OJSC RAZGULAY Group

Consolidated Financial Statements as of and for the year ended 31 December 2006

Contents

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Independent Auditors' Report

Board of Directors
OJSC RAZGULAY Group

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC RAZGULAY Group 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 cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that the US Dollar amounts in the accompanying consolidated financial statements, which are presented solely for the convenience of users as described in Note 2(d), do not form part of the consolidated financial statements and are unaudited.

KPMG Limited

KPMG Limited
27 June 2007

	Note	2006 *Million RUR*	2005 *Million RUR* **Restated**	2006 *Million USD**	2005 *Million USD**
Revenue	7	22,967	19,779	872	751
Cost of sales		(18,662)	(17,105)	(709)	(650)
Gross profit		4,305	2,674	163	101
Other income	8	410	221	16	8
Distribution expenses		(648)	(303)	(25)	(12)
Administrative expenses	9	(1,029)	(655)	(39)	(25)
Taxes, other than on profit		(130)	(133)	(5)	(5)
Reversal of impairment loss recognised in prior years		-	232	-	9
Decrease in revalued amount of property, plant and equipment		-	(75)	-	(3)
Other expenses	10	(528)	(221)	(20)	(8)
Gains and losses related to acquisitions and disposals of shares in subsidiaries		-	148	-	6
Financial expenses, net	12	(865)	(739)	(33)	(28)
Profit before income tax		1,515	1,149	57	43
Income tax (expense) / benefit	13	(593)	248	(23)	9
Profit for the year		922	1,397	34	52
				-	-
Attributable to:				-	-
Shareholders of the Company		887	1,470	33	55
Minority interest		35	(73)	1	(3)
		922	1,397	34	52
Basic and diluted earnings per share (RUR / USD*)	14	8.50	14.70	0.32	0.56

The consolidated statement of income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 48.

These consolidated financial statements were approved on 27 June 2007:

Potapenko I.V.
Chairman, Board of Directors

Soldatov A.V.
General director, OJSC RAZGULAY Group

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

	Note	2006 *Million RUR*	2005 *Million RUR* **Restated**	2006 *Milion USD**	2005 *Milion USD**
ASSETS					
Non-current assets					
Property, plant and equipment	15	15,486	11,806	588	448
Intangible assets	16	887	648	34	25
Other non-current assets	17	851	1,875	32	71
		17,224	14,329	654	544
Current assets					
Inventories	19	3,477	651	132	25
Trade and other receivables	20	6,351	4,811	241	183
Short-term financial assets	21	658	-	25	-
Cash and cash equivalents	22	2,193	559	83	21
		12,679	6,021	481	229
Total assets		29,903	20,350	1,135	773
EQUITY AND LIABILITIES					
Equity	23				
Share capital		362	345	14	13
Additional paid-in capital		1,184	418	45	16
Property, plant and equipment revaluation reserve		1,510	1,510	57	57
Retained earnings		9,645	8,758	366	333
Total equity attributable to shareholders of the Company		12,701	11,031	482	419
Minority interest		1,468	1,508	56	57
Total equity		14,169	12,539	538	476
Non-current liabilities					
Loans and borrowings	24	3,997	2,006	152	76
Deferred tax liabilities	18	1,814	1,577	69	60
		5,811	3,583	221	136
Current liabilities					
Loans and borrowings	24	8,726	3,151	331	120
Trade and other payables	25	1,197	1,077	45	41
		9,923	4,228	376	161
Total liabilities		15,734	7,811	597	297
Total equity and liabilities		29,903	20,350	1,135	773

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 48.

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

	2006 *Million RUR*	2005 *Million RUR* **Restated**	2006 *Million USD**	2005 *Million USD**
OPERATING ACTIVITIES				
Profit for the year	922	1,397	34	52
Adjustments for:				
Depreciation	893	687	34	26
Net increase in fair value of biological assets and agricultural produce	(410)	-	(16)	-
Gains and losses related to acquisitions and disposals of shares in subsidiaries	-	(148)	-	(6)
Increase in fair value of property, plant and equipment recognised in income, net of decreases	-	(157)	-	(6)
Unrealised foreign exchange differences relating to loans and borrowings	(57)	123	(2)	5
Loss on disposal of property, plant and equipment	116	11	3	-
Loss from investments in associates	6	14	-	1
Income tax (benefit)/expense	593	(248)	23	(9)
Interest expense, net	892	609	34	23
Share of profits attributable to minority participants of limited liability companies	-	(7)	-	-
Operating profit before changes in working capital and provisions	2,955	2,281	110	86
(Increase)/decrease in inventories	(1,928)	669	(73)	25
Increase in trade and other receivables	(9,252)	(82)	(351)	(3)
Increase in trade and other payables	2,233	183	85	7
Cash flows (utilised by)/from operations before income taxes and interest paid	(5,992)	3,051	(229)	115
Income taxes paid	(673)	(26)	(26)	(1)
Interest paid	(813)	(601)	(31)	(23)
Cash flows (utilised by)/from operating activities	(7,478)	2,424	(286)	91
INVESTING ACTIVITIES				
Proceeds from disposal of subsidiaries	2,864	-	109	-
Proceeds from disposal of investments, net of cash disposed of	7	-	-	-
Acquisition of property, plant and equipment	(1,916)	(1,485)	(73)	(56)
Acquisition of investments	-	(832)	-	(32)
Acquisition of minority interests	(215)	-	(8)	-
Loans given to related parties	(658)	-	(25)	-
Interest received	82	-	3	-
Acquisition of subsidiaries, net of cash acquired	(1,040)	(1,802)	(39)	(68)
Cash flows utilised by investing activities	(876)	(4,119)	(33)	(156)

