortisation and depreciation	(4 976)	(3 712)	(1 205)	(126)	(10 020)
Expenses from intersegment operations	-	-	(2 118)	-	(2 118)
Selling expenses total, including:	(209 911)	(84 280)	(68 036)	(306)	(362 533)
Selling expenses from operations with third parties	(209 155)	(84 280)	(67 377)	(306)	(361 119)
incl. Amortisation and depreciation	(9 762)	(1 212)	(2 237)	-	(13 211)
Expenses from intersegment operations	(756)	-	(658)	-	(1 414)
Other income, including:	12 481	12 286	1 986	9 483	36 236
Other income from operations with third parties	12 481	12 286	1 963	9 483	36 214
Income from intersegment operations	-	-	23	-	23
Other expenses total, including	(37 429)	(118 748)	(3 917)	(2 327)	(162 421)
Other expenses from operations with third parties	(37 429)	(118 748)	(3 917)	(2 327)	(162 421)
Expenses from intersegment operations	-	-	-	-	-
Operating profit	207 479	159 427	66 849	(8 259)	425 496
Finance expenses total, including:					(53 903)
Profit tax					(55 674)
Profit					315 920

2004	Distilled spirit production	Food	Trade	Unallocated corporate transactions	Group
Revenue, including:	1 330 389	1 298 269	591 253	12 993	3 232 904
Proceeds of the Group from operations with third parties	1 200 486	1 238 719	589 595	6 085	3 034 886
Intersegment proceeds	129 903	59 550	1 658	6 908	198 019
Total cost, including	(913 197)	(1 125 917)	(488 596)	(16 491)	(2 544 201)
Cost of operations with third parties	(898 787)	(1 124 100)	(314 608)	(16 491)	(2 353 986)
incl. Amortisation and depreciation	(26 816)	(23 182)	(1)	(1 187)	(51 186)
Cost of intragroup operations	(14 410)	(1 817)	(173 987)	-	(190 215)
Gross profit	417 192	172 352	102 657	(3 498)	688 703
General and administration expenses, including:	(146 340)	(55 410)	(7 660)	(5 030)	(214 440)
General and administration expenses from operations with third parties	(146 340)	(55 345)	(7 660)	(5 030)	(214 375)
incl. Amortisation and depreciation	(3 598)	(1 023)	(14)	(424)	(5 060)
Expenses from intersegment operations	-	(65)	-	-	(65)
Selling expenses total, including:	(147 064)	(64 942)	(62 237)	-	(274 242)
Selling expenses from operations with third parties	(141 692)	(64 942)	(59 247)	-	(265 881)
incl. Amortisation and depreciation	(2 080)	(589)	(2 600)	-	(5 269)

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Expenses from intersegment operations	(5 372)	-	(2 990)	-	(8 362)
Other income, including:	(9 155)	16 917	1 670	5 783	15 215
Other income from operations with third parties	(9 760)	16 917	1 670	5 783	14 610
Income from intersegment operations	605	-	-	-	605
Other expenses total, including	(22 787)	(17 318)	(4 323)	(5 420)	(49 848)
Other expenses from operations with third parties	(22 787)	(17 318)	(4 341)	(5 420)	(49 866)
Expenses from intersegment operations	-	-	18	-	18
Operating profit	92 139	52 306	30 141	(6 488)	168 099
Finance expenses total, including:					(51 045)
Profit tax					(27 566)
Profit					86 776

The Groups operations are located wholly in the Russian Federation which, as a result of size, has resulted in two geographical segments divided on the East of the Russian Federation and the West of the Russian Federation.

Geographical segments

2006	West	East	Group Total
Revenue, including:	3 082 805	4 095 316	7 178 121
Proceeds of the Group from operations with third parties	3 074 590	4 091 087	7 165 676
Intersegment proceeds	8 215	4 229	12 444
Total cost, including	(2 295 797)	(2 892 582)	(5 188 380)
Cost of operations with third parties	(2 291 802)	(2 884 012)	(5 175 814)
incl. Amortisation and depreciation	(65 918)	(57 805)	(123 723)
Cost of intragroup operations	(3 995)	(8 571)	(12 566)
Gross profit	787 008	1 202 734	1 989 741
General and administration expenses, including:	(263 651)	(233 335)	(496 986)
General and administration expenses from operations with third parties	(263 417)	(232 730)	(496 147)
incl. Amortisation and depreciation	(6 765)	(7 437)	(14 202)
Expenses from intersegment operations	(234)	(605)	(839)
Selling expenses total, including:	(280 604)	(531 466)	(812 070)
Selling expenses from operations with third parties	(280 604)	(530 998)	(811 602)
incl. Amortisation and depreciation	(4 408)	(10 484)	(14 892)
Expenses from intersegment operations	-	(467)	(467)
Other income, including:	434 316	60 874	495 189
Other income from operations with third parties	434 316	60 874	495 189
Income from intersegment operations	-	-	-
Other expenses total, including	(93 951)	(125 747)	(219 698)
Other expenses from operations with third parties	(95 379)	(125 747)	(221 126)
Expenses from intersegment operations	1 428	-	1 428
Operating profit	583 117	373 060	956 177
Finance expenses from operations with third parties			(187 108)
Profit tax			(78 466)
Profit			690 602

