OJSC LEBEDYANSKY
International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2006

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of open joint stock company Lebedyansky :

1 We have audited the accompanying consolidated financial statements of open joint stock company Lebedyansky and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cashflows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated 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

3 Our responsibility is to express an opinion on these consolidated 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.

4 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.

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

ZAO PricewaterhouseCoopers Audit
Moscow, Russian Federation
28 May 2007

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	Note	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	7	215,107	115,275
Goodwill	8	5,572	486
Other intangible assets	9	13,218	2,535
Prepayments for assets under construction and equipment		13,397	5,635
Total non-current assets		**247,294**	**123,931**
Current assets			
Inventories	10	90,129	56,941
Trade and other receivables	11	123,283	81,134
Available for sale investments		241	321
Cash and cash equivalents	12	4,328	4,777
Total current assets		**217,981**	**143,173**
TOTAL ASSETS		**465,275**	**267,104**
EQUITY			
Share capital	13	473	432
Share premium	13	292	32
Treasury shares	13	(4,406)	(4,351)
Share option	14	1,843	723
Currency translation difference		23,301	4,870
Retained earnings		216,022	181,167
Equity attributable to the Company's equity holders		**237,525**	**182,873**
Minority interest		**5,790**	**3,775**
TOTAL EQUITY		**243,315**	**186,648**
LIABILITIES			
Non-current liabilities			
Borrowings	15	49,709	9,026
Finance leases payable	16	25,222	9,222
Deferred income tax liability	24	13,790	6,484
Other non-current liabilities		41	2,163
Total non-current liabilities		**88,762**	**26,895**
Current liabilities			
Borrowings	15	73,310	3,396
Finance leases payable	16	4,466	3,089
Trade and other payables	17	50,590	43,257
Tax payable	18	2,528	1,711
Other current liabilities		2,304	2,108
Total current liabilities		**133,198**	**53,561**
TOTAL LIABILITIES		**221,960**	**80,456**
TOTAL LIABILITIES AND EQUITY		**465,275**	**267,104**

Approved for issue and signed on behalf of the Board of Directors on 28 May 2007.

M. B. Tavkazakov
Executive Director

D. V. Glavnov
Finance Director

The accompanying notes on pages 5 to 31 are an integral part of these consolidated financial statements.

	Note	2006	2005
Revenue		709,779	514,629
Cost of sales	19	(413,243)	(294,833)
Gross profit		**296,536**	**219,796**
Selling and distribution costs	20	(131,598)	(84,157)
General and administrative expenses	21	(42,363)	(30,480)
Other operating expenses		(114)	(1,411)
Operating profit		**122,461**	**103,748**
Finance income	22	2,702	1,869
Finance costs	23	(5,734)	(2,350)
Profit before income tax		**119,429**	**103,267**
Income tax expense	24	(31,750)	(27,685)
Net profit for the year		**87,679**	**75,582**
Profit is attributable to:			
Equity holders of the Company		86,068	74,631
Minority interest		1,611	951
Net profit for the year		**87,679**	**75,582**
Earnings per share for profit attributable to the equity holders of the Company (expressed in US$ per share)			
- basic	25	4.24	3.67
- diluted		4.23	3.66

	Note	2006	2005
Cash flows from operating activities			
Profit before income tax		119,429	103,267
Adjustments for:			
Expense to share option program	14	1,020	747
Depreciation of property, plant and equipment	7, 21	16,317	11,566
Amortisation and impairment of other intangible assets	21	194	138
Impairment of trade and other receivables	21	169	1,214
Allowance for obsolete inventory		236	21
Deferred income		(2,232)	(2,145)
Losses on disposals of property, plant and equipment		120	555
Interest income, expense and finance lease charges	22, 23	2,414	710
Granted treasury shares	13	587	-
Unrealised foreign exchange losses less gains on non-operating items		471	(1,212)
Operating cash flows before working capital changes		**138,725**	**114,861**
Increase in trade receivables		(19,084)	(15,177)
Increase in advances and other receivables		(3,297)	(5,967)
Increase in VAT and other tax receivables		(12,017)	(12,090)
Increase in inventories		(21,748)	(16,673)
Increase in trade and other payables		8,417	3,754
(Decrease)/increase in taxes payable		(235)	673
Cash generated from operations		**90,761**	**69,381**
Income taxes paid		(27,252)	(22,481)
Interest paid		(2,777)	(1,089)
Net cash generated from operating activities		**60,732**	**45,811**
Cash flows from investing activities			
Purchase of property, plant and equipment and prepayments for assets under construction and equipment		(69,372)	(33,702)
Purchase of intangible assets		(1,208)	(1,740)
Proceeds from sale of property, plant and equipment		1,070	524
Loan provided		(29)	(151)
Receipts from repayment of loans		773	570
Interest received		346	405
Acquisition of subsidiaries	27	(45,014)	-
Net cash used in investing activities		**(113,434)**	**(34,093)**
Cash flows from financing activities			
Proceeds from borrowings		142,048	34,243
Repayment of borrowings		(38,901)	(33,622)
Repayment of financial lease liability		(4,510)	(4,810)
Change in available for sale investments		106	390
Dividend paid net of withholding tax		(47,466)	-
Acquisition of treasury shares	13	-	(4,499)
Net cash used in financing activities		**51,277**	**(8,298)**
Net (decrease)/increase in cash and cash equivalents		**(1,425)**	**3,420**
Cash and cash equivalents at the beginning of the year		**4,777**	**1,400**
Currency translation difference	2	**976**	**(43)**
Cash and cash equivalents at the end of the year	12	**4,328**	**4,777**