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

	2006 _Million RUR_	**2005** _Million RUR_ **Restated**	**2006** _Million USD*_	**2005** _Million USD*_
FINANCING ACTIVITIES				
Proceeds from the issue of share capital, net	722	-	28	-
Redemption of shares	(30)	-	(1)	-
Proceeds from borrowings	19,441	6,321	739	240
Repayment of borrowings	(10,145)	(4,446)	(385)	(169)
Transactions with the controlling shareholder	-	(301)	-	(11)
Cash flows from financing activities	9,988	1,574	381	60
Net increase/(decrease) in cash and cash equivalents	1,634	(121)	62	(5)
Cash and cash equivalents at beginning of year	559	680	21	26
Cash and cash equivalents at end of year	2,193	559	83	21

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 48.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements - 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	1,102	7,108
Balance of negative goodwill	-	-	-	2,739	2,739	-	2,739
Profit for the year	-	-	-	*1,470*	*1,470*	*(73)*	*1,397*
Increase in fair value of property, plant and equipment, net of deferred tax effect	-	-	*1,189*	-	*1,189*	*173*	*1,362*
Decrease in fair value of previously revalued property, plant and equipment, net of deferred tax effect	-	-	*(34)*	-	*(34)*	-	*(34)*
Total recognised income and expenses for the year	-	-	1,155	1,470	2,625	100	2,725
Acquisition of minority interest	-	-	-	-	-	(54)	(54)
Increase in minority interest due to business combinations	-	-	-	-	-	225	225
Effect of business combinations under common control	-	-	-	(30)	(30)	135	105
Other transactions with the controlling shareholder	-	-	-	(301)	(301)	-	(301)
Balance at 31 December 2005	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 to the business combinations under common control recognised in prior periods – refer 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
Profit for the year and total recognised income and expenses for the	-	-	-	887	887	35	922
Shares issued	18	704	-	-	722	-	722
Shares redemption	(1)	(29)	-	-	(30)	-	(30)
Increase in minority interest due to business combinations	-		-	-	-	136	136
Acquisition of minority interests	-	-	-	-	-	(202)	(202)
Effect of disposal of subsidiaries to entities under common control – refer note 6(e))	-	91	-	-	91	(9)	82
Balance at 31 December 2006	362	1,184	1,510	9,645	12,701	1,468	14,169

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

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	190	228	41	269
Balance of negative goodwill	-	-	-	104	104	-	104
Profit for the year	-	-	-	_55_	_55_	_(3)_	_52_
Increase in fair value of property, plant and equipment, net of deferred tax effect	-	-	_45_	-	_45_	_7_	_52_
Decrease in fair value of previously revalued property, plant and equipment, net of deferred tax effect	-	-	_(1)_	-	_(1)_	-	_(1)_
Total recognised income and expenses for the year	-	-	44	55	99	4	103
Acquisition of minority interest	-	-	-	-	-	(2)	(2)
Increase in minority interest due to business combinations	-	-	-	-	-	9	9
Effect of business combinations under common control	-	-	-	(1)	(1)	5	4
Other transactions with the controlling shareholder	-	-	-	(11)	(11)	-	(11)
Balance at 31 December 2005	13	12	57	337	419	57	476
Recognition of deferred tax underprovided in previous periods - note 2(f)(ii)	-	-	-	(4)	(4)	-	(4)
Adjustment to the initial accounting to the business combinations under common control recognised in prior periods – refer note 2(f)(i)	-	4	-	-	4	-	4
Balance at 1 January 2006 as restated	13	16	57	333	419	57	476
Profit for the year and total recognised income and expenses for the year	-	-	-	33	33	1	34
Shares issued	1	27	-	-	28	-	28
Shares redemption	-	(1)	-	-	(1)	-	(1)
Increase in minority interest due to business combinations	-	-	-	-	-	6	6
Acquisition of minority interests	-	-	-	-	-	(8)	(8)
Effect of disposal of subsidiaries to entities under common control – refer note 6(e)	-	3	-	-	3	-	3
Balance at 31 December 2006	14	45	57	366	482	56	538

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 48.

(*) The USD equivalent figures are provided for information purposes only and do not form part of the consolidated financial statements - 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 in 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 till 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 purchase, growing, processing and distribution of agricultural products, mainly sugar and grain. These products are sold in the Russian Federation and abroad.

The ultimate controlling party of the Group is Mr. Igor Potapenko who 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 28.

(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 consolidated financial statements reflect 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- All property, plant and equipment is measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Biological assets are measured at fair value less point-of-sale costs.

(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 these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest million.

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

(d) Convenience translation

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

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 31 December 2006 of RUR 26.3311 to one USD.

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

(e) Use of judgments, estimates and assumptions

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

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

- Note 6 *Acquisitions and disposals of controlling and non-controlling interests in subsidiaries*;
- Note 15 *Property, plant and equipment;*
- Note 27(b) *Taxation contingencies*;
- Note 27(c) *Bankruptcy law*.

(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 were controlled by the 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 the carrying amount of property, plant and equipment in ZAO Druzhba’s individual financial statements prior to the acquisition. As a result, management adjusted for the effect of this error as of the date of the acquisition by increasing the value of property, plant and equipment by RUR 132 million / USD* 5 million (refer note 15) 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 recognised 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 these consolidated financial statements by adjusting the deferred tax liability and the retained earinings as of 31 December 2005 – refer consolidated statement of changes in equity.

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

(iii) 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 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 consolidated statement of cash flows for the year ended 31 December 2005.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Special purpose entities (SPEs)

The Group had established a number of special purpose entities for tax minimisation purposes. Use of such entities substantially ceased with effect from 1 January 2005. The Group did not have any direct or indirect shareholdings in these entities. However, the SPEs were established under terms that imposed strict limitations on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the Group retained a significant beneficial interest in the SPE's activities, even though the Group had no shareholdings in these entities. Accordingly, the financial statements of these SPEs are included in the consolidated financial statements of the Group. The related tax contingencies are disclosed in note 27(b).

(iii) Acquisition of subsidiaries

Acquisitions of subsidiaries are accounted for by recognising the difference between the consideration paid and the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition as goodwill or negative goodwill.

(iv) Disposal of subsidiaries

Disposals of subsidiaries are accounted for by recognising the difference between the consideration received and the carrying amount of the net assets of the subsidiary, including minority interests and attributable goodwill, in the income statement.

(v) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for from the date that the Company obtains control over the entities.

The assets and liabilities acquired are recognised at the carrying amounts as recognised in the individual IFRS financial statements of the acquirees. The difference between the Group's share in the equity of the acquired company and the consideration paid is recognised as additional paid-in capital.

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

(vi) Disposal of subsidiaries to entities under common control

Disposals of subsidiaries to entities that are under the control of the shareholder that controls the Company are accounted for by recognising the difference between the consideration received and the carrying amount of the net assets of the subsidiary, including minority interests and attributable goodwill or negative goodwill, as additional paid-in capital.

(vii) Acquisitions and disposals of minority interests

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

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

(viii) Acquisitions and disposals of minority interests from / to entities under common control

Any difference between the consideration paid to acquire a minority interest from an entity that is under the control of the shareholder that controls the Company, and the carrying amount of that minority interest, is recognised as additional paid-in capital.

Any difference between the consideration received upon disposal of a minority interest to an entity that is under the control of the shareholder that controls the Company, and the carrying amount of that portion of the Group's interest in the subsidiary, including attributable goodwill, is recognised as additional paid-in capital.

(ix) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the Group's interest in the associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(x) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to RUR at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to RUR at the exchange rate ruling at the date that the fair value was determined. Foreign exchange differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

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

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at revalued amounts less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Revaluation

Property, plant and equipment is measured at fair value, based on periodic valuation by external independent valuers. A revaluation increase on property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on property, plant and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity. When a revalued asset is sold, the amount included in other reserves is transferred to retained earnings.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	5 to 57 years
Plant and equipment	2 to 13 years
Transport	2 to 15 years
Fixtures and fittings	2 to 9 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

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

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

Negative goodwill

Negative goodwill represents the excess of the fair value of the identifiable assets, liabilities and continge liabilities of the acquiree over the cost of acquisition.

Negative goodwill is recognised immediately in the profit or loss.

(e) Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and highly liquid promissory notes issued by banks which are used by the Group for settlement purposes, even if the stated maturity of the promissory notes at the date of acquisition exceeds three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for financial income and expenses is discussed in note 3(n).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(ii)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(f) Inventories

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

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

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

The cost of items transferred from biological assets is their fair value less point-of-sale costs at date of transfer.

(g) Biological assets

Biological assets are measured at fair value less point-of-sale costs, with any change therein recognised as profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Dividends

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

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(k) Insurance contracts

Where a Group subsidiary enters into financial guarantee contracts to guarantee the indebtedness of other parties, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Revenues

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

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

(ii) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(n) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, interest income on funds invested, dividend income, foreign exchange gains and losses, impairment losses recognised on financial assets and gains and losses on the disposal of available-for-sale investments.

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

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in associates, dividend income is credited to the investment in the associate. Dividend income is recognised on the date that the Group's right to receive payment is established.

(o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(q) New Standards and Interpretations not yet adopted

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

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital. The new Standard will not have any impact on the Group's financial position or performance.

- IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting. The new Standard will not have any impact on the Group's financial position or performance.

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

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The majority of the Group's property, plant and equipment is of specialised nature and is rarely sold on an open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently, the fair value of property, plant and equipment was primarily determined using the depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost of assets in the Grain segment was determined by reference to the information on replacement expenditure provided by CNII "PromZernoProekt", a research and development institute specialising in construction projects related to the grain industry.

The depreciated replacement cost of assets in the Sugar segment was determined by reference to the information on replacement expenditure provided by "GiproSakharProm" and NPO "StroyInkor", research and development institutes specialising in construction projects related to the sugar industry.

(b) Biological assets

The fair value of the biological assets and agricultural produce is based on the market price of the estimated recoverable sugar beats volume, net of harvesting costs.

(c) Investments in equity and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Segment reporting

Segment information is presented in respect of the Group's business segments. The format of segment reporting is based on the Group's management and internal reporting structure.

Inter-segment balances and sales are negligible.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

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

The Group comprises the following main business segments:

- *Grain:* Purchase, processing and sale of grain products.
- *Sugar:* Growing, purchase, processing and sale of sugar, raw sugar and sugar beet.

The Group's production facilities and its markets and customers are located primarily in Russia. Operations of the Group do not include activities in economic environments with significantly differing risks and returns. Consequently, they represent one geographical segment.

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

Million RUR	Grain		Sugar		Consolidated	
	2006	2005 Restated	2006	2005 Restated	2006	2005 Restated
Segment revenue	11,699	11,187	11,268	8,592	22,967	19,779
Segment result	1,553	1,708	1,426	399	2,979	2,107
Unallocated expenses					(599)	(219)
Financial expenses, net					(865)	(739)
Income tax (expense) / benefit					(593)	248
Profit for the year					922	1,397
Segment assets	13,072	9,561	15,583	10,531	28,655	20,092
Unallocated assets					1,248	258
Total assets					29,903	20,350
Segment liabilities	(605)	(553)	(553)	(515)	(1,158)	(1,068)
Loans and borrowings					(12,723)	(5,157)
Deferred tax liabilities					(1,814)	(1,577)
Other unallocated liabilities					(39)	(9)
Total liabilities					(15,734)	(7,811)
Depreciation	(351)	(313)	(535)	(368)	(886)	(681)
Attributable to unallocated activities					(7)	(6)
					(893)	(687)
Capital expenditure - acquisition of property, plant and equipment	168	49	2,440	120	2,608	169
Attributable to unallocated activities					11	13
					2,619	182
Capital expenditure - acquisition of subsidiaries	1,324	875	54	2,647	1,378	3,522
Decreases in fair value						
Recognised in income	-	(75)	-	-	-	(75)
Recognised in equity	-	(25)	-	(20)	-	(45)
	-	(100)	-	(20)	-	(120)
Increases in fair value						
Recognised in income	-	98	-	134	-	232
Recognised in equity	-	904	-	846	-	1,750
	-	1,002	-	980	-	1,982

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

Million USD*	Grain		Sugar		Consolidated	
	2006	2005 Restated	2006	2005 Restated	2006	2005 Restated
Segment revenue	444	425	428	326	872	751
Segment result	59	65	54	15	113	80
Unallocated expenses					(23)	(9)
Financial expenses, net					(33)	(28)
Income tax benefit					(23)	9
Profit for the year					34	52
Segment assets	496	363	592	400	1,088	763
Unallocated assets					47	10
Total assets					1,135	773
Segment liabilities	(23)	(21)	(21)	(20)	(44)	(41)
Loans and borrowings					(483)	(196)
Deferred tax liabilities					(69)	(60)
Other unallocated liabilities					(1)	-
Total liabilities					(597)	(297)
Depreciation	(14)	(12)	(20)	(14)	(34)	(26)
Attributable to unallocated activities					-	-
					(34)	(26)
Capital expenditure - acquisition of property, plant and equipment	6	2	93	4	99	6
Attributable to unallocated activities					-	-
					99	6
Capital expenditure - acquisition of subsidiaries	50	33	2	101	52	134
Decreases in fair value						
Recognised in income	-	(3)	-	-	-	(3)
Recognised in equity	-	(1)	-	(1)	-	(2)
	-	(4)	-	(1)	-	(5)
Increases in fair value						
Recognised in income	-	4	-	5	-	9
Recognised in equity	-	34	-	32	-	66
	-	38	-	37	-	75

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

6 Acquisitions and disposals of controlling and non-controlling interests in subsidiaries

(a) Acquisition of subsidiaries

(i) Transactions made in 2006

During 2006 the Group acquired the following subsidiaries:

Entity	Date of acquisition	Segment	Interest acquired, effective
OAO Slavyansky KHP	August 2006	Grain	84%
OOO Anastasievskoye	August 2006	Grain	84%

OOO Anastasievskoye is a 100% subsidiary of OAO Slavyansky KHP.

The total consideration paid to acquire control over the above companies amounted to RUR 898 million / USD* 34 million settled in cash.

(ii) Transactions made in 2005

During 2005 the Group acquired the following subsidiaries:

Entity	Date of acquisition	Segment	Interest acquired, effective
ZAO Pristen-sakhar	June 2005	Sugar	100%
ZAO Sakharny kombinat Alexeevsky	June 2005	Sugar	83%
ZAO Sakharny kombinat Kolpnyansky	October 2005	Sugar	83%
ZAO Sakharny kombinat Kurganinsky	July 2005	Sugar	83%
ZAO Sakharny kombinat Otradinsky	June 2005	Sugar	83%

The total consideration paid to acquire control over the above companies amounted to RUR 1,770 million / USD* 67 million settled in cash.

(b) Effect of acquisition of subsidiaries

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

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

	2006 Million RUR	2005 Million RUR	2006 Million USD*	2005 Million USD*
Non-current assets	913	2,098	35	80
Current assets	280	144	11	5
Non-current liabilities	(182)	(390)	(7)	(15)
Current liabilities	(215)	(467)	(9)	(17)
Net assets acquired	796	1,385	30	53
Minority interest	(124)	(225)	(5)	(9)
Group's share in net assets acquired	672	1,160	25	44
Goodwill on acquisition	226	627	9	24
Excess of the fair value of the net identifiable assets over the consideration paid	-	(17)	-	(1)
Total consideration	898	1,770	34	67
Settled in previous periods	-	844	-	32
Settled in current period	898	926	34	35
	898	1,770	34	67

The determination of the fair values of property, plant and equipment and intangible assets, and the allocation of the purchase price to the assets, liabilities and contingent liabilities were performed with the assistance of an independent appraiser.

It has not been practicable to determine the carrying amounts of the subsidiaries' assets and liabilities on an IFRS basis immediately prior to the date of acquisition because the subsidiaries' financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

Because of the way the businesses acquired have been integrated within the Group, it is not practicable to determine the acquiree's financial results since the acquisition date included in the Group's statement of income for the year. The above also applies to the disclosure of the consolidated revenues for the year and the net financial results for the year determined on the basis that the acquisitions had occurred on 1 January 2006.

(c) Acquisition of subsidiaries in transactions under common control

(i) Transactions made in 2006

During 2006 the Group acquired the following subsidiaries from entities controlled by the shareholder that controls the Company:

Entity	Date of acquisition	Segment	Interest acquired
OAO Kondopozhsky KHP	February 2006	Grain	75%
ZAO Agrofirma Poltavskaya	September 2006	Grain	100%
OOO Tsimlyanskoye	September 2006	Grain	100%
OOO Izobiliye	December 2006	Grain	100%
OOO Agroinvest	February 2006	Sugar	100%
OOO Lgovagroinvest	March 2006	Sugar	100%

The consideration paid to acquire the above interests amounted to RUR 445 million / USD* 17 million settled in cash.

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

As of 31 December 2005 the Group held a 20% interest 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 made in 2005

Entity	Date of acquisition	Segment	Interest acquired
ZAO Bugulminsky KHP#1	January 2005	Grain	100%
OAO Kineshemsky mukomolny kombinat	January 2005	Grain	90%
OAO Khlebnaya baza #63	January 2005	Grain	52%
ZAO Kolomensky kombinat khleboproduktov	October 2005	Grain	100%
ZAO Druzhba	December 2005	Sugar	100%
OAO Krivets-sakhar	June 2005	Sugar	97%
ZAO Nurlatsky sakhar	June 2005	Sugar	100%

The total consideration paid to acquire control over the above companies amounted to RUR 1,752 million / USD* 66 million settled in cash.

(d) Effect of acquisition of subsidiaries from entities 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:

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Non-current assets	1,174	1,841	45	70
Current assets	1,564	771	59	29
Non-current liabilities	(170)	(319)	(6)	(12)
Current liabilities	(2,075)	(436)	(80)	(17)
Net assets acquired	493	1,857	18	70
Increase in minority interest	(13)	(135)	-	(5)
Group's share in net assets acquired	480	1,722	18	65
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	-	30	-	1
Consideration paid	480	1,752	18	66
Settled in previous periods	309	876	12	33
Settled in current period	171	876	6	33
	480	1,752	18	66

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

(e) Disposal of subsidiaries to entities under common control

During 2006 the Group disposed of its interest in OAO Nurlatsky elevator, OOO Razguliay-Zerno and OOO Russkaya sakharnaya kompaniya RSK to entities controlled by the shareholder that controls the Company. The disposal resulted in a net increase in equity of RUR 91 million / USD* 3 million including minority interest of RUR 9 million / USD* 0 million.

During 2005 the Group disposed of its interest in OOO Posadskiye and ZAO Argo Komplekt M. The disposal resulted in a net gain of RUR 47 million / USD* 2 million.

The disposal of the subsidiaries had the following effects on the Group's assets and liabilities at the dates of disposal:

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Non-current assets	16	5	1	-
Current assets	8,685	233	330	10
Non-current liabilities	(2)	(23)	-	(1)
Current liabilities	(5,903)	(262)	(224)	(11)
Net assets disposed of	2,796	(47)	107	(2)
Consideration received	(2,887)	-	(110)	-
	(91)	(47)	(3)	(2)

(f) Acquisition of minority interests in subsidiaries

(i) Transactions made in 2006

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Alexeyevsky for RUR 45 million / USD* 2 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Alexeyevsky's net assets in the consolidated financial statements on the date of acquisition of the 17% was RUR 257 million /USD* 10 million.

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Kolpnyansky for RUR 48 million / USD* 2 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Kolpnyansky's net assets in the consolidated financial statements on the date of acquisition of the 17% was RUR 261 million /USD* 10 million.

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Kurganinsky for a consideration of RUR 66 million / USD* 2 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Kurganinsky's net assets in the consolidated financial statements on the date of acquisition of the 17% was RUR 359 million /USD* 14 million.

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Otradinsky for RUR 55 million / USD* 2 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Otradinsky's net assets in the consolidated financial statements on the date of acquisition of the 17% was RUR 311 million /USD* 12 million.

(ii) Transactions made in 2005

In March 2005 the Group acquired a further 25% interest in OOO Sakharny Kombinat Tikhoretsky for RUR 106 million / USD* 4 million.

In September 2005 the Group acquired a further 3% interest in OAO Svetlogradsky Elevator for a negligible amount.

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

In 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 (ZAO Nurlatsky Elevator) increased by approximately 24%.

The excess of the carrying amount of the minority interest over the consideration paid amounting to RUR 84 million / USD* 3 million (2004: RUR 118 million / USD* 4 million) was recognised in the statement of income.

(iii) Effect of acquisition of minority interests in the subsidiaries

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Consideration paid	215	106	8	4
Decrease in the carrying amount of minority interest due to acquisitions	(202)	(190)	(8)	(7)
Goodwill on acquisition	13	-	-	-
Excess of the carrying amount of minority interest over the consideration paid – recognised in income	-	(84)	-	(3)
	13	(84)	-	(3)

7 Revenue

	2006	**2005**	**2006**	**2005**
	Million RUR		*Million USD**	
Revenue from sales	21,986	19,048	835	723
Revenue from processing and storage services	981	731	37	28
	22,967	19,779	872	751

8 Other income

	2006	**2005**	**2006**	**2005**
	Million RUR		*Million USD**	
Change in fair value of biological assets and agricultural produce	410	-	16	-
VAT benefits	-	221	-	8
	410	221	16	8

In 2005 other income comprised net value added benefits that the Group generated from transactions with the Group subsidiaries in jurisdictions with low tax rates – refer note 27(b).

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

9 Administrative expenses

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Wages and salaries	(700)	(441)	(27)	(17)
Other administrative expenses	(329)	(214)	(12)	(8)
	(1,029)	(655)	(39)	(25)

10 Other expenses

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Bad debt expense	(4)	(80)	-	(3)
Legal and consulting services	(60)	(70)	(2)	(3)
Loss on disposal of property, plant and equipment	(77)	(11)	(3)	-
Other expenses	(387)	(60)	(15)	(2)
	(528)	(221)	(20)	(8)

11 Total personnel costs

Personnel costs included in cost of sales, administrative expenses and distribution expenses amount to RUR 1,587 million / USD* 60 million (2005: RUR 954 million / USD* 36 million).

12 Financial income and expenses

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Interest income	82	20	3	1
Government compensation of interest expenses	101	-	4	-
Interest expense	(1,075)	(629)	(41)	(24)
Share of profits attributable to minority participants of limited liability companies	-	7	-	-
Foreign exchange gain / (loss)	57	(123)	2	(5)
Loss from investments in associates	(6)	(14)	-	-
Bank charges	(24)	-	(1)	-
	(865)	(739)	(33)	(28)

In 2006 the Group recognised a government grant for an amount of RUR 101 million / USD* 4 million compensating the interest expenses incurred by certain entities of the Group over the financial year.

The grant is available to certain entities engaged in agricultural activities. It aims to compensate for 66.7% of the interest expense incurred by the entities over the reporting period. The compensation shall not, however, exceed 66.7% of the Russian Federation Central bank official discount rate which varied from 12% to 11% in 2006. The decision on the compensation depends, among other terms and conditions, on the availability of resources at the related state budget at the date when an application for the grant is made. Accordingly, the Group recognizes the grants received at the time when the decision for the compensation is made.

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

13 Income tax (expense) / benefit

	2006	2005 Restated	2006	2005
	Million RUR		*Million USD**	
Current tax	(705)	(26)	(27)	(1)
Deferred tax				
Origination and reversal of temporary differences	89	230	3	8
Recognition of previously unrecognised deferred tax asset	23	44	1	2
	112	274	4	10
	(593)	248	(23)	9

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

Reconciliation of effective tax rate:

	2006			2005 Restated		
	Million RUR	*Million USD**	*%*	*Million RUR*	*Million USD**	*%*
Profit before tax	1,515	57	100	1,149	43	100
Income tax at applicable tax rate	(364)	(14)	(24)	(276)	(10)	(24)
Recognition of previously unrecognised deferred tax asset	23	1	1	44	2	4
Items taxed in lower tax jurisdictions	(95)	(4)	(6)	77	3	7
Non-deductable / non-taxable items	(157)	(6)	(10)	403	14	35
	(593)	(23)	(39)	248	9	22

14 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

In thousands of shares	2006	2005
Issued shares at 1 January	100,000	100,000
Effect of shares issued on 17 March	4,477	-
Effect of share redeemed on 30 September	(65)	-
Weighted average number of shares for the year ended 31 December	104,412	100,000

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

15 Property, plant and equipment

Millions RUR	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
Cost/Revalued amount						
At 1 January 2005	23,897	8,286	227	78	272	32,760
Acquisitions through business combinations	2,967	919	28	3	134	4,051
Additions	8	87	10	11	66	182
Disposals	(3)	(195)	(51)	(1)	(41)	(291)
Transfers	-	27	3	4	(34)	-
Elimination of accumulated depreciation	(18,752)	(7,732)	(140)	(27)	(182)	(26,833)
Increase in fair value	992	925	9	11	-	1,937
At 1 January 2006 (restated)	9,109	2,317	86	79	215	11,806
Acquisitions through business combinations	1,271	594	18	11	192	2,086
Additions	58	1,495	23	9	1,034	2,619
Disposals	(407)	(261)	(36)	(2)	(35)	(741)
Disposals as part of sale of subsidiaries	(1)	(56)	-	(1)	-	(58)
Transfers	77	236	44	6	(363)	-
At 31 December 2006	10,107	4,325	135	102	1,043	15,712
Depreciation and impairment losses						
At 1 January 2005	(18,447)	(7,515)	(173)	(20)	(196)	(26,351)
Depreciation charge	(274)	(366)	(15)	(8)	(24)	(687)
Decreases in fair value	(34)	(41)	-	-	-	(75)
Disposals	3	190	48	1	38	280
Elimination of accumulated depreciation	18,752	7,732	140	27	182	26,833
At 1 January 2006	-	-	-	-	-	-
Depreciation charge	(338)	(505)	(17)	(11)	(22)	(893)
Disposals	333	236	33	1	22	625
Disposals as part of sale of subsidiaries	-	41	-	1	-	42
At 31 December 2006	(5)	(228)	16	(9)	-	(226)
Net book value						
At 1 January 2005	5,450	771	54	58	76	6,409
At 1 January 2006 (restated)	9,109	2,317	86	79	215	11,806
At 31 December 2006	10,102	4,097	151	93	1,043	15,486

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

*Millions USD**	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
Cost/Revalued amount						
At 1 January 2005	908	315	9	3	10	1,245
Acquisitions through business combinations	113	35	1	-	5	154
Additions	-	3	-	-	3	6
Disposals	-	(7)	(2)	-	(2)	(11)
Transfers	-	1	-	-	(1)	-
Elimination of accumulated depreciation	(712)	(294)	(5)	(1)	(7)	(1,019)
Increase in fair value	38	35	-	-	-	73
At 1 January 2006 (restated)	347	88	3	2	8	448
Acquisitions through business combinations	48	23	1	-	7	79
Additions	2	57	1	-	39	99
Disposals	(15)	(10)	(1)	-	(1)	(27)
Disposals as part of sale of subsidiaries	-	(2)	-	-	-	(2)
Transfers	3	9	2	-	(14)	-
At 31 December 2006	385	165	6	2	39	597
Depreciation and impairment losses						
At 1 January 2005	(701)	(285)	(7)	(1)	(7)	(1,001)
Depreciation charge	(10)	(14)	(1)	-	(1)	(26)
Decreases in fair value	(1)	(2)	-	-	-	(3)
Disposals	-	7	2	-	1	10
Elimination of accumulated depreciation	712	294	6	1	7	1,020
At 1 January 2006	-	-	-	-	-	-
Depreciation charge	(13)	(19)	(1)	-	(1)	(34)
Disposals	13	9	1	-	1	24
Disposals as part of sale of subsidiaries	-	1	-	-	-	1
At 31 December 2006	-	(9)	-	-	-	(9)
Net book value						
At 1 January 2005	207	30	2	2	3	244
At 1 January 2006 (restated)	347	88	3	2	8	448
At 31 December 2006	385	156	6	2	39	588

(a) Revaluation

The most recent revaluation of the property, plant and equipment was carried out as of 31 December 2005 with the assistance of an independent appraisal firm ZAO Balt-Audit-Expert.

(b) Impairment

The depreciated replacement cost, as determined by the independent appraiser, was reviewed for impairment by estimating the recoverable amounts of the cash generating units, namely: assets relating to the grain segment and assets relating to the sugar segment. The following represents a summary of the analysis:

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

31 December 2006	Grain assets, including goodwill		Sugar assets, including goodwill	
	Million RUR	Million USD*	Million RUR	Million USD*
Carrying amount	7,005	266	9,367	356
Recoverable amount	13,203	501	10,342	393

31 December 2005	Grain assets including goodwill		Sugar assets, including goodwill	
	Million RUR	Million USD*	Million RUR	Million USD*
Carrying amount	5,150	196	7,107	270
Recoverable amount	9,578	364	14,226	540

The following key assumptions were applied in determining the recoverable amounts:

- Cash flows were projected based on actual operating results and the five-year business plan.
- Cash flows for a further five years were extrapolated assuming a further growth of 2% in production, and revenue and expenses increasing in line with inflation.
- A discount rate of 14% was applied in determining the recoverable amount of the assets. The discount rate was estimated based on an industry weighted average cost of capital.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

(c) Security

Certain items of property, plant and equipment were pledged to secure bank loans - refer note 24.

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

16 Intangible assets

RUR million	Goodwill	Negative goodwill	Other intangible assets	Total
Cost				
On 1 January 2005	23	(3,632)	-	(3,609)
Negative goodwill derecognised	-	3,632	-	3,632
Offset	(3)	-	-	(3)
Acquisitions through business combinations	627	-	-	627
Additions	-	-	1	1
On 31 December 2005	647	-	1	648
Acquisitions through business combinations	239	-	-	239
Additions	-		-	-
On 31 December 2006	886	-	1	887
				-
Accumulated amortisation				
On 1 January 2005	(3)	893	-	890
Negative goodwill derecognised	-	(893)	-	(893)
Offset	3	-	-	3
On 31 December 2005	-	-	-	-
Amortisation charge	-	-	-	-
Impairment losses	-	-	-	-
On 31 December 2006	-	-	-	-
Net book value				
On 1 January 2005	20	(2,739)	-	(2,719)
On 31 December 2005	647	-	1	648
On 31 December 2006	886	-	1	887

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

USD million*	Goodwill	Negative goodwill	Other intangible assets	Total
Cost				
On 1 January 2005	1	(138)	-	(137)
Negative goodwill derecognised	-	138	-	138
Offset	-	-	-	-
Acquisitions through business combinations	24	-	-	24
Additions	-	-	-	-
On 31 December 2005	25	-	-	25
Acquisitions through business combinations	9	-	-	9
Additions	-	-	-	-
On 31 December 2006	34	-	-	34
Accumulated amortisation				
On 1 January 2005	-	34	-	34
Negative goodwill derecognised	-	(34)	-	(34)
Offset	-	-	-	-
On 31 December 2005	-	-	-	-
Amortisation charge	-	-	-	-
Impairment losses	-	-	-	-
On 31 December 2006	-	-	-	-
Net book value				
On 1 January 2005	1	(104)	-	(103)
On 31 December 2005	25	-	-	25
On 31 December 2006	34	-	-	34

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

17 Other non-current assets

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Advances issued to third parties for acquisition of property, plant and equipment	384	-	15	-
Advances issued to related parties for acquisition of property, plant and equipment	217	1,303	7	49
Advances issued to related parties for acquisition of controlling and non-controlling interests	-	274	-	10
Equity securities available for sale	-	42	-	2
Investments in associates	250	256	10	10
	851	1,875	32	71

Investments in associates as of 31 December 2006 represent the Group's interest in the net assets of OAO Podolsky EMZ (a flour milling plant) of 46%, OAO Shipunovsky elevator of 36% and OAO Angelinsky Elevator of 25% (2004: OAO Podolsky EMZ 46%).

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

Million RUR	Assets		Liabilities		Net	
	2006	2005 *Restated*	2006	2005 *Restated*	2006	2005 *Restated*
Property, plant and equipment	-	-	(1,980)	(1,586)	(1,980)	(1,586)
Other current assets / (liabilities), net	80	96	-	(108)	80	(12)
Tax loss carry-forwards	86	21	-	-	86	21
Tax assets/(liabilities)	166	117	(1,980)	(1,694)	(1,814)	(1,577)
Set off of tax	(166)	(117)	166	117	-	-
Net tax liabilities	-	-	(1,814)	(1,577)	(1,814)	(1,577)

*Million USD**	Assets		Liabilities		Net	
	2006	2005 *Restated*	2006	2005 *Restated*	2006	2005 *Restated*
Property, plant and equipment	-	-	(75)	(60)	(75)	(60)
Other current assets / (liabilities), net	3	3	-	(4)	3	(1)
Tax loss carry-forwards	3	1	-	-	3	1
Tax assets/(liabilities)	6	4	(75)	(64)	(69)	(60)
Set off of tax	(6)	(4)	6	4	-	-
Net tax liabilities	-	-	(69)	(60)	(69)	(60)

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

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Deductible temporary differences	23	56	1	2
Tax loss carry-forwards	22	12	1	-
	45	68	2	2

Deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(c) Unrecognised deferred tax liability

A temporary difference of RUR 4,598 million / USD* 174 million relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in a form of distributions remitted to the Company, then an enacted tax rate of 9 per cent would apply. If the temporary difference were reversed in a disposal of the subsidiaries, then a tax rate of 24 per cent would apply.

(d) Movement in temporary differences during the year

Million RUR	1January 2006 *(Restated)*	Recognised in income	Recognised in equity	Acquisition of subsidiary	Disposal of subsidiary	31 December 2006
Property, plant and equipment	(1,586)	(42)	-	(352)	-	(1,980)
Other current assets/ (liabilities), net	(12)	89	-	-	3	80
Tax loss carry-forwards	21	65	-	-	-	86
Net tax assets/(liabilities)	(1,577)	112	-	(352)	3	(1,814)

*Million USD**	1 January 2006 *(Restated)*	Recognised in income	Recognised in equity	Acquisition of subsidiary	Disposal of subsidiary	31 December 2006
Property, plant and equipment	(60)	(2)	-	(13)	-	(75)
Other current assets / (liabilities), net	(1)	4	-	-	-	3
Tax loss carry-forwards	1	2	-	-	-	3
Net tax assets/(liabilities)	(60)	4	-	(13)	-	(69)

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

Million RUR	1 January 2005	Recognised in income *(Restated)*	Recognised in equity	Acquisition of subsidiary *(Restated)*	Disposal of subsidiary	31 December 2005 *(Restated)*
Property, plant and equipment	(619)	186	(412)	(741)	-	(1,586)
Other current assets / (liabilities), net	16	80	(108)	-	-	(12)
Tax loss carry-forwards	13	8	-	-	-	21
Net tax assets/(liabilities)	(590)	274	(520)	(741)	-	(1,577)

*Million USD**	1 January 2005	Recognised in income *(Restated)*	Recognised in equity	Acquisition of subsidiary *(Restated)*	Disposal of subsidiary	31 December 2005 *(Restated)*
Property, plant and equipment	(24)	7	(15)	(28)	-	(60)
Other current assets / (liabilities), net	1	3	(5)	-	-	(1)
Tax loss carry-forwards	1	-	-	-	-	1
Net tax assets/(liabilities)	(22)	10	(20)	(28)	-	(60)

19 Inventories

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Goods for resale				
Grain crops	884	209	34	8
Sugar	1,242	146	47	6
Raw sugar	149	-	6	-
Biological assets				
Grain crops	164	3	6	-
Sugar beets	364	30	14	1
Raw materials and consumables	674	263	25	10
	3,477	651	132	25

The value of inventory pledged to secure loans is disclosed in note 24.

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

20 Trade and other receivables

	2006	2005	2006	2005
	Million RUR		_Million USD*_	
Trade receivables	2,635	3,219	100	123
Advances paid to related parties	1,115	1,011	42	38
Loans given to related parties	848	39	32	1
Advances paid	844	180	32	7
Taxes receivable	540	147	21	6
Receivables from associated companies	88	56	3	2
Deferred expenses	22	37	1	1
Other receivables	324	204	12	8
Provision for doubtful accounts	(65)	(82)	(2)	(3)
	6,351	4,811	241	183

21 Short-term financial assets

Short-term financial assets comprise RUR denominated loans issued by the Group to related parties at an interest rate of 9% per annum.

22 Cash and cash equivalents

Cash and cash equivalents include highly liquid RUR denominated promissory notes issued by banks which are held by the Group for settlement purposes. The balance of the promissory notes as of 31 December 2006 amounted to RUR 543 million / USD* 21 million (31 December 2005: RUR 402 million / USD* 15 million).

23 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* 0.11 each. All shares were issued and paid up.

In January 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 controlling shareholder sold 30,000,000 shares at RUR 134 / USD* 5.09 per share. The Company sold 6,000,000 newly issued shares to the controlling shareholder at RUR 124 / USD* 4.71 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* 28 million reduced by the amount of expenses incurred on issue of RUR 22 million / USD* 0.84 million was credited to additional paid-in capital - refer consolidated statement of changes in equity.

In September 2006 the Group redeemed 257,420 shares for RUR 30 million / USD* 1 million. The difference between the nominal value of the shares redeemed and the consideration paid was debited to additional paid-in capital - refer consolidated 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.

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

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

(b) Dividends

In accordance with the 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 31 December 2006 the Company's distributable reserves amounted to RUR 9 million / USD* 0 million (31 December 2005: RUR 8 million / USD* 0 million).

(c) Transactions with the controlling shareholder

During 2006 the Group had the following transactions with the controlling shareholder:

	2006 _Million RUR_	2006 _Million USD*_
Excess of the consideration received from the entities controlled by the controlling shareholder over the Group's interest in the carrying amount of the net identifiable assets of the subsidiaries disposed	91	3
	91	3

During 2005 the Group had the following transactions with the controlling shareholder:

	2005 Million RUR	2005 Million USD*
Excess of the consideration paid to the entities controlled by the controlling shareholder over the Group's interest in the carrying amount of the net identifiable assets	(30)	(1)
Expenses incurred by the Group on behalf of the controlling shareholder	(29)	(1)
Consideration paid to the controlling shareholder to acquire the trademark	(272)	(10)
	(331)	(12)

24 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 26.

	2006	2005	2006	2005
	Million RUR		_Million USD*_	
Non-current				
Unsecured bond issue	3,987	1,998	152	76
Unsecured non-bank loans	10	8	-	-
Secured bank loans	-	-	-	-
	3,997	2,006	152	76
Current				
Secured bank loans	8,168	2,208	310	84
Unsecured non-bank loans	5	885	-	34
Unsecured non-bank loans from related parties	448	-	17	-
Current portion of unsecured bond issue	105	58	4	2
	8,726	3,151	331	120
	12,723	5,157	483	196

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

Terms and repayment schedule:

RUR million	Total	1 year or less	2-5 years
Unsecured bond issue – RUR, variable at 10.25% - 11.5%	4,092	105	3,987
Unsecured non-bank loans, - RUR, fixed at 0%	10	-	10
Secured bank loans:			
- RUR, fixed at 11%-13.5%	8,168	8,168	-
Unsecured non-bank loans, - RUR, fixed at 4% - 12%	5	5	-
Unsecured non-bank loans from related parties			
- RUR, fixed at 0.1% - 2.5%	153	153	-
- RUR, fixed at 9%-15%	295	295	-
	12,723	8,726	3,997

USD million*	Total	1 year or less	2-5 years
Unsecured bond issue – RUR, variable at 10.25% - 11.5%	156	4	152
Unsecured non-bank loans, - RUR, fixed at 0%	-	-	-
Secured bank loans:			
- RUR, fixed at 11%-13.5%	310	310	-
Unsecured non-bank loans - RUR, fixed at 4% - 12%	-	-	-
Unsecured non-bank loans from related parties			
- RUR, fixed at 0.1% - 2.5%	6	6	-
- RUR, fixed at 9%-15%	11	11	-
	483	331	152

The following assets secure loans:

- property, plant and equipment with a carrying amount of RUR 5,332 million / USD* 202 million;
- inventory with a carrying amount of RUR 69 million / USD* 3 million;
- shares in the following subsidiaries of the Company:

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

	Shares pledged %
Azovsky portovy elevator, OOO	100
Bugulