OJSC RAZGULAY Group

Condensed Consolidated Interim Financial Information for the six-month period ended 30 June 2006

Content

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Independent Accountants' Review Report

To the Board of Directors
OJSC RAZGULAY Group

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC RAZGULAY Group (the "Company") and its subsidiaries (the "Group") as at 30 June 2006, and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six-month period then ended. This condensed consolidated interim financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this condensed consolidated interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Without qualifying our review conclusion, we draw attention to the fact that the US dollar amounts in the accompanying condensed consolidated interim financial information, which are presented solely for the convenience of users as described in note 2(d) and do not form part of the condensed consolidated interim financial information, are not reviewed.

KPMG Limited

KPMG Limited
31 October 2006

		Six-month period ended 30 June			
		2006	**2005 Restated**	**2006**	**2005**
	Note	_Million RUR_		_Million USD*_	
Revenues	5	7,846	7,130	290	263
Cost of sales		(6,790)	(6,014)	(251)	(222)
Gross profit		1,056	1,116	39	41
Operating expenses, net	6	(710)	(467)	(26)	(17)
Profit from operations		346	649	13	24
Net financial expense		(367)	(410)	(14)	(15)
(Loss) / profit before tax		(21)	239	(1)	9
Income tax (expense) / benefit	7	(84)	94	(3)	3
Net (loss) / profit for the period		(105)	333	(4)	12
Attributable to:					
Shareholders of the Company		(20)	427	(1)	15
Minority interest		(85)	(94)	(3)	(3)
		(105)	333	(4)	12
Basic and diluted (loss) / earnings per share (RUR / USD*)	8	(0.19)	4.27	(0.01)	0.15

The condensed consolidated interim statement of income is to be read in conjunction with the selected explanatory notes to and forming part of the condensed consolidated interim financial information set out on pages 9 to 26.

The condensed consolidated interim financial information was approved on 31 October 2006:

Potapenko I.V.
Chairman, Board of Directors

Soldatov A.V.
General director, OJSC RAZGULAY Group

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	Note	**30 June 2006**	**31 December 2005** ***Restated***	**30 June 2006**	**31 December 2005**
		Millions RUR		*Millions USD**	
Non-current assets		14,550	14,329	537	529
Current assets		9,469	6,021	350	222
Total assets		24,019	20,350	887	751
Equity	13	13,142	12,539	486	464
Non-current liabilities		3,700	3,583	137	132
Current liabilities		7,177	4,228	264	155
Total equity and liabilities		24,019	20,350	887	751

The condensed consolidated interim balance sheet is to be read in conjunction with the selected explanatory notes to and forming part of the condensed consolidated interim financial information set out on pages 9 to 26.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

	Six-month period ended 30 June			
	2006	**2005 Restated**	**2006**	**2005**
	Millions RUR		*Millions USD**	
Net (loss) / profit for the period	(105)	333	(4)	12
Adjustments, net	869	555	32	20
Operating profit before changes in working capital	764	888	28	32
Net changes in working capital	(2,479)	(106)	(91)	(4)
Cash flows (used by) / from operations before income taxes and interest paid	(1,715)	782	(63)	28
Income taxes and interest paid	(396)	(290)	(15)	(11)
Cash flows (used by) / from operating activities	(2,111)	492	(78)	17
Cash flows (used by) / from investing activities	(875)	(1,640)	(32)	(60)
Cash flows from financing activities	3,072	599	113	22
Net increase / (decrease) in cash and cash equivalents	86	(549)	3	(21)
Cash and cash equivalents at the beginning of the period	559	680	21	26
Cash and cash equivalents at the end of the period	645	131	24	5

The condensed consolidated interim statement of cash flows is to be read in conjunction with the selected explanatory notes to and forming part of the condensed consolidated interim financial information set out on pages 9 to 26.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

Millions RUR	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	Additional paid-in capital	Revaluation reserve, property, plant and equipment	Retained earnings	Total		
Balance at 1 January 2005	345	318	355	4,988	6,006	1,245	7,251
Balance of negative goodwill written off	-	-	-	2,739	2,739	-	2,739
Net profit for the period	-	-	-	427	427	(94)	333
Acquisition of minority interests	-	-	-	-	-	(157)	(157)
Increase in minority interests due to business combinations	-	-	-	-	-	105	105
Effect of business combinations under common control	-	256	-	-	256	131	387
Other transactions with the controlling shareholder	-	-	-	(30)	(30)	-	(30)
Balance at 30 June 2005	345	574	355	8,124	9,398	1,230	10,628
Balance at 1 January 2006 as previously reported	345	318	1,510	8,866	11,039	1,508	12,547
Recognition of deferred tax underprovided in previous periods – note 2(f)(ii)	-	-	-	(108)	(108)	-	(108)
Adjustment to the initial accounting for a business combination under common control recognised in prior periods – note 2(f)(i)	-	100	-	-	100	-	100
Balance at 1 January 2006 as restated	345	418	1,510	8,758	11,031	1,508	12,539
Net loss for the period	-	-	-	(20)	(20)	(85)	(105)
Shares issued	18	707	-	-	725	-	725
Effect of business combinations under common control	-	27	-	-	27	13	40
Effect of disposal of subsidiaries to entities under common control – note 4(e)	-	-	-	(48)	(48)	(9)	(57)
Balance at 30 June 2006	363	1,152	1,510	8,690	11,715	1,427	13,142

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the selected explanatory notes to and forming part of the condensed consolidated interim financial information set out on pages 9 to 26.