The accompanying notes on pages 5 to 31 are an integral part of these consolidated financial statements.

	Attributable to shareholders of the Company						Minority Interest	Total equity
	Share capital	**Share premium**	**Treasury shares**	**Share options**	**Cumulative currency translation difference**	**Retained earnings**		
Balance at 1 January 2005	**449**	**34**	**-**	**-**	**10,350**	**106,536**	**2,948**	**120,317**
Currency translation difference (Note 2)	(17)	(2)	148	(24)	(5,480)	-	(124)	(5,499)
Net income recognised directly in equity	**432**	**32**	**148**	(24)	**4,870**	**106,536**	**2,824**	**114,818**
Profit for the year	-	-	-	-	-	74,631	951	75,582
Total recognised income	**432**	**32**	**148**	(24)	**4,870**	**181,167**	**3,775**	**190,400**
Share based compensation (Note 14)	-	-	-	747	-	-	-	747
Acquisition of treasury shares (Note 13)	-	-	(4,499)	-	-	-	-	(4,499)
Balance at 31 December 2005	**432**	**32**	**(4,351)**	**723**	**4,870**	**181,167**	**3,775**	**186,648**
Balance at 1 January 2006	**432**	**32**	**(4,351)**	**723**	**4,870**	**181,167**	**3,775**	**186,648**
Currency translation difference	41	11	(393)	100	18,431	-	404	**18,594**
Net income recognised directly in equity	**473**	**43**	**(4,744)**	**823**	**23,301**	**171,167**	**4,179**	**205,242**
Profit for the year	**-**	**-**	-	-	-	86,068	1,611	**87,679**
Total recognised income	**473**	**43**	**(4,744)**	**823**	**23,301**	**267,235**	**5,790**	**292,921**
Share based compensation (Note 14)	-	-	-	1,020	-	-	-	**1,020**
Sale of treasury shares (Note 13)	**-**	249	338	-	**-**	**-**	**-**	**587**
Dividends paid (Note 13)	**-**	**-**	**-**	**-**	**-**	- 51,213	**-**	**- 51,213**
Balance at 31 December 2006	**473**	**292**	**(4,406)**	**1,843**	**23,301**	**216,022**	**5,790**	**243,315**

1 The OJSC Lebedyansky Group and its Operations

Open joint stock company Lebedyansky and its subsidiaries ("the Group") principal activities are production and distribution of juices, juice based drinks, baby food juices and purees and mineral water. The Group's juices and juice based drinks are distributed under the brands Ya, Tonus, Fruktovy Sad, Frustail, Privet, Vitamin, Tusa Jusa, Dolka, Severnaya Yagoda, Nektarinka, baby food juices are distributed under the brands Frutonyanya and Malysham, baby food purees under the brand Frutonyanya, ice tea is distributed under the brand Edo, mineral water is distributed under the brand Lipitskiy Buvet. The Group's manufacturing facilities are primarily based in the Lipetsk region, Russian Federation. The parent company, open joint stock company Lebedyansky ("the Company" or "Lebedyansky") was incorporated and domiciled as an open joint stock company in the Russian Federation in 1992. The major shareholders of the Company are N.I. Bortsov and Y.N. Bortsov, who held respectively 30% and 25% shares of the Company at 31 December 2006.

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

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

			% share at	
Entity	**Country of Incorporation**	**Activity**	**31 December 2006**	**31 December 2005**
OJSC Progress	Russia	Juice production	75%	75%
OOO Troya Ultra	Russia	Juice production	100%	-
DP Sandance	Ukraine	Juice distribution	100%	100%
Sandance Kazakhstan	Kazakhstan	Juice distribution	100%	100%
CJSC Enter-Logistica	Russia	Warehouse facilities	100%	-
CJSC Lebedyansky O.P.	Russia	Investing	100%	100%

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

2 Basis of Preparation and Significant Accounting Policies

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

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

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies (continued)

Translation from functional to presentation currency (continued). At 31 December 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 26.3311 (2005: USD 1 = RR 28.7825). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation. Further, all transactions within Russia must be settled in Russian Roubles.

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

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

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

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

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

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

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

Acquired trademarks are not amortised, the Group tests the assets for impairment at each reporting date.

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

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

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

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change. At 31 December 2006 and 2005 the Group did not have trading investments on its balance sheet.

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

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. At 31 December 2006 and 2005 the Group did not have held to maturity investments on its balance sheet.

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

Sales are shown net of VAT, sales tax, sales incentive payments (including: retrospective bonuses, slotting fees, volume discounts) and after eliminating sales within the Group.

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

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

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

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

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

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

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

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

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

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

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2005, unless otherwise described below.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group may now designate financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's Board of Directors; or (c) a contract contains one or more embedded derivatives unless: (i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis when the embedded derivative is first considered that separation of the embedded derivative(s) is prohibited. The Group applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. The amendment did not have an impact on these financial statements.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. The Group does not apply hedge accounting and therefore the amendment did not have an impact on these financial statements.

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

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (eg quasi-equity intercompany loans) to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment did not have a significant impact on these financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment did not have a significant impact on these financial statements.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. This interpretation did not have a significant impact on these financial statements.

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

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements. This standard did not have a impact on these financial statements.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity 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.

5. New Accounting Pronouncements (Continued)

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).
- 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.

6 Balances and Transactions with Related Parties

For the purposes of this consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2006 and 31 December 2005 are detailed below.

i LLC Pervomayskoe

LLC Pervomayskoe is a company controlled by one of the Group's major shareholders (Note 1). The Group purchased articles of food and rent transport from LLC Pervomayskoe in the amount of US$ 31 thousand for the year ended 31 December 2006 (US$ 41 thousand for the year ended 31 December 2005).

The Group sold to LLC Pervomayskoe other services and materials in the amount of US$ 2 thousand for the year ended 31 December 2006 (US$ 65 thousand for the year ended 31 December 2005). Receivable from LLC Pervomayskoe were US$ 737 thousand and US$ 683 thousand at 31 December 2006 and at 31 December 2005, respectively.

Before 2005 the Group had acquired promissory notes of LLC Pervomayskoe at par value. The notes are interest free and payable upon demand. The Group held US$ 1,435 thousand and US$ 1,312 thousand of promissory notes issued by LLC Pervomayskoe at 31 December 2006 and at 31 December 2005 respectively. At 31 December 2006 and 31 December 2005 management recognised impairment provision in the full amount against promissory notes of LLC Pervomayskoe.

The Group also pledged inventories with carrying value US$ 1,823 thousand and US$ 2,331 thousand at 31 December 2006 and at 31 December 2005 for bank loans raised by LLC Pervomayskoe (Note 10). The loan was repaid by LLC Pervomayskoe in 2007.

ii LLC Orisfey

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

In 2004 the Group provided LLC Orisfey with a RR denominated loan in the amount US$ 6,135 thousand for the acquisition of equipment and maintaining working capital. In 2005 an addition loan of US$ 106 thousand was provided to LLC Orisfey by the Group The loan bears interest of 2% per annum. LLC Orisfey paid US$ 41 thousand of interest and repaid US$ 749 thousand of the loan in the year ended 31 December 2006. The amount of loan principle due from LLC Orisfey was US$ 4,578 thousand and US$ 4,985 thousand at 31 December 2006 and at 31 December 2005, respectively. Management became aware of LLC Orisfey shareholders' decision to shut down the project and after considering financial position of LLC Orisfey recognised an impairment provision against the full amount of the loan outstanding at 31 December 2006 and at 31 December 2005. In the year ended 31 December 2006 LLC Orisfey repaid US$ 749 thousand of the loan. The Group reversed impairment provision against the loan for an amount repaid (Note 11).

In 2004 the Group incurred advertising and marketing expenses in the amount of US$ 1,344 thousand on behalf of LLC Orisfey and recharged these expenses to LLC Orisfey at cost. At 31 December 2006 and at 31 December 2005 US$ 996 thousand and US$ 952 thousand was due from LLC Orisfey. The amount is included in advances to suppliers and other receivables balance. Management recognised an impairment provision in the amount of US$ 995 thousand and US$ 601 thousand at 31 December 2006 and 31 December 2005 against this receivable.

The Group had sold to LLC Orisfey services and other assets in the amount of US$ 695 for the year ended 31 December 2006. Receivable from LLC Orisfey was US$ 1 thousand and US$ 26 thousand at 31 December 2006 and at 31 December 2005.

In the year ended 31 December 2006 the LLC Orisfey sales to the Group amounted to US$ 49 thousand. Payables to LLC Orisfey were US$ 55 thousand and US$ 59 thousand at 31 December 2006 and at 31 December 2005 respectively.

6 Balances and Transactions with Related Parties (Continued)

iii LLC Pharma Trade

LLC Pharma Trade is a company owned by LLC Orisfey and is engaged in the production and sale of oxygenated cocktails. In the year ended 31 December 2004 the Group acquired RR denominated, interest free and payable upon demand promissory notes of LLC Pharma Trade at par value US$ 541 thousand. The Group had receivable for the promissory notes from LLC Pharma Trade amounting to US$ 209 thousand and US$ 295 thousand at 31 December 2006 and at 31 December 2005 respectively.