2005	West	East	Group Total
Revenue, including:	1 621 604	2 627 926	4 249 530
Proceeds of the Group from operations with third parties	1 621 604	2 619 870	4 241 475

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Intersegment proceeds	-	8 055	8 055
Total cost, including	(1 082 645)	(2 011 544)	(3 094 189)
Cost of operations with third parties	(1 074 590)	(2 011 544)	(3 086 134)
incl. Amortisation and depreciation	(37 099)	(28 686)	(65 785)
Cost of intragroup operations	(8 055)	-	(8 055)
Gross profit	538 959	616 382	1 155 341
General and administration expenses, including:	(132 169)	(110 350)	(242 519)
General and administration expenses from operations with third parties	(132 169)	(110 350)	(242 519)
incl. Amortisation and depreciation	(5 212)	(4 808)	(10 020)
Expenses from intersegment operations	-	-	-
Selling expenses total, including:	(109 476)	(251 643)	(361 119)
Selling expenses from operations with third parties	(109 476)	(251 643)	(361 119)
incl. Amortisation and depreciation	(3 001)	(10 210)	(13 211)
Expenses from intersegment operations	-	-	-
Other income, including:	13 282	22 932	36 214
Other income from operations with third parties	13 282	22 932	36 214
Income from intersegment operations	-	-	-
Other expenses total, including	(118 213)	(44 208)	(162 421)
Other expenses from operations with third parties	(118 213)	(44 208)	(162 421)
Expenses from intersegment operations	-	-	-
Operating profit	192 383	233 112	425 496
Finance expenses total, including:			(53 903)
Profit tax			(55 674)
Profit			315 920

2004	West	East	Group Total
Revenue, including:	1 456 775	1 587 445	3 044 220
Proceeds of the Group from operations with third parties	1 456 775	1 578 110	3 034 886
Intersegment proceeds	-	9 334	9 334
Total cost, including	(1 141 450)	(1 221 869)	(2 363 320)
Cost of operations with third parties	(1 132 116)	(1 221 869)	(2 353 985)
incl. Amortisation and depreciation	(31 283)	(19 902)	(51 185)
Cost of intragroup operations	(9 334)	-	(9 334)
Gross profit	315 325	365 575	680 900
General and administration expenses, including:	(122 706)	(91 669)	(214 375)
General and administration expenses from operations with third parties	(122 706)	(91 669)	(214 375)
incl. Amortisation and depreciation	(2 816)	(2 243)	(5 060)
Expenses from intersegment operations	-	-	-
Selling expenses total, including:	(71 137)	(194 744)	(265 881)
Selling expenses from operations with third parties	(71 137)	(194 744)	(265 881)
incl. Amortisation and depreciation	(1 356)	(3 913)	(5 269)
Expenses from intersegment operations	-	-	-
Other income, including:	(2 831)	17 441	14 610
Other income from operations with third parties	(2 831)	17 441	14 610
Income from intersegment operations	-	-	-
Other expenses total, including	(29 819)	(20 047)	(49 867)
Other expenses from operations with third parties	(29 819)	(20 047)	(49 867)
Expenses from intersegment operations	-	-	-
Operating profit	89 156	78 943	168 099
Finance expenses total, including:			(51 045)

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Profit tax	(27 566)
Profit	<u>86 776</u>

29.2. By business-segment distribution of assets and liabilities

By business-segment distribution of assets and liabilities

2006	Distilled spirit production	Food	Trade	Unallocated corporate balances	Elimination	Group
ASSETS						
Non-current assets						
Property, plant and equipment	898 678	780 981	30 241	14 650	-	1 724 549
Goodwill	59 927	42 600	-	-	-	102 526
Other intangible assets	179 434	1 137	1 117	3 206	-	184 894
Loans to related parties	41 709	133 659	2 510	2 384 358	(2 534 200)	28 035
Other investments	-	-	-	34 023	-	34 023
Deferred tax assets	19 866	9 087	949	2 336	-	32 239
Total non-current assets	<u>1 199 614</u>	<u>967 464</u>	<u>34 816</u>	<u>2 438 574</u>	<u>(2 534 200)</u>	<u>2 106 267</u>
Current assets						
Inventories	655 372	473 832	123 249	683	-	1 253 136
Biological assets	1	75 929	-	-	-	75 930
Trade and other receivables	1 683 714	1 585 153	164 660	132 235	(1 484 166)	2 081 595
Prepayments	310 176	67 567	3 388	2 978	(45 436)	338 673
Loans to related parties	369 954	622 481	227 488	926 484	(734 261)	1 412 146
Income tax overpaid	27 827	2 729	220	-	-	30 777
Cash and cash equivalents	159 725	55 500	64 693	13 846	-	293 763
Total current assets	<u>3 206 769</u>	<u>2 883 191</u>	<u>583 697</u>	<u>1 076 227</u>	<u>(2 263 863)</u>	<u>5 486 021</u>
TOTAL ASSETS	<u>4 406 383</u>	<u>3 850 655</u>	<u>618 513</u>	<u>3 514 801</u>	<u>(4 798 063)</u>	<u>7 592 288</u>
LIABILITIES						
Non-current liabilities						
Long-term borrowings	217 550	111 000	30 000	-	-	358 550
Deferred tax liabilities	78 201	32 304	116	-	-	110 620
Total non-current liabilities	<u>295 751</u>	<u>143 304</u>	<u>30 116</u>	<u>-</u>	<u>-</u>	<u>469 170</u>
Current liabilities						
Bond issue	-	-	-	1 000 000	-	1 000 000
Loans due in less than one year	872 627	2 018 423	316 369	1 053 039	(1 715 996)	2 544 461
Accounts payable	1 337 671	582 975	93 072	93 207	(725 150)	1 381 775
Income tax due	35 317	6 892	948	224	-	43 381
Total current liabilities	<u>2 245 615</u>	<u>2 608 290</u>	<u>410 389</u>	<u>1 146 470</u>	<u>(2 441 146)</u>	<u>4 969 618</u>
TOTAL LIABILITIES	<u>2 541 366</u>	<u>2 751 594</u>	<u>440 505</u>	<u>2 146 470</u>	<u>(2 441 146)</u>	<u>5 438 788</u>

2005	Distilled spirit production	Food	Trade	Unallocated corporate balances	Elimination	Group
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NOTES TO THE FINANCIAL STATEMENTS (continued)

ASSETS

Non-current assets

Property, plant and equipment	477 671	291 058	20 095	14 427	-	803 251
Goodwill	30 074	5 293	-	-	-	35 367
Other intangible assets	20 578	637	752	2 674	-	24 642
Other investments	155 675	35 178	78 862	1 456 967	(1 622 896)	103 784
Deferred tax assets	9 594	1 574	1 896	1 733	-	14 797
Total non-current assets	693 591	333 740	101 605	1 475 800	(1 622 896)	981 840

Current assets

Inventories	344 404	299 308	174 859	535	-	819 106
Biological assets	-	38 081	-	-	-	38 081
Accounts receivable	878 162	446 529	89 405	94 056	(301 706)	1 206 446
Advances originated	646 902	240 713	75 721	1 807	(7 216)	957 928
Non-interest-bearing loans, originated	211 277	259 495	249 929	726 067	(1 029 088)	417 680
Short-term financial assets	-	-	-	-	-	-
Other current assets	-	-	-	-	-	-
Income tax overpaid	48	2 501	235	-	-	2 785
Cash and cash equivalents	63 670	37 727	34 147	45 259	-	180 804
Total current assets	2 144 464	1 324 354	624 296	867 724	(1 338 011)	3 622 828
TOTAL ASSETS	2 838 056	1 658 094	725 901	2 343 524	(2 960 907)	4 604 668

SHAREHOLDERS' EQUITY AND LIABILITIES

Non-current liabilities

Loans and borrowings	-	22 000	-	-	-	22 000
Deferred tax liabilities	29 024	7 539	200	-	-	36 763
Total non-current liabilities	29 024	29 539	200	-	-	58 763

Current liabilities

Loans due in less than one year	1 026 473	543 253	280 822	734 597	(855 394)	1 729 750
Accounts payable	804 030	555 891	176 881	3 435	(163 629)	1 376 608
Income tax due	17 999	3 445	430	88	-	21 962
Total current liabilities	1 848 502	1 102 589	458 133	738 120	(1 019 024)	3 128 321
TOTAL LIABILITIES	1 877 526	1 132 128	458 333	738 120	(1 019 024)	3 187 084

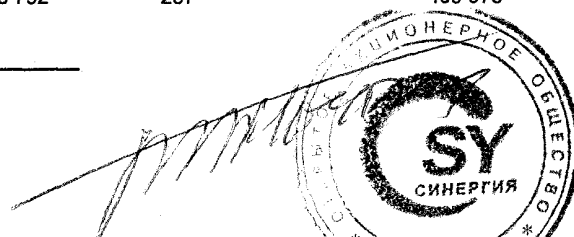
2004	Distilled spirit production	Food	Trade	Unallocated corporate balances	Elimination	Group
ASSETS						
Non-current assets						
Property, plant and equipment	361 085	266 912	15 099	15 297	-	658 392
Other intangible assets	8 558	669	185	609	-	10 022
Other investments	154 483	5 053	81 862	311 977	(450 411)	102 963
Deferred tax assets	-	880	2 156	737	-	3 773
Total non-current assets	524 127	273 514	99 302	328 620	(450 411)	775 151
Current assets						
Inventories	256 678	174 218	68 792	287	-	499 975

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Biological assets	-	33 889	-	-	-	33 889
Accounts receivable	391 059	109 480	57 147	28 420	220 873	806 980
Advances originated	52 482	29 174	802	1 381	(664)	83 175
Non-interest-bearing loans, originated	2 729	52 882	61 790	264 047	(381 448)	-
Short-term financial assets	-	-	-	-	-	-
Other current assets	-	-	-	-	-	0
Income tax overpaid	4 382	386	33	-	-	4 802
Cash and cash equivalents	24 822	19 051	18 922	113	-	62 908
Total current assets	732 151	419 079	207 486	294 249	(161 238)	1 491 727
TOTAL ASSETS	1 256 278	692 593	306 787	622 869	(611 650)	2 266 877

LIABILITIES

Non-current liabilities

Long-term borrowings	-	22 000	-	-	-	22 000
Other long-term liabilities	-	-	-	138 077	-	138 077
Deferred tax liabilities	15 683	5 959	-	-	-	21 642
Total non-current liabilities	15 683	27 959	0	138 077	0	181 719

Current liabilities

Loans due in less than one year	194 464	200 254	47 893	80 230	(114 320)	408 520
Accounts payable	433 007	63 852	62 726	93 035	9 958	662 578
Income tax due	860	1 860	177	11	-	2 907
Total current liabilities	628 331	265 966	110 796	173 276	(104 362)	1 074 005
TOTAL LIABILITIES	644 014	293 925	110 796	311 353	(104 362)	1 255 724

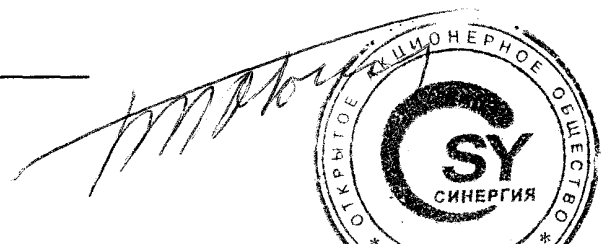
Geographical segments

2006	West	East	Elimination	Group
ASSETS				
Non-current assets				
Property, plant and equipment	1 028 809	695 740	-	1 724 549
Goodwill	93 898	8 629	-	102 526
Intangible assets	164 299	20 595	-	184 894
Loans to related parties	2 387 063	175 173	(2 534 200)	28 035
Other investments	34 023	-	-	34 023
Deferred tax assets	23 669	8 570	-	32 239
Total non-current assets	3 731 761	908 707	(2 534 200)	2 106 267
Current assets				
Inventories	623 332	629 804	-	1 253 136
Biological assets	75 930	-	-	75 930
Accounts receivable	1 458 606	2 107 156	(1 484 166)	2 081 595
Advances originated	182 824	201 286	(45 436)	338 673
Non-interest-bearing loans, originated	983 911	1 162 496	(734 261)	1 412 146
Income tax overpaid	28 364	2 413	-	30 777
Cash and cash equivalents	119 582	174 181	-	293 763
Total current assets	3 472 548	4 277 335	(2 263 863)	5 486 021
TOTAL ASSETS	7 110 411	5 177 413	(4 798 063)	7 592 288

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LIABILITIES

Non-current liabilities

Long-term borrowings	81 050	277 500	-	358 550
Deferred tax liabilities	75 381	35 239	-	110 620
Total non-current liabilities	156 431	312 739	-	469 170

Current liabilities

Bond issue	1 000 000	-	-	1 000 000
Loans due in less than one year	1 557 505	2 702 953	(1 715 996)	2 544 461
Accounts payable	1 346 740	760 186	(725 150)	1 381 775
Income tax due	28 717	14 664	-	43 381
	<u>3 932 962</u>	<u>3 477 803</u>	<u>(2 441 146)</u>	<u>4 969 618</u>

TOTAL LIABILITIES	4 089 393	3 790 542	(2 441 146)	5 438 788
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2005	West	East	Elimination	Group
ASSETS				
Non-current assets				
Property, plant and equipment	399 164	404 086	-	803 251
Goodwill	5 293	30 074	-	35 367
Intangible assets	10 108	14 534	-	24 642
Long-term financial assets	1 296 029	430 651	(1 622 896)	103 784
Deferred tax assets	4 064	10 733	-	14 797
Total non-current assets	1 714 658	890 078	(1 622 896)	981 840
Current assets				
Inventories	290 633	528 472	-	819 106
Biological assets	38 081	-	-	38 081
Accounts receivable	591 618	916 534	(301 706)	1 206 446
Advances originated	222 804	742 339	(7 216)	957 928
Non-interest-bearing loans, originated	178 614	1 268 155	(1 029 088)	417 680
Income tax overpaid	514	2 270	-	2 784
Cash and cash equivalents	91 897	88 907	-	180 804
Total current assets	1 414 162	3 546 677	(1 338 011)	3 622 829
TOTAL ASSETS	3 128 820	4 436 755	(2 960 907)	4 604 668
LIABILITIES				
Non-current liabilities				
Long-term borrowings	22 000	-	-	22 000
Deferred tax liabilities	17 758	19 005	-	36 763
Total non-current liabilities	39 758	19 005	-	58 763
Current liabilities				
Loans due in less than one year	444 413	2 140 732	(855 394)	1 729 750
Accounts payable	650 736	889 501	(163 629)	1 376 608
Income tax due	9 644	12 318	-	21 962
Total current liabilities	1 104 793	3 042 551	(1 019 024)	3 128 321
TOTAL LIABILITIES	1 144 552	3 061 556	(1 019 024)	3 187 084

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2004	West	East	Elimination	Group
ASSETS				
Non-current assets				
Property, plant and equipment	365 247	293 145	-	658 392
Goodwill	-	-	-	-
Intangible assets	6 954	3 067	-	10 022
Long-term financial assets	116 765	436 610	(450 411)	102 963
Deferred tax assets	1 115	2 659	-	3 773
Total non-current assets	490 082	735 480	(450 411)	775 151
Current assets				
Inventories	239 118	260 857	-	499 975
Biological assets	33 889	-	-	33 889
Accounts receivable	359 768	226 339	220 873	806 980
Advances originated	74 433	9 406	(664)	83 175
Non-interest-bearing loans, originated	5 461	375 986	(381 448)	(0)
Short-term financial assets	-	-	-	-
Other current assets	-	-	-	0
Income tax overpaid	4 708	93	-	4 802
Cash and cash equivalents	31 073	31 835	-	62 908
Total current assets	748 449	904 516	(161 238)	1 491 727
TOTAL ASSETS	1 238 531	1 639 996	(611 650)	2 266 877
LIABILITIES				
Non-current liabilities				
Long-term borrowings	22 000	-	-	22 000
Other long-term liabilities	-	-	138 077	138 077
Deferred tax liabilities	17 241	4 401	-	21 642
Total non-current liabilities	39 241	4 401	138 077	181 719
Current liabilities				
Loans due in less than one year	27 289	495 552	(114 320)	408 520
Accounts payable	501 446	151 174	9 958	662 578
Income tax due	898	2 009	-	2 907
Total current liabilities	529 633	648 735	(104 363)	1 074 005
TOTAL LIABILITIES	568 874	653 136	33 714	1 255 724

30. Financial instruments and risk factors

30.1. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate is the risk that the value of financial instruments will fluctuate due to changes in market interest rates.

Borrowing at variable rates expose the Group to cash flow interest rate risk. Lending at fixed rates or the

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purchase of debt instruments at fix rates expose the Group to fair value interest rate risk.

The Group constantly reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels. Information relating to interest rates on the Group's borrowings are disclosed in Note 14.

Interest rate sensitivity on financial assets and liabilities are determined by analysis of the market of financial instruments. Interest rates on principal financial items remain fixed throughout the term of the contract. The average term of a credit agreement is one and a half years.

As the Group has an excess of floating rate liabilities over floating rate assets it is vulnerable to rises in interest rates.

The Group's surplus funds are placed with reputable banks as fixed deposits, which generate interest income for the Group. The Group's policy is to obtain the most favourable interest rates available.

30.2. Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. It is the Group's policy to enter into transactions with creditworthy customers to mitigate any significant credit risk. The Group has procedures in place to control credit risk and exposure to such risk is monitored on an ongoing basis. The Group has made allowances for potential losses on receivables.

The Group trades only with recognised, creditworthy third parties. It is Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result the Group exposure to bad debts is not significant.

Other financial assets of the Group with exposure to credit risk include cash. Cash is placed with reputable banks. As such, management does not expect any counterparty to fail to meet their commitments.

The Group's maximum exposure to credit risk in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet. At the end of the financial period, there was no significant concentration of credit risk to the Group.

30.3. Tax risks

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Instances of inconsistent opinions between local, regional, and federal tax authorities and between the tax authorities and the Ministry of Finance are not unusual. 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. These facts create uncertainties in the Russian Federation substantially more significant than typically found in countries with more developed tax systems. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding to the year of review. Under certain circumstances reviews may cover longer periods.

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NOTES TO THE FINANCIAL STATEMENTS (continued)**30.4. Liquidity risk**

Liquidity risk management aims at ensuring sufficient amounts of monetary funds and marketable securities and availability of credit fundraising.

The Group's strategy in maintenance of liquidity includes acquiring long-term loans, decreasing share of short-term loans issuing bonds and regularly review the current and future liquidity requirements.

31. Related party transactions

On 12 October 2004 a reorganisation was executed under contract to establish OAO Synergy as new parent of the Group.

Directors transferred shareholdings in companies consolidated via control agreement into the new parent in exchange for shares in OAO Synergy.

More details of this transaction are included in Note 1.

The major shareholders of the Group are A.A. Mechetin and V.G. Zavadnikov, who held 63% and 33% shares of the Group, respectively, at 31 December 2006. Mr Mechetin is therefore the ultimate controlling party.

Compensation of key management personnel

Remuneration paid to key management personnel for the year 2006 was RUR 68 477 thousand (in 2005, RUR 23 287 thousand, in 2004 RUR 14 503 thousand).

The remuneration of directors and key executives is determined by labour contracts. The directors received no share based payments, post employment benefits and other benefits in the year ended 31.12.2006, (2005: Nil, 2004: Nil).

A number of key management personnel, or their related parties, hold positions in other entities that result in then having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with non-related parties or on arms length basis.

The aggregate value of transactions and outstanding balances relating to related parties over which they have control or significant influence were as follows:

Sales of goods and services

	2006	2005	2004
Sales of goods	209 801	313 354	162 671
Sales of services	8 679	7 626	6 337
	<u>220 486</u>	<u>322 985</u>	<u>171 012</u>

Purchases of goods and services

	2006	2005	2004
Purchases of goods	1 523 885	1 135 952	567 906
Purchases of services	5 528	3 739	6 363
	<u>1 531 419</u>	<u>1 141 696</u>	<u>574 269</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Receivables and payables arising from sales and purchases of goods and services

	31 December 2006	31 December 2005	31 December 2004
Trade and other receivables from related parties	46 175	350 580	218 999
Trade and other payables to related parties	73 148	50 124	12 515

Non-interest bearing loans are provided by and to related parties, principally in order to finance acquisitions. More details are given with regard to the nature of these transactions in Note 11b.

Details of the movements within these balances are as follows:

Interest-bearing loans to related parties

	2006	2005	2004
Beginning of year	-	-	12 317
Loans advanced	668 995	-	-
Loans repayments received	94	-	12 317
Interest charged	46 216	-	1 185
Interest received	37 560	-	1 185
End of the year	<u>677 556</u>	<u>-</u>	<u>-</u>

Non interest-bearing loans to related parties

	31.12.2006	31.12.2005	31.12.2004
Non interest-bearing loans to related parties	<u>762 624</u>	<u>417 680</u>	<u>-</u>

Interest-bearing loans from related parties

	2006	2005	2004
Beginning of year	-	-	-
Loans received	112 328	-	-
Loans paid	98 966	-	-
Interest accrued	152	-	-
Interest paid	37	-	-
End of the year	<u>13 478</u>	<u>-</u>	<u>-</u>

Non interest-bearing loans from related parties

	31.12.2006	31.12.2005	31.12.2004
Non interest-bearing loans from related parties	<u>958 978</u>	<u>936 048</u>	<u>-</u>

In 2006 Ussuriysky Balsam OAO sold 100% share in Balzam Invest OAO to one of related parties. The Group received RUR 120 000 thousand, net assets of Balzam Invest OAO as at the date of disposal amounted to RUR 131 317 thousand.

32. Group entities

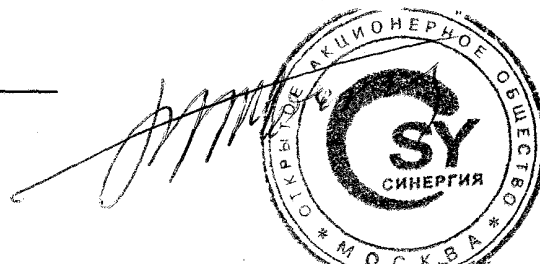
The Company had a controlling interest, directly or indirectly in the following principal subsidiaries, all of which are incorporated in Russia:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

	Group company	Share of the Group in ordinary voting share capital as at 31 December 2004, %	Share of the Group in ordinary voting share capital as at 31 December 2005, %	Share of the Group in ordinary voting share capital as at 31 December 2006, %
1	Synergy OAO	Parent company		
2	Alviz OAO	67,71%	67,71%	70,94%
3	Alviz Rosalko ZAO	99,99%	99,99%	99,99%
4	Balzam-Invest OAO	79,74%	79,74%	Disposed in 2006
5	Finansist OOO	55,54%	50,00%	50,00%
6	Frenk OOO	50,00%	55,54%	55,54%
7	Habarovskiy Distillery OAO	Acquired in 2005	51,00%	51,00%
8	Kolizei OOO	99,90%	99,90%	Disposed in 2006
9	KVEN ZAO	72,69%	72,69%	72,77%
10	Lysogorskaya Poultry Plant OAO	53,67%	53,48%	88,49%
11	Mikhailovskaya Poultry Plant OAO	84,79%	84,79%	85,70%
12	Nahodkinsky Meat-Packing Factory OAO	50,00%	50,00%	90,00%
13	PPZ Tsarevshchinsky-2 OAO	Acquired in 2005	84,79%	85,70%
14	Rodstor ZAO	99,90%	99,90%	99,90%
15	Rodimaya Storonka Trading House OAO	99,90%	99,90%	Disposed in 2006
16	Rodimaya storonka ZAO	99,90%	99,90%	Disposed in 2006
17	Stoik OOO	49,95%	49,95%	Disposed in 2006
18	Synergy-Capital OAO	100,00%	100,00%	100,00%
19	Synergy-Vostok OAO	100,00%	100,00%	100,00%
20	Trading House of Habarovskiy Distillery OOO	Acquired in 2005	100,00%	100,00%
21	Mir Produktov Trading House OAO	99,90%	99,90%	Disposed in 2006
22	Ussuriysky Balsam Trade Network OOO	97,21%	97,21%	94,27%
23	Pemsky Uralalko Distillery OAO	57,01%	57,00%	83,50%
24	Ussuriysky Dairy Plant OAO	50,00%	50,00%	93,83%
25	Ussuriysky Balsam OAO	85,30%	85,30%	69,85%
26	AKA and K OOO	Acquired in 2006	Acquired in 2006	100,00%
27	Zorinsky breeding farm of 1 level OAO	Acquired in 2006	Acquired in 2006	85,70%
28	Permspirit OOO	Established on December 31, 2005	100,00%	100,00%
29	Dakgomz OAO	Acquired in 2006	Acquired in 2006	98,47%
30	Dakgomz-Torg OOO	Acquired in 2006	Acquired in 2006	98,47%
31	Chugunovsky Distillery OAO	Acquired in 2006	Acquired in 2006	58,35%
32	Akruks OOO	Acquired in 2006	Acquired in 2006	100,00%
33	Mariinsky Distillery OAO	Acquired in 2006	Acquired in 2006	78,15%
34	ROOM ZAO	Acquired in 2006	Acquired in 2006	99,97%
35	Saratov-Broiler ZAO	Acquired in 2006	Established on December 31, 2006	100,00%
36	Branded sausage manufacturing plant OOO	Acquired in 2006	Established on December 31, 2006	100,00%

33. Events after the balance sheet date

Bond issue

On 26 July 2007, the Group placed a certified interest-bearing non-convertible and registered bond. The

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interest rate payable is 10.7% per annum and the bond is redeemable in July 2010. The bond is secured over the following Group companies: Ussuriysky Balsam OAO, Permsky Uralalko Distillery OAO, and Mariinsky Distillery OAO.

Business combination

1. On 5 January 2007, Synergy Group acquired 100% of authorised capital of Russian Vodka Company OOO (Tomsk), which is the owner of Beluga premium brand vodka and a supplier of Mariinsky Distillery OAO acquired by the Group in 2006.

The assets and liabilities as of acquisition date are as follows:

	Recognised value on acquisition	Fair value adjustments	Pre-acquisition carrying amount
Cash and cash equivalents	1 093	-	1 093
Property, plant and equipment	79	-	79
Construction in progress	-	-	-
Intangible assets, including Brands	632 000	631 771	229
Inventories	1 272	-	1 272
Financial assets	-	-	-
Trade and other receivables	11 914	-	11 914
Deferred tax liabilities	(151 625)	(151 625)	-
Loans and credits	-	-	-
Trade and other payables	(13 157)	-	(13 157)
Net assets	481 576	480 146	1 430
Minority interests	-	-	-
Net assets acquired	481 576		
Purchase consideration	354 970		
Result arising on acquisition, accounted as:	(126 606)		
Goodwill	-		
Negative goodwill	(126 606)		
Purchase consideration settled in cash	354 970		
Cash and cash equivalents acquired	(1 093)		
Cash outflow on acquisition	353 877		

In the period from the moment of joining the Group and up to 30 June 2007, the acquired entity generated the revenue and net profit (loss) for the period as follows:

	Russian Vodka Company OOO
Sales proceeds	2 680
Operating profit/(loss)	14
Profit/(loss) for the period	(151)

As Russian Vodka Company OOO was acquired on 5 January 2007, Management assumes that the subsidiary has not generated any significant revenues and financial results in the period from 1 to the 5 January 2007 and therefore all revenues and financial results of the subsidiary were included in Group's revenue.

2. In July 2007, the Group gained control over 100% of the shares of Traditsii Kachestva OOO distillery,

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NOTES TO THE FINANCIAL STATEMENTS (continued)

located in the town of Krasnoznamensk. Traditsii Kachestva OOO has three subsidiaries: Zodiak OOO (Moscow Region), Diamant-Alko OOO (Moscow), OOO and Ob'edinennye spirtovye zavody OOO (Kursk region). From 10 July 2007, the percentage of equity owned by Synergy OAO in the authorised capital of Zodiak OOO was 80% and in the authorised capital of Diamant-Alko OOO, 100%, respectively. The rest 20% in the authorised capital of Zodiak OOO is owned by Diamant-Alko OOO.

Taking into consideration that neither of four companies of the Traditsii Kachestva Group (Diamant-Alko OOO, Traditsii kachestva OOO, Zodiak OOO and Ob'edinennye spirtovye zavody OOO) did not administer its accounting according to the IFRS and consolidated accounting was not drawn up, the Management of OAO Synergy was guided by the accounting of the mentioned companies made in accordance with Russian accounting standards and by information given by the companies' management.

Key information was viewed to help to make this decision on this M&A transaction. This information contained revenue, cost prices, earnings of potential subsidiaries, management and accounting estimation of their actives and liabilities. The given information has been properly studied, systematised and checked up in the preparing period and during the due diligence exercise.

Group management considers the price paid for the got active fair, to the full considering financial condition and prospects of the development of the Traditsii Kachestva Group.

According to IFRS 3 "Business combinations" the organisation-buyer recognises identified actives, obligations and conditional obligations of the got organisation at their fair cost for date of purchase.

Acquired companies have a significant amount of acquired fixed assets and identifiable intangible assets (mainly, brands). Group has made the decision to engage an independent appraiser to assess the fair value of the fixed assets and intangible assets of the Traditsii Kachestva Group on the date of its acquiring.

At date of signing of this report, work of the independent appraiser was not completed and any data on an estimation of fair cost of the fixed assets and intangible assets of the Traditsii Kachestva Group is not available. The management of OAO Synergy has no opportunity to reflect corresponding values in the present financial report.

In the absence at the acquired companies of the sufficient reporting for the period ended 30 June 2007, made on IFRS, and also insufficient experience of the Traditsii Kachestva Group management in preparation of the reporting according to IFRS, the management of OAO Synergy has no opportunity to assess values of revenue of the Traditsii Kachestva Group with any degree of certainty.

The value of net assets of the Traditsii Kachestva Group as at the acquisition date, calculated in accordance with the Russian Accounting Standards amounted to RUR 203 193 thousand; the revenue for 6 months ended 30 June 2007 amounted to RUR 473 642 thousand; net profit for this period amounted to RUR 21 755 thousand.

In the period from 1 July to 19 October 2007, the Group management increased the percent of direct ownership of the shares of the Group subsidiaries. At 19 October 2007 the Group structure (held directly or indirectly) was as follows.

Group company	Share of the Group in ordinary voting share capital as at 19 October 2007, %
Synergy OAO	parent company
Alviz OAO	70,94%
Alviz Rosalko ZAO	99,99%
Finansist OOO	50,00%
Frenk OOO	55,54%

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Group company	Share of the Group in ordinary voting share capital as at 19 October 2007, %
Habarovskiy Distillery OAO	51,00%
KVEN ZAO	72,77%
Lysogorskaya Poultry Plant OAO	88,49%
Mikhailovskaya Poultry Plant OAO	85,70%
Nahodkinsky Meat-Packing Factory OAO	90,00%
PPZ Tsarevshinsky-2 OAO	85,70%
Rodstor ZAO	99,90%
Synergy-Capital OAO	100,00%
Synergy-Vostok OAO	100,00%
Trading House of Habarovskiy Distillery OOO	100,00%
Ussuriysky Balsam Trade Network OOO	94,27%
Permsky Uralalko Distillery OAO	83,50%
Ussuriysky Dairy Plant OAO	93,83%
Ussuriysky Balsam OAO	69,85%
AKA and K OOO	100,00%
Zorinsky breeding farm of 1 level OAO	85,70%
Permspirit OOO	100,00%
Dakgomz OAO	98,47%
Dakgomz-Torg OOO	98,47%
Chugunovsky Distillery OAO	58,35%
Akruks OOO	100,00%
Mariinsky Distillery OAO	78,15%
ROOM ZAO	99,97%
Saratov-Broiler ZAO	100,00%
Zavod sortovyh kolbas OOO	100,00%

Group Management are not aware of other events after the balance sheet date that would require recognition in the financial statements or disclosure in the notes.

34. Contingent liabilities

Contingent liabilities exist in respect of agreements entered into in the normal course of business, none of which are individually or collectively significant.

The Company, nor any member of the Group, is or has been engaged in, nor (so far as the Company is aware) is there pending or threatened by or against it, any legal or arbitration proceedings, which may have a significant effect on the financial position of the Group.

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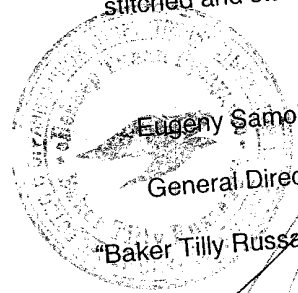
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The total of
57 pages numbered,
stitched and stamped



Eugeny Samoilov
General Director
"Baker Tilly Russaudit" Ltd

A large, stylized handwritten signature in black ink, written over the printed name and title.