*Millions USD**	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	Additional paid-in capital	Revaluation reserve, property, plant and equipment	Retained earnings	Total		
Balance at 1 January 2005	13	12	13	184	222	46	268
Balance of negative goodwill written off	-	-	-	101	101	-	101
Net profit for the period	-	-	-	15	15	(3)	12
Acquisition of minority interests	-	-	-	-	-	(6)	(6)
Increase in minority interests due to business combinations	-	-	-	-	-	4	4
Effect of business combinations under common control	-	9	-	-	9	5	14
Other transactions with the controlling shareholder	-	-	-	(1)	(1)	-	(1)
Balance at 30 June 2005	13	21	13	299	346	46	392
Balance at 1 January 2006 as previously reported	13	12	56	327	408	56	464
Recognition of deferred tax underprovided in previous periods – note 2(f)(ii)	-	-	-	(4)	(4)	-	(4)
Adjustment to the initial accounting for a business combination under common control recognised in prior periods – note 2(f)(i)	-	4	-	-	4	-	4
Balance at 1 January 2006 as restated	13	16	56	323	408	56	464
Net loss for the period	-	-	-	(1)	(1)	(3)	(4)
Shares issued	1	26	-	-	27	-	27
Effect of business combinations under common control	-	1	-	-	1	-	1
Effect of disposal of subsidiaries to entities under common control – note 4(e)	-	-	-	(2)	(2)	-	(2)
Balance at 30 June 2006	14	43	56	320	433	53	486

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the selected explanatory notes to and forming part of the condensed consolidated interim financial information set out on pages 9 to 26.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

1 Background

(a) Organisation and operations

OJSC RAZGULAY Group (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian open joint stock, closed joint stock and limited liability companies as defined by the Civil Code of the Russian Federation. The Group also includes a number of legal entities established under the legislation of Cyprus and British Virgin Islands.

The Group has been operating as a privately owned enterprise since 1992 and untill 2005 was known as the Razguliay-UkrRos Group. On 12 September 2005, the Company changed its legal status from a closed joint stock company (ZAO) to an open joint stock company (OAO), as defined by the Civil Code of the Russian Federation, and its name from “Agrocoinvest” to “RAZGULAY Group”. The Company was listed on the Russian Trading System Stock Exchange (RTS) and on the Moscow Interbank Currency Exchange (MICEX) in March 2006.

The Company’s registered office is 6/64, 2 Institutskaya, Moscow, 109428, Russia.

The Group’s principal activities are the growing, purchase, processing and distribution of agricultural products, mainly sugar and grain. These products are sold in the Russian Federation and abroad.

The major beneficiary of the Group is Mr. Igor Potapenko, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. Mr. Potapenko also acts as Chief Executive Officer of the Group and Chairman of the Board of Directors of the Company. He also has a number of other business interests outside of the Group. Further information about related party transactions is disclosed in note 18.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The condensed consolidated interim financial information reflects management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The consolidated interim financial information has been prepared on a condensed basis, and therefore should be read in conjunction with the consolidated financial statements as of and for the year ended 31 December 2005, as this financial information provides only an update of previously reported financial information.

All accounting policies described in the consolidated financial statements as of and for the year ended 31 December 2005 have been consistently applied in preparing this condensed consolidated interim financial information.

(b) Basis of measurement

The condensed consolidated interim financial information is prepared on the historical cost basis except that items of property, plant and equipment are stated at their revalued amounts.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which this condensed consolidated interim financial information is presented. All financial information presented in RUR has been rounded to the nearest million.

(d) Convenience translation

In addition to presenting the condensed consolidated interim financial information in RUR, supplementary information in USD has been prepared for the convenience of users of the condensed consolidated interim financial information.

All amounts in the condensed consolidated interim financial information, including comparatives, are translated from RUR to USD at the closing exchange rate at 30 June 2006 of RUR 27.0789 to one USD.

All financial information presented in USD has been rounded to the nearest million.

(e) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare this condensed consolidated interim financial information in conformity with IFRSs. Actual results could differ from those estimates.

(f) Adjustments to prior year financial statements

(i) Adjustment to the initial accounting for a business combination under common control

In 2005 the Group acquired 100% interest in ZAO Druzhba from entities which had been controlled by the ultimate controlling shareholder of the Group. The acquisition resulted in a decrease of the Group’s equity by RUR 59 million / USD* 2 million which represented the excess of the consideration paid by the Group over the carrying value of the net assets of the acquired company.

In 2006 management of the Group identified an error in valuation of property, plant and equipment owned by ZAO Druzhba in its individual financial statements prior to the acquisition. As a result, management adjusted for the effect of this error as of the date of acquisition by increasing the value of the property, plant and equipment by RUR 132 million / USD* 5 million (refer note 9) and the balance of the related deferred tax liability by RUR 32 million / USD* 1 million. The resulting increase in equity of RUR 100 million / USD* 4 million was credited to additional paid-in capital.

(ii) Adjustment to deferred tax liability

The Group has identified an error in the calculation of the deferred tax liability as of 31 December 2005 as recognized in the consolidated financial statements as of and for the year ended 31 December 2005. The error resulted in the understatement of the deferred tax liability as of 31 December 2005 and the related deferred tax expense for the year then ended by RUR 108 million / USD* 4 million. The error was corrected in this condensed consolidated interim financial information by adjusting the deferred tax liability and the retained earinings as of 31 December 2005 – refer condensed consolidated interim statement of changes in equity.

(iii) Reclassification of pre-harvest overheads

The Group modified the classification of pre-harvest overheads in the statement of income in its condensed consolidated interim financial information as of and for the six-month period ended 30 June 2005. The reclassification resulted in a decrease of operating expenses by RUR 144 million / USD* 5 million and the respective increase in cost of sales in the condensed consolidated interim statement of income as of and for the six-month period ended 30 June 2005.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

(iv) Presentation of promissory notes issued by banks

The Group modified the presentation of promissory notes issued by banks from short-term investments to cash and cash equivalents since these promissory notes are used by the Group for settlement purposes only. As a result cash and cash equivalents increased by RUR 402 million / USD* 15 million in the balance sheet as at 31 December 2005, by RUR 10 million / USD* 0 million in the condensed consolidated interim balance sheet as at 30 June 2005 and by RUR 83 million / USD* 3 million in the balance sheet as at 31 December 2004. The above reclassifications resulted in respective changes in the condensed consolidated interim statement of cash flows as of and for the six-month period ended 30 June 2005.

3 Condensed segment reporting

Segment information is presented in respect of sugar and grain operations being the Group's business segments.

In millions RUR	**Six-month period ended 30 June 2006**		
	Grain	**Sugar**	**Total**
Segment revenues	5,914	1,932	7,846
Segment result	961	(388)	573

In millions RUR	**Six-month period ended 30 June 2005**		
	Grain	**Sugar**	**Total**
Segment revenues	4,580	2,550	7,130
Segment result	719	36	755

*In millions USD**	**Six-month period ended 30 June 2006**		
	Grain	**Sugar**	**Total**
Segment revenues	219	71	290
Segment result	36	(14)	22

*In millions USD**	**Six-month period ended 30 June 2005**		
	Grain	**Sugar**	**Total**
Segment revenues	169	94	263
Segment result	27	1	28

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

4 Changes in the composition of the Group

(a) Acquisition of subsidiaries in transactions under common control

(i) Transactions made in 2006

During the six-month period ended 30 June 2006 the Group acquired controlling interests in the following companies controlled by the ultimate shareholder of the Group prior to the acquisition:

Entity	Date of acquisition	Segment	Interest acquired
OAO Kondopozhsky KHP	February 2006	Grain	75%
OOO Agroinvest	February 2006	Sugar	100%
OOO Lgovagroinvest	March 2006	Sugar	100%

The consideration paid to acquire the above interests amounted to RUR 271 million / USD* 10 million settled in cash.

As of 31 December 2005 the Group held 20% in OAO Kondopozhsky KHP. The Group concluded that it did not have significant influence over this company because of the strong position of its majority shareholders. Consequently, the investment was classified as available for sale. The acquisition of a 75% interest increased the Group's interest in the company to 95% resulting in obtaining control over the company.

(ii) Transactions carried out in 2005

During the six-month period ended 30 June 2005 the Group acquired controlling interests in the following companies controlled by the ultimate shareholder of the Group prior to the acquisition:

Entity	Date of acquisition	Segment	Interest acquired
ZAO Bugulminsky KHP 1	January 2005	Grain	100%
OAO Kineshemsky Mukomolny Kombinat	January 2005	Grain	90%
ZAO Nurlatsky Sakhar	June 2005	Sugar	100%
OAO Krivets-Sakhar	June 2005	Sugar	97%
OAO Khlebnaya Baza 63	January 2005	Grain	52%

The consideration paid to acquire the above interests amounted to RUR 1,377 million / USD* 51 million settled in cash.