The Group purchased oxygenated cocktails from LLC Pharma Trade in the amount of US$ 465 thousand for the year ended 31 December 2006. In the year ended 31 December 2006 the Group used promissory notes of LLC Pharma Trade to settle the liability for the oxygenated cocktails in the amount of US$ 110 thousand. The Group had trade payable to LLC Pharma Trade amounting to US$ 95 thousand and US$ 113 thousand at 31 December 2006 and at 31 December 2005.

iv LLC Assol

LLC Assol is a company controlled by certain of the Group shareholders .

In the year ended 31 December 2006 the Group has purchased from LLC Assol services in the amount of US$ 92 thousand. The Group’s accounts payable to LLC Assol were US$ 25 thousand and US$ 37 thousand at 31 December 2006 and at 31 December 2005.

v Key management personnel compensation

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

Total compensation of key management personnel including discretionary bonuses recorded in general and administrative expenses in the consolidated income statement amounted to US$ 5,115 thousand for the year ended 31 December 2006 (for the year ended 31 December 2005: US$ 4,042 thousand). The amount includes short term benefits in the amount of US$ 3,508 thousand (year ended 31 December 2005: US$ 3,307 thousand), an expense relating to the share option program in the amount of US$ 1,020 thousand (year ended 31 December 2005: US$ 747 thousand) and 9,000 granted ordinary shares with market value of US$ 587 thousand (Note 13).

7 Property, Plant and Equipment

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

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

7 Property, Plant and Equipment (Continued)

	Buildings and constructions	Machinery and equipment	Computer hardware	Motor vehicles	Other	Assets under construction and equipment for installation	Total
Cost							
Balance at 31 December 2005	19,286	89,802	1,908	9,789	2,818	25,889	149,492
Acquisition of subsidiaries	13,670	10,705	148	2	6,316	648	31,489
Additions	3	18,235	41	177	103	54,149	72,708
Disposals	(428)	(394)	(120)	(958)	(187)	(392)	(2,479)
Internal movements	2,550	46,916	1,034	4,533	1,065	(56,098)	-
Currency translation difference	2,165	10,650	211	1,035	439	2,351	16,851
Balance at 31 December 2006	37,246	175,914	3,222	14,578	10,554	26,547	268,061
Accumulated Depreciation							
Balance at 31 December 2005	(3,389)	(25,610)	(956)	(3,099)	(1,163)	-	(34,217)
Acquisition of subsidiaries	-	-	-	-	-	-	-
Depreciation charge	(1,088)	(11,383)	(628)	(2,763)	(455)	-	(16,317)
Disposals	173	279	72	637	122	-	1,283
Currency translation difference	(345)	(2,762)	(107)	(358)	(131)	-	(3,703)
Balance at 31 December 2006	(4,649)	(39,476)	(1,619)	(5,583)	(1,627)	-	(52,954)
Net Book Value							
Balance at 31 December 2005	**15,897**	**64,192**	**952**	**6,690**	**1,655**	**25,889**	**115,275**
Balance at 31 December 2006	**32,597**	**136,438**	**1,603**	**8,995**	**8,927**	**26,547**	**215,107**

Property, plant and equipment of with net book value of US$ 8,576 thousand (2005: nil) have been pledged as collateral for bank loans (Note 15).

7 Property, Plant and Equipment (Continued)

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

	2006	2005
Cost: capitalised finance leases	65,314	39,191
Accumulated depreciation	(15,106)	(9,589)
Carrying amount at 31 December	**50,208**	**29,602**

The additions of finance leases in the year ended 31 December 2006 and 31 December 2005 amounted to US$ 18,223 thousand and US$ 4,786 thousand respectively.

8 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2006	2005
Gross book value as previously reported at 1 January		486	630
Accumulated impairment losses at 1 January			(126)
Carrying amount at 1 January		**486**	**504**
Acquisition of subsidiaries	27	**4,953**	-
Currency translation difference		133	18
Carrying amount at 31 December		**5,572**	**486**
Gross book value at 31 December		5,572	486
Accumulated impairment losses at 31 December		-	-
Carrying amount at 31 December		**5,572**	**486**

Goodwill Impairment Test

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

	2006	2005
OOO Troya Ultra	4,325	-
CJSC Enter-Logistica	715	-
OJSC Progress	532	486
Total carrying amount of goodwill	**5,572**	**486**

8 Goodwill (Continued)

The recoverable amount of OJSC Progress, OOO Troya Ultra and CJSC Enter-Logistica was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	OJSC Progress 2005	OJSC Progress 2006	CJSC Enter-Logistica 2006	OOO Troya Ultra 2006
Growth rate	21% p.a.	16% p.a.	27% p.a.	6% p.a.
Pre-tax discount rate	11% p.a.	11% p.a.	13% p.a.	11% p.a.
Woking capital	22% p.a.	22% p.a.	5% p.a.	22% p.a.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

9 Other Intangible Assets

	Note	Trademarks	Software and Other	Total
Cost at 1 January 2005		**200**	**830**	**1,031**
Accumulated depreciation		**-**	**(57)**	**(57)**
Carrying amount at 1 January 2005		**200**	**774**	**974**
Additions		-	1,809	1,809
Disposals		-	(1)	(1)
Amortization charge		-	(138)	(138)
Currency translation difference		(7)	(102)	(109)
Carrying amount at 31 December 2005		193	2,342	2,535
Cost at 31 December 2005		**193**	**2,534**	**2,727**
Accumulated depreciation		**-**	**(192)**	**(192)**
Carrying amount at 31 December 2005		**193**	**2,342**	**2,535**
Acquisitions of subsidiaries	27	8,051	844	8,895
Additions		4	1,566	1,570
Amortization charge		-	(203)	(203)
Currency translation difference		145	276	421
Carrying amount at 31 December 2006		**8,393**	**4,825**	**13,218**
Cost at 31 December 2006		**8,393**	**5,242**	**13,635**
Accumulated depreciation		-	**(417)**	**(417)**
Carrying amount at 31 December 2006		**8,393**	**4,825**	**13,218**

Trademarks include “Dolka” and “Severnaya Yagoda” with the carrying amount US$ 8,172 thousand acquired in the business combination (Note 27).

10 Inventories

	2006	2005
Raw materials	50,700	34,511
Work in progress	9,598	7,062
Finished products	30,262	15,540
Less obsolescence provision	(431)	(172)
Total inventories	**90,129**	**56,941**

Inventories of US$ 1,823 thousand (2005: US$ 2,331 thousand) have been pledged as collateral for bank loans raised by LLC Pervomayskoe (Note 6). The loan was repaid by LLC Pervomayskoe in 2007.

11 Trade and Other Receivables

	2006	2005
Trade receivables (net of provision for impairment of receivables of US$ 2,622 thousand and US$ 2,746 thousand at 31 December 2006 and 31 December 2005 respectively)	74,972	45,751
VAT recoverable	29,269	22,365
Advances to supplier and other receivables	17,291	12,804
Loan to OOO Orisfey	5,683	5,505
Impairment provision against loan to OOO Orisfey	(5,683)	(5,505)
Profit tax advance	1,751	214
Total trade and other receivables	**123,283**	**81,134**

Trade receivables of US$ 890 thousand (2005: US$ 1,340 thousand) net of impairment loss provisions are denominated in foreign currency, mainly Ukrainian hryvna.

12 Cash and Cash Equivalents

	2006	2005
RR denominated cash on hand and balances with bank	4,313	4,664
Foreign currency denominated balances with bank (Ukrainian hryvna)	-	86
Foreign currency denominated balances with bank (Kazakhstan tenge)	15	27
Total cash and cash equivalents	**4,328**	**4,777**

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

13 Share capital

	Number of outstanding shares [in thousands]	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2005	20,411,300	449	34	-	483
New shares issued	-	-	-	-	-
Treasury shares purchased	(122,468)	-	-	(4,499)	(4,499)
Treasury shares sold	-	-	-	-	-
Currency translation movement	-	(17)	(2)	148	129
At 31 December 2005	20,288,832	432	32	(4,351)	(3,887)
New shares issued	-	-	-	-	-
Treasury shares purchased	-	-	-	-	-
Treasury shares sold	9,000	-	249	338	587
Currency translation movement	-	41	11	(393)	(341)
At 31 December 2006	20,297,832	473	292	(4,406)	(3,641)

The issued share capital value was US$ 473 thousand at 31 December 2006 (31 December 2005: US$ 432 thousand). Nominal value of the issued share capital was RR 204,113 at 31 December 2006 and 31 December 2005.The authorized and issued number of ordinary shares was 20,411,300 at 31 December 2006 and 31 December 2006 with a nominal value per share of RR 0.01. All the shares were fully paid up at 31 December 2006 and 31 December 2005.

The company shares have been admitted to placement and listing on the RTS Stock Exchange (“RTS”) and on the Moscow Interbank Currency Exchange (“MICEX”).

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

In January 2006 the Group sold 9,000 treasury shares to senior management at par value (market price at the date of sale was RR 1,893 per share).

Distributable reserves. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For year ended 31 December 2006 net statutory profit for the Company as reported in the statutory accounting reports was US$ 85,344 thousand at average exchange rate of RR 27.1852 per US$ (for year ended 31 December 2005: US$ 71,736 thousand at average exchange rate of RR 28.2864 per US$). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in this consolidated financial information.