The above entities, with the exception of OAO Khlebnaya Baza 63, were owned by and disposed of by the Group during the reorganisation of the business in 2003. In 2005 the ultimate shareholder decided that these companies would operate as part of the Group.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

(b) Effect of acquisition of subsidiaries in transactions under common control

The acquisition of subsidiaries from entities under common control had the following effect on the Group's assets and liabilities at the date of acquisition:

	Six-month period ended 30 June			
	2006	**2005**	**2006**	**2005**
	Million RUR		*Million USD**	
Non-current assets	571	1,723	21	64
Current assets	858	726	32	27
Non-current liabilities	(81)	(301)	(3)	(11)
Current liabilities	(1,002)	(384)	(37)	(14)
Net assets acquired	346	1,764	13	66
Increase in minority interest	(13)	(131)	-	(5)
Group's share in net assets acquired	333	1,633	13	61
Difference between the consideration paid and the Group's share in the book value of the net assets acquired from related parties, recognised as additional paid-in capital	(27)	(256)	(1)	(9)
Consideration paid	306	1,377	12	52
Settled in previous periods	251	877	9	33
Settled in current period	55	500	3	19
	306	1,377	12	52

(c) Acquisition of subsidiaries from third parties

Entity	Date of acquisition	Segment	Interest acquired
ZAO Sakharny Kombinat Alexeevsky	June 2005	Sugar	83%
ZAO Sakharny Kombinat Otradninsky	June 2005	Sugar	83%
ZAO Pristen Sakhar	June 2005	Sugar	100%

The total consideration paid to acquire control over the above companies amounted to RUR 930 million / USD* 34 million settled in cash.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

The acquisition of the subsidiaries had the following effect on the Group's assets and liabilities at the date of acquisition:

	In millions RUR	*In millions USD**
Non-current assets	1,062	39
Current assets	680	25
Non-current liabilities	(595)	(22)
Current liabilities	(469)	(17)
Net assets acquired	678	25
Increase in minority interest	(105)	(4)
Group's share in net assets acquired	573	21
Goodwill on acquisition	376	14
Excess of the fair value of the net identifiable assets over the consideration paid	(19)	(1)
Total consideration	930	34
Settled in previous periods	844	31
Settled in current period	86	3
	930	34

(d) Acquisition of minority interest in subsidiaries

During the six-month period ended 30 June 2005 the Group acquired a further 25% interest in OOO Sakharny Kombinat Tikhoretsky for RUR 106 million / USD* 4 million.

During the six-month period ended 30 June 2005 the Group increased its effective interest in ZAO Nurlatsky Elevator by selling 49% of the shares in the subsidiary from OAO Nurlatsky Elevator, a subsidiary where the Group owns 48% of the shares, to ZAO Zernovaya Kompaniya Razgulay where the Group owns 100% of the shares. As a result, the effective interest in the subsidiary increased by approximately 24%.

The excess of the carrying amount of the minority interest over the consideration paid amounting to RUR 51 million / USD* 2 million was recognised in the statement of income.

(e) Disposal of subsidiaries

During the six-month period ended 30 June 2006 the Group disposed of its interest in OAO Nurlatsky elevator to an entity controlled by the controlling shareholder of the Group. The disposal resulted in a net decrease in equity of RUR 57 million / USD* 2 million including minority interest of RUR 9 million / USD* 0 million.

During the six-month period ended 30 June 2005 the Group disposed of its interest in OOO Posadskiye and ZAO Argo Komplekt M. The disposal resulted in a net loss of RUR 31 million / USD* 1 million.

5 Revenues

	Six-month period ended 30 June			
	2006	**2005**	**2006**	**2005**
	Million RUR		*Million USD**	
Revenues from sales	7,568	6,895	280	254
Revenues from processing and storage services	278	235	10	9
	7,846	7,130	290	263

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

6 Operating expenses, net

	Six-month period ended 30 June			
	2006	**2005 Restated**	**2006**	**2005**
	Million RUR		_Million USD*_	
Distribution expenses	(131)	(84)	(5)	(3)
Administrative expenses	(344)	(211)	(13)	(8)
Taxes, other than on profit	(55)	(47)	(2)	(2)
Gains and losses related to acquisitions and disposals of shares in subsidiaries	-	39	-	1
Net value added benefits from transactions with SPEs - refer note 17(b)	-	67	-	2
Other operating expenses, net	(180)	(231)	(6)	(7)
	(710)	(467)	(26)	(17)

7 Income tax (expense) / benefit

	Six-month period ended 30 June			
	2006	**2005**	**2006**	**2005**
	Million RUR		_Million USD*_	
Current tax	(314)	(5)	(12)	-
Deferred tax	230	99	9	3
	(84)	94	(3)	3

The Group's applicable tax rate in 2006 and 2005 was 24%.

Reconciliation of effective tax rate:

	Six-month period ended 30 June					
	2006			**2005**		
	Million RUR	Million USD*	%	Million RUR	Million USD*	%
(Loss) / profit before tax	(21)	(1)	100	239	9	100
Income tax at applicable tax rate	5	-	(24)	(57)	(2)	(24)
Items taxed in lower tax jurisdictions	(53)	(2)	252	151	5	63
Non-deductible / non-taxable items, net	(36)	(1)	171	-	-	-
	(84)	(3)	(399)	94	3	39

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

8 (Loss) / earnings per share

The basic and diluted (loss) / earnings per share are calculated by dividing the loss attributable to the shareholders of the Company amounting to RUR 20 million / USD* 1 million in the six-month period ended 30 June 2006 and profit of RUR 427 million / USD* 15 million in the six-month period ended 30 June 2005, by the weighted average number of shares outstanding in the current and comparative period amounting to 103,500,000 and 100,000,000 shares respectively.