Dividends. On 30 June 2006 Shareholders approved Board of Directors’ decision to pay dividends in the amount of US$ 51,213 thousand (RR 68.59 per ordinary share or US$ 2.53 per share at official exchange rate of Central Bank of Russian Federation at 30 June 2006 of RR 27.0789 per US$).

On 24 April 2007 Board of Directors recommended to pay dividends in the amount of US$ 21,338 (RR 28.42 per ordinary share). Payment of dividends is subject to approval on shareholders meeting scheduled on 20 June 2007 (Note 30).

14 Share option plan

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

14 Share option plan(continued)

At 31 December 2006 the Group had 76,000 outstanding options with exercise price of RR 0.01 per share (31 December 2005: 76,000). The vesting and expiry date of outstanding options is publication of the Group's financial results for the fourth quarter of 2007, which is expected to be in the first half of 2008. In the year ended 31 December 2006 the Group recognized an expense in the amount of US$ 1,020 thousand (in the year ended 31 December 2005 US$ 747 thousand).

The Group has not granted options in the year ended 31 December 2006. The fair value of options granted during the year ended 31 December 2005 determined using the Black-Scholes valuation model adjusted for probability of achievement of a targeted market capitalization was US$ 2,987 thousand. The significant inputs into the model were share price of US$ 39.30, at the grant date, exercise price shown above, standard deviation of expected share price returns of 19%, option life disclosed above, an annual risk-free interest rate of 4.66%. Historical 3-year volatility of Russian stock exchange index adjusted for the Company's beta was used as a proxy for the expected volatility of the share price.

15 Borrowings

	2006	2005
Non-current		
Bank borrowings denominated in Euro	27,709	9,026
Bank borrowings denominated in US Dollars	22,000	-
Total non-current borrowings	**49,709**	**9,026**
Current		
Bank borrowings denominated in Euro	8,521	2,384
Bank borrowings denominated in Russian roubles	64,789	1,012
Total current borrowings	**73,310**	**3,396**
Total borrowings	**123,019**	**12,422**

Bank borrowings received denominated in Euro in the total value of US$ 26,004 thousand as of 31 December 2006 are unsecured and bear floating interest rates ranging from EURIBOR +0.8% to EURIBOR +1% at 31 December 2006 and to EURIBOR +1% at 31 December 2005.

Bank borrowing obtained denominated in Euro in the amount of US$ 9,967 thousand as of 31 December 2006 is unsecured and bears a floating interest rate of 5.50%.

Bank borrowing obtained denominated in US Dollars in the amount of US$ 22,259 thousand as of 31 December 2006 is unsecured and bears a floating interest rates of LIBOR+2.5%.

Bank borrowings denominated in Russian roubles in the amount of US$ 59,556 thousand as at 31 December 2006 are unsecured and bear floating interest rate ranging from MOSPRIME +2% to MOSPRIME+2.25%.

Bank borrowings denominated in Russian roubles in the amount of US$ 3,399 thousand as at 31 December 2006 bear fixed interest rates ranging from 7.86% to 8.00% (2005: ranging from 9.85% to 10.75%),

Bank borrowings denominated in Russian roubles in the amount of US$ 1,834 thousand bear 13.00% interest at 31 December 2006. These loans were acquired in a business combination and were repaid by the Group in February 2007. These borrowings are secured by property, plant and equipment (Note 7).

The Group's borrowings mature as follows:

		2006	2005
Borrowings due:	- within 1 year	73,310	3,396
	- between 2 and 5 years	47,509	8,408
	- over 5 years	2,200	618
Total borrowings		**123,019**	**12,422**

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

16 Finance leases payable

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

	2006	2005
Finance leases liabilities – minimum lease payments		
Not later than 1 year	5,783	3,619
Later than 1 year and not later than 5 years	22,700	9,197
Later than 5 years	6,621	1,081
	35,104	13,897
Future finance charges on finance leases	(5,417)	(1,586)
Present value of finance leases liabilities	**29,687**	**12,310**
Not later than 1 year	4,466	3,089
Later than 1 year and not later than 5 years	19,291	8,171
Later than 5 years	5,930	1,051
	29,687	**12,310**

The Group leases machinery and equipment for a period of 60-96 months with an option to acquire leased assets at 5% of contract value at the end of the lease. Interest rates for finance leases are determined as LIBOR plus premium within the range of 1.65% - 2.0%.

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

17 Trade and Other Payables

	2006	2005
Trade payables	38,390	26,889
Payables for property, plant and equipment	3,946	11,116
Accrued salaries and bonuses to personnel	6,941	4,494
Advances received	1,313	758
Trade and other payables	**50,590**	**43,257**

Trade payables of US$ 17,184 thousand (2005: US$ 16,182 thousand) are denominated in foreign currency, mainly US Dollars and Euro.

US$ 3,029 thousand (2005: US$ 10,983 thousand) of payables for property, plant and equipment are denominated in foreign currency mainly in Euro.

18 Tax payable

	2006	2005
Income tax	185	212
Payroll taxes	920	583
Property tax	296	185
Other taxes	1,127	731
	2,528	**1,711**

In 2006 the Group settled income tax liability in the amount of US$ 7,366 thousand against VAT recoverable (2005: US$ 4,002 thousand).

19 Cost of sales

	2006	2005
Materials and components used	373,885	266,358
Labour cost	15,163	10,857
Production overheads	12,119	8,896
Depreciation	12,076	8,722
	413,243	**294,833**

20 Selling and Distribution expenses

	2006	2005
Advertising	33,068	22,218
Transportation	43,980	25,936
Labour cost	32,842	22,438
Warehousing	15,303	9,632
Other	6,405	3,933
	131,598	**84,157**

21 General and Administrative expenses

	2006	2005
Labour cost	20,669	13,372
Depreciation and amortisation	4,435	2,982
Taxes (mainly property tax)	839	574
Provision for impairment of receivables	169	1,214
Other	16,251	12,338
	42,363	**30,480**

Total depreciation and amortization expense and staff costs (including social expenses) in cost of sales, selling and distribution expenses and general and administrative expenses amounted to US$ 16,511 thousand (2005: US$ 11,704 thousand) and US$ 68,674 thousand (2005: US$ 46,667 thousand), respectively.

22 Finance Income

	2006	2005
Interest income on originated loans and bank deposits	453	366
Foreign exchange gain	1,926	1,503
Reversal of provision for impairment of loan granted to LLC Orisfey	323	-
	2,702	**1,869**

23 Finance Costs

	2006	2005
Interest expense on bank loans	2,212	550
Finance lease charge	655	526
Foreign exchange losses	2,670	328
Borrowings cost attributable to IFC loan	197	946
	5,734	**2,350**

24 Income Taxes

Income tax expense comprises the following:

	2006	2005
Income tax expense - current	31,911	26,321
Deferred tax expense - origination and reversal of temporary differences	(161)	1,364
Income tax expense for the year	**31,750**	**27,685**

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

	2006	2005
IFRS profit before tax	**119,429**	**103,267**
Theoretical tax charge at statutory rate of 24% (2005: 24%)	28,663	24,784
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non deductible expenses		
- Write-off of spoiled finished goods and raw material storage	710	480
- Non-production unit expenses	340	142
- Options	245	176
- Advertising	46	32
- Other non-deductible expenses	1,824	2,046
- Provision against promissory notes and available for sale investments	(78)	25
Income tax expense for the year	**31,750**	**27,685**

24 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2005: 24%).

The net effect of the changes on deferred tax balances recognised at 31 December 2006and 31 December 2005 are reflected in the consolidated statements of income for the year ended 31 December 2006 and 2005, respectively.

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

The Company has not recognised deferred tax liability of US$ 1,591 thousand and US$ 1,033 thousand at 31 December 2006 and 31 December 2005 in respect of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Net deferred tax liability in the amount of US$ 6,739 and US$ 4,400 thousand at 31 December 2006 and 31 December 2005 respectively is expected to be settled after more than 12 months from balance sheet dates.

	31 December 2005	Differences recognition and reversals	Acquisition of Subsidiaries	Currency translation movement	31 December 2006
Tax effects of deductible temporary differences:					
Accounts payable/ receivable	8,118	10,954	818	1,124	21,014
Inventories	54	160	-	10	224
Tax effects of taxable temporary differences:					
Property, plant and equipment	(12,340)	(5,285)	(6,621)	(1,453)	(25,699)
Other	(2,316)	(5,668)	(932)	(413)	(9,329)
Total net deferred tax (liability)/assets	**(6,484)**	**161**	**(6,735)**	**(732)**	**(13,790)**

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

25 Earnings per Share

Basic. Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during period. The weighted average number of ordinary shares for the year ended 2006 was adjusted for the effect of treasury shares acquired by the Group in April 2005.

	2006	2005
Weighted average number of ordinary shares in issue	20,411,300	20,411,300
Adjustment for weighted average number of treasury shares acquired	(114,218)	(91,851)
Weighted average number of ordinary shares outstanding	20,297,082	20,319,449
Profit for the period attributable to the equity holders of the Company	86,068	74,631
Basic earnings per share	**US$ 4.24**	**US$ 3.67**

Diluted. Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares under the share based compensation program (Note 14). For the share options used in the share based compensation program a calculation is done to determine the number of shares that could have been issued at 31 December 2006 if this date was the vesting date.

	2006	2005
Weighted average number of ordinary shares in issue	20,411,300	20,411,300
Adjustment for weighted average number of treasury shares acquired	(114,218)	(91,851)
Weighted average number of ordinary shares outstanding	20,297,082	20,319,449
Adjustment for weighted average number of share options	60,857	61,527
Weighted average number of ordinary shares outstanding	20,357,939	20,380,976
Profit for the period attributable to the equity holders of the Company	86,068	74,631
Diluted earnings per share	**US$ 4.23**	**US$ 3.66**

26 Contingencies, Commitments and Operating Risks

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

Tax contingencies. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

27 Contingencies, Commitments and Operating Risks (Continued)

Tax contingencies (continued). Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas, specifically in [specify issues]. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Capital expenditure commitments. At 31 December 2006 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US$ 14,587 thousand (2005: US$ 15,458 thousand).

Operating lease commitments. The Group's future minimum lease payments under non-cancellable operating leases comprised US$ 112 thousand at 31 December 2006 (2005: US$ 909 thousand). Operating leases mainly represent rent of office and warehouse premises with fixed monthly charges. The maturity of operating lease liabilities (minimum lease payments) is as follows:

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

	2006	**2005**
Not later than 1 year	112	909
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
Total operating lease commitments	**112**	**909**

Insurance policies. Commencing from August 2006 the Group holds insurance police in respect of public liability and a police relating to buildings, machinery and equipment owned by OJSC Lebedyansky, covering property damage and business interruption. These polices expire in August 2007 and the Group has intention to continue insuring the above risks.

The Group also holds insurance policies covering equipment leased under finance lease agreements and motor vehicles.

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

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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

27 Business Combinations

Acquisition of Enter-Logistica

In July 2006 the Group acquired 100% of the share capital of CJSC Enter-Logistica, a company located in the Moscow region and providing warehouse services. The acquired subsidiary contributed revenue of US$ 2,159 thousand and profit of US$ 156 thousand to the Group for the period from the date of acquisition to 31 December 2006, however out of the consolidated revenue the amount of US$ 541 thousand was excluded since it represents intercompany transactions and revenue in the amount of US$ 1,618 thousand was netted off with related costs and presented net as other income in the consolidated income statement. If the acquisition had occurred on 1 January 2006, CJSC Enter-Logistica contribution to the Group net income for 2006 would have been US$ 402 thousand.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	RSA carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		450	450
Property, plant and equipment		5,366	14,455
Other assets		716	716
Borrowings		(4,840)	(4,840)
Deferred income tax liability		-	(2,181)
Other liabilities		(161)	(161)
Fair value of net assets of subsidiary		**1,531**	**8,439**
Goodwill arising from the acquisition	8		696
Total purchase consideration			**9,135**
Less: cash and cash equivalents of subsidiary acquired			(450)
Outflow of cash and cash equivalents on acquisition			**8,685**

The purchase consideration comprises cash and cash equivalents paid of US$ 13,525 thousand, including the repayment of the borrowing in the amount of US$ 4,840 thousand.

The goodwill is primarily attributable to the significant synergies and combined costs savings expected to arise of the acquired business

The valuation of non-current assets was performed by an independent professional appraiser. Fair value of assets acquired are based on replacement method of depreciation and sales comparison method applied for different property, plant and equipment groups

Acquisition of Troya Ultra

In October 2006 the Group acquired 100% of the charter capital of OOO Troya Ultra, juice producer located in Legingransky region. The acquired subsidiary produces and sells juices and juice-based drinks mainly under brands Severnaya Yagoda, Dolka and Nektarinka. It contributed revenue of US$ 7,368 thousand and loss of US$ 53 thousand to the Group for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, Group revenue for 2006 would have been US$ 753,967 thousand and net income for 2006 would have been US$ 87,837 thousand.

27 Business Combinations (Continued)

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Note	RSA carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		252	252
Intangible assets		14	8,895
Property, plant and equipment		7,625	17,034
Trade receivables		5,640	5,099
Inventory		5,574	5,574
Other assets		1,885	2,135
Account payables		(4,943)	(2,078)
Finance lease payable		-	(2,199)
Borrowings		(1,738)	(1,738)
Deferred tax liability		(563)	(4,555)
Other liabilities		(268)	(935)
Fair value of net assets of subsidiary		**13,478**	**27,484**
Goodwill arising from the acquisition	8		4,257
Total purchase consideration			**31,741**
Less: cash and cash equivalents of subsidiary acquired			(252)
Outflow of cash and cash equivalents on acquisition			**31,489**

The purchase consideration comprises cash and cash equivalents paid of US$ 31,489 thousand.

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

Fair value of assets and liabilities acquired are based on discounted cash flow models. The valuation of non-current assets was performed by an independent professional appraiser.

28 Financial Risk Management

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

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

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

29 Fair Value of Financial Instruments

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

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

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

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

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

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

30 Subsequent events

Bonds issue. In March 2006 the Group issued 1,500,000 thousand Russian ruble denominated inconvertible bonds with par value RR 1,000. The bonds carry three months coupon based on the three months MOSPRIME rate and have maturity date in 2010.

Dividends. On 24 April 2007 Board of Directors recommended to pay dividends in the amount of US$ 21,338 thousand (RR 28.42 per ordinary share). Payment of dividends is subject to approval on shareholders meeting scheduled on 20 June 2007.