9 Property, plant and equipment

During the six-month period ended 30 June 2006 the Group acquired property, plant and equipment amounting to approximately RUR 1,112 million / USD* 41 million (six-month period ended 30 June 2005 – RUR 43 million / USD* 2 million). This amount does not include the property plant and equipment acquired as part of business combinations amounting to RUR 571 million / USD* 21 million (six-month period ended 30 June 2005 – RUR 2,785 million / USD* 103 million) – refer notes 4(a) and 4(b).

The net book value of assets disposed of amounted to RUR 22 million / USD* 1 million (for six-month period ended 30 June 2005 – RUR 1 million / USD* 0 million).

In 2006 management of the Group revised the value of property, plant and equipment owned by ZAO Druzhba at the date of acquisition - refer note 2 (f).

Security

Certain items of property, plant and equipment were pledged to secure bank loans - refer note 14.

10 Intangible assets

As of 30 June 2006 the total net book value of intangible assets of RUR 648 million / USD* 24 million represents goodwill acquired as part of business combinations in previous periods.

11 Other non-current assets

	30 June 2006	**31 December 2005**	**30 June 2006**	**31 December 2005**
	Million RUR		*Million USD**	
Advances issued to third parties for acquisition of controlling interests	300	-	11	-
Investments in associates	256	256	9	9
Advances issued to related parties for acquisition of property, plant and equipment	235	1,303	9	48
Advances issued to related parties for acquisition of controlling interests	58	274	2	10
Equity securities available for sale	4	42	-	2
	853	1,875	31	69

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Investments in associates as of 30 June 2006 represent the Group's interest in the net assets of OAO Podolsky EMZ (a flour milling plant) of 46% (31 December 2005: 46%), OAO Shipunovsky Elevator of 36% (31 December 2005: 36%) and OAO Angelinsky Elevator of 25% (31 December 2005: 25%).

As of 31 December 2005 the Group held 20% in OAO Kondopozhsky KHP. The Group concluded that it did not have significant influence over the company because of the strong position of its majority shareholders. Consequently, the investments were classified as available for sale. In 2006 the Group acquired control over OAO Kondopozhsky KHP – refer note 4(a).

12 Trade and other receivables

	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Million RUR		*Million USD**	
Trade receivables	3,905	3,219	144	119
Advances paid to related parties	1,281	1,011	47	37
Advances paid	952	180	35	7
Loans given	820	39	30	1
Taxes receivable	347	147	13	5
Receivables from associated companies	94	56	3	2
Deferred expenses	18	37	1	1
Other receivables	462	204	17	8
Provision for doubtful accounts	(70)	(82)	(3)	(3)
	7,809	4,811	287	177

13 Equity

(a) Share capital

On 31 December 2005 the authorised capital of OJSC RAZGULAY Group comprised 100,000,000 ordinary shares. All shares have a par value of RUR 3 / USD* 0.10 each. All shares were issued and paid up.

In 2006 the Company increased the number of authorised ordinary shares from 100,000,000 to 120,000,000.

In March 2006 the Company was listed on the Russian Trading System Stock Exchange (RTS) and on the Moscow Interbank Currency Exchange (MICEX). As part of the listing the Company sold 6,000,000 newly issued shares and the controlling shareholder sold 24,000,000 shares in the Company at RUR 124 / USD* 4.58 per share. The difference between the nominal value of the shares issued of RUR 18 million / USD* 0.7 million and the consideration received of RUR 744 million / USD* 27 million reduced by the amount of expenses incurred on issue of RUR 19 million / USD* 0.7 million was credited to additional paid-in capital - refer condensed consolidated interim statement of changes in equity.

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

All ordinary shares rank equally with regard to the Company's residual assets.

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(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 30 June 2006 the Company's distributable reserves amounted to RUR 10 million / USD* 0 million (31 December 2005: RUR 8 million / USD* 0 million).

(c) Transactions with the controlling shareholder

(i) Transactions on Group reorganisation

	Six-month period ended 30 June	
	2006	**2006**
	Million RUR	*Million USD**
Excess of the group's interest in the carrying amount of the net identifiable assets of the subsidiaries acquired over the consideration paid to the entities controlled by the controlling shareholder	27	1
Excess of the group's interest in the carrying amount of the net identifiable assets of the subsidiaries disposed over the consideration received from the entities controlled by the controlling shareholder	(48)	(2)
	(21)	(1)

	Six-month period ended 30 June	
	2005	**2005**
	Million RUR	*Million USD**
Excess of the group's interest in the carrying amount of the net identifiable assets of the subsidiaries acquired over the consideration paid to the entities controlled by the controlling shareholder	256	9
	256	9

(ii) Other transactions

	Six-month period ended 30 June	
	2005	**2005**
	Million RUR	*Million USD**
Expenses incurred by the Group on behalf of the controlling shareholder	(30)	(1)
	(30)	(1)

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

14 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 16.

	30 June 2006	**31 December 2005**	**30 June 2006**	**31 December 2005**
	Million RUR		_Million USD*_	
Non-current				
Unsecured bond issue	1,993	1,998	74	74
Secured bank loans	280	-	10	-
Unsecured non-bank loans	8	8	-	-
	2,281	2,006	84	74
Current				
Secured bank loans	5,414	2,208	200	82
Unsecured non-bank loans from related parties	424	885	16	33
Current portion of unsecured bond issue	53	58	2	2
	5,891	3,151	218	117
	8,172	5,157	302	191

The following assets secure loans:

- property, plant and equipment with a carrying amount of RUR 4,432 million / USD* 164 million;
- shares in the following subsidiaries of the Group:

	Shares pledged %
Azovsky Portovy Elevator, OOO	100
Bugulminsky KHP#1, ZAO	100
Bugulminsky KHP#2, ZAO	100
Chishminsky Sakharny Zavod, OAO	58
Gerkules, OAO	86
Karachaevo-Cherkessky Mukomol, ZAO	55
Karachaevo-Cherkessky Sakharny Zavod,OAO	90
Kineshemsky Mukomolny Kombinat, OAO	75
Kondopozhsky KHP, OAO	95
Krivets-Sakhar, OAO	97
Kshensky sakharny kombinat, ZAO	100
Poltavsky KHP, OAO	90
Pristen-Sakhar, ZAO	100
Sakharny Kombinat Alexeevsky, ZAO	83
Sakharny Kombinat Bolshevik, ZAO	100
Sakharny Kombinat Kurganinsky, ZAO	83
Sakharny Kombinat Lgovsky, OAO	100
Sakharny Kombinat Tikhoretsky, OOO	100
Starodubsky Elevator, OAO	100
Svetlogradsky Elevator, OAO	52
Zelenokumsky Elevator,OAO	50

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

15 Trade and other payables

	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Million RUR		*Million USD**	
Taxes payable	620	414	23	15
Trade payables	285	321	11	12
Advances received	222	262	8	10
Payables to employees	70	39	3	1
Payables to associates	7	20	-	1
Other payables and accrued expenses	80	21	3	1
	1,284	1,077	48	40

16 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

At the balance sheet date there was a significant concentration of credit risk in respect of amounts receivable from related parties. The total amount receivable from related parties was RUR 2,468 million / USD* 91 million or 32% of the total receivables. In addition the advances issued to related parties for acquisition of shares and property, plant and equipment amounted to RUR 293 million / USD* 11 million.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

In October 2005 the Group issued 3-year rouble nominated bonds with the nominal value of RUR 2,000 million / USD* 74 million. The coupons are payable twice per year. The coupon rate is set at approximately 11.5 % per annum for payments 1 to 3. The coupon rate for payments 4 to 6 will be determined by the issuer. The effective interest rate on the issue for the period ended 30 June 2006 calculated on the assumption that the coupon rate will be set at the current market rate of 10.5% per annum for payments 4 to 6 amounted to 11.5% per annum.

In addition the Group's current loans included RUR 121 million / USD* 4 million of USD denominated loan with a variable interest rate of LIBOR plus a margin of approximately 4% to 6% which is revised every 3 months.

Other loans and borrowings are primarily short-term and bear fixed interest rates – refer note 14.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currency giving rise to this risk is primarily the USD. Management does not hedge the Group's exposure to foreign currency risk. The risk of changes in foreign currencies' rates is partially mitigated by cash inflows generated by USD denominated export revenues.

On 30 June 2006 the Group has USD denominated current loans amounting to RUR 1,046 million / USD* 39 million (31 December 2005: RUR 573 million / USD* 21 million).

(d) Fair values

The unquoted equity investments are carried at cost less provision for impairment. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

In assessing fair values, management used the following major methods and assumptions:

Loans and borrowings. Expected future principal and interest cash flows were discounted at rates of between 11 and 14%. These rates were not materially different from the contractual interest rates.

Promissory notes. Expected future principal and interest cash flows were discounted at rates of between 11 and 14%. These rates were not materially different from the contractual interest rates.

Trade and other receivables and payables. For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

17 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. As at 30 June 2006 the Group's property has been insured to the extent of the assets pledged to secure bank loans – refer note 14 – against potential losses or damages. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. This may include forfeiture of an amount equal to value of underlying transactions, where the Russian tax authorities are successful in establishing that such transactions had no purpose other than tax avoidance.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

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

Until 31 December 2004, the Group used a number of special purpose entities (“SPEs”), in which it did not hold any direct or indirect equity interest, for tax minimisation purposes. The SPEs only conducted transactions on behalf of the Group companies. The Group controlled these companies and transactions. Accordingly, the financial statements of these SPEs were included in the condensed consolidated interim financial information of the Group.

Management of these SPEs is responsible for the correctness and timeliness of the tax payments by the SPEs. The entities have not reported their tax obligations to the tax authorities nor settled their tax liabilities, in accordance with all requirements of the Russian Federation tax and accounting legislation. They have also not made any provisions for the corresponding tax liabilities in their separate statutory financial statements.

In 2005, the Group gradually ceased using the SPEs described above and began using a new legal structure to reduce corporate income tax and VAT payments. The new arrangement involves transactions among Group entities in low tax jurisdictions. Some of these transactions, although technically in compliance with the Tax Code of the Russian Federation, are not consistent with the clear objectives of the overall tax system and could be challenged by the tax authorities. The use of such arrangements ceased with effect from 1 January 2006.

Management has not provided any amounts in respect of such obligations in this condensed consolidated interim financial information as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

The tax benefits recognised by the Group during the six-month period ended 30 June 2005 as a result of the above arrangements are disclosed in notes 6 and 7. If these arrangements were successfully challenged by the Russian tax authorities, these amounts could become due together with penalties, ranging from 20%-40% of the amount of underpaid taxes, and late-payment interest. Other outcomes are possible, however, and management has determined that it is impracticable to estimate the potential financial effect, if any, of the contingent liabilities referred to above.

(c) Bankruptcy law

The bankruptcy law in the Russian Federation is relatively new, often unclear and subject to interpretations. Application of bankruptcy procedures in practice is often contradictory, and the legality of such procedures is often challenged by different groups of stakeholders even after all bankruptcy procedures have been completed.

A significant part of the assets of the Group were acquired as a result of bankruptcy procedures. This fact creates uncertainty with respect to the title to such assets, which potentially may be subject to challenge by former legal owners of these assets or their stakeholders. The effect of such potential challenge, if successful, could be material and accordingly impact the financial statements of the Group. However, management believes that the probability of such challenge being successful is less than probable.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

18 Related party transactions

(a) Transactions and balances with related parties

(i) Transactions with shares in subsidiaries

Transactions with the controlling shareholder related to the acquisition and disposal of shares in subsidiaries are disclosed in note 4.

(ii) Trading transactions with other related parties

	Six-month period ended 30 June			
	2006	2005	2006	2005
	In millions RUR		*In millions USD**	
Sales	82	86	3	3
Purchases	(1,244)	(461)	(46)	(17)
Other operating income / (expenses), net	17	(20)	1	(1)
Interest income	30	22	1	1
Sales to third parties under commission agreements with related parties	100	191	4	7
Purchases from third parties under commission agreements with related parties	(30)	(28)	1	1

(iii) Balances with related parties

	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	In millions RUR		*In millions USD**	
Advances issued to related parties for purchase of goods	1,281	1,011	47	37
Loans issued to related parties (short-term)	820	-	30	-
Trade and other receivables from related parties	367	213	14	8
Advances issued to related parties for acquisition of property, plant and equipment	235	1,303	9	48
Advances issued for acquisition of controlling and non-controlling interests	58	274	2	10
Loans received from related parties (short-term)	(424)	(885)	(16)	(33)
Trade and other payables to related parties	(163)	(114)	(6)	(4)

All outstanding balances with related parties are to be settled in cash within 1 year of the balance sheet date. None of the balances are secured.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

The loans from fellow subsidiaries bear interest of 1 to 9% per annum and are repayable on demand.

(iv) Guarantees issued

On 30 June 2006 the amount of the Group's outstanding guarantees securing loan obligations of fellow subsidiaries amounted to approximately RUR 170 million / USD* 6 million (31 December 2005: RUR 555 / USD* 20 million).

(b) Pricing policies

When goods are transferred between related parties prior to the sale of the same goods to an independent party, the transfer price is determined as the eventual resale price, reduced by a margin sufficient to cover costs and allow the related party to make an appropriate profit.

19 Seasonality of operations

Sugar

The Group produces sugar from sugar beet in September-November when the beet is harvested. Historically, during the rest of the year the Group used imported raw cane as the main raw material. Due to the high duties on the import of raw cane and unfavourable market conditions, the Group decreased production of cane sugar and mainly conducted trading activities during the six-month period ended 30 June 2006. In 2006 management decided to change the structure of sales in favor of sugar produced from sugar beet. Therefore the majority of sales of the sugar segment are expected to take place in the second half of the year.

Grain

Grain consumption tends to be consistent throughout the year. However, major purchases are made in summer and autumn months. The level of grain stock by the end of autumn is usually higher than in mid-summer before the new harvest.

20 Significant subsidiaries

	Effective ownership	
	30 June 2006	**31 December 2005**
Holding companies		
Razguliay-Finance, OOO	100	100
Sakharnaya Kompaniya Razguliay, ZAO	100	100
Zernovaya Kompaniya Razguliay, ZAO	100	100
Purpose Ventures Inc. (BVI)	100	100
Razguliay UkrRos Group Limited (Cyprus)	100	100
Secure Global Solutions (BVI)	100	100
Ultimate Global Investment Limited (BVI)	100	100
Newly formed subsidiaries		
Razguliay Capital Limited (Cyprus)	100	-
AgroServiceGroup, OOO	100	-
Grain segment		
Azovskaya Zernovaya Kompaniya, OOO	100	100
Azovsky Portovy Elevator, OOO	100	100
Bugulminsky Elevator, ZAO	100	100
Bugulminsky KHP#1, ZAO	100	100
Bugulminsky KHP#2, ZAO	100	100
Dubovskkhleboproduct, OAO	75	75
Elevator Rudny Klad, OAO	52	52
Gerkules, OAO	86	86

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

	Effective ownership	
	30 June 2006	**31 December 2005**
Karachaevo-Cherkessky Mukomol, ZAO	75	75
Khlebnaya Baza 63, OAO	52	52
Kineshemsky Mukomolny Kombinat, OAO	90	90
Kolomensky KHP, ZAO	100	100
Kondopozhsky KHP, OAO	95	20
Kuban-Ris, OOO	50	50
Lgovsky KHP, ZAO	100	100
Nurlatsky Elevator, ZAO	100	100
Nurlatsky Elevator, OAO	-	48
Poltavsky KHP, OAO	90	90
Razguliay-Zerno, OOO	100	100
Russkaya Bakaleynaya Kompaniya, OOO	100	100
Russko-Polyanskiy Elevator, OAO	64	64
Rzhavskoye HPP, OAO	97	97
Starodubsky Elevator, OAO	100	100
Svetlogradsky Elevator, OAO	56	56
Torgovy Dom Razguliay-Zerno, OOO (formerly, Transgrain, OOO)	100	100
Tsimlyanskkhleboprodukt, OAO	100	100
Zelenokumsky elevator,OAO	50	50
Sugar segment		
Agroinvest, OOO	100	-
Belgorodagroinvest, OOO	100	100
Chishminsky Sakharny Zavod, OAO	58	58
Chishyagroinvest, OOO	100	100
Druzhba, ZAO	100	100
Erkenagroinvest, OOO	100	100
Karachaevo-Cherkessky Sakharny Zavod,OAO	90	90
Krivetsagro, OOO	97	97
Krivets-Sakhar, OAO	97	97
Kshenagro, OOO	100	100
Kshensky Sakharny Kombinat, ZAO	100	100
Kurganinskagroinvest, OOO	100	100
Lgovagroinvest, OOO	100	-
Lgovsky MKK, OAO	99	99
Nikalt, ZAO	100	100
Nurlatagroinvest, OOO	100	100
Nurlatsky sakhar, ZAO	100	100
Orelagroinvest, OOO	100	100
Otradaagroinvest, OOO	100	100
Pristen-Sakhar, ZAO	100	100
Russkaya Sakharnaya Kompaniya RSK, OOO	100	100
Sakharny Kombinat Alexeevsky, ZAO	83	83
Sakharny Kombinat Bolshevik, ZAO	100	100
Sakharny Kombinat Kolpnyansky, ZAO	83	83
Sakharny Kombinat Kurganinsky, ZAO	83	83
Sakharny Kombinat Lgovsky, OAO	100	100
Sakharny Kombinat Otradinsky, ZAO	83	83
Sakharny Kombinat Tikhoretsky, ZAO (formerly OOO)	100	100
Tikhoretskagroinvest, OOO	100	100
Torgovy Dom RSK, OOO (formerly ZAO)	100	100

All ownership interests in the above table are rounded to whole numbers.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).

21 Earnings before interest, tax, depreciation and amortisation

	Six-month period ended 30 June			
	2006	**2005**	**2006**	**2005**
	Million RUR		*Million USD**	
Net (loss) / profit for the period	(105)	333	(4)	12
Income tax expense / (benefit)	84	(94)	3	(3)
Depreciation and amortization	416	285	15	10
Interest expense, net	407	291	15	11
	802	815	29	30

22 Events subsequent to the balance sheet date

Acquisition of subsidiaries

Subsequent to the period end the Group acquired a controlling interest in ZAO Agrofirma Poltavskaya (100%) and OOO Tsimlyanskoye (100%) from entities controlled by the controlling shareholder of the Group for a total consideration of RUR 235 million / USD* 9 million. In addition the Group acquired an 84% interest in OAO Slavyansky KHP and OOO Anastasievskoe, a 100% subsidiary of OAO Slavyansky KHP.

Bond issue

In October 2006 the Group issued 5-year bonds with per nominal value of RUR 2,000 million / USD* 74 million. The coupons are payable twice a year. The coupon rate is set at approximately 10.25% per annum for coupons 1 to 3. The coupon rate for coupons 4 to 10 will be determined by the Company.

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(*) The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial information - refer note 2(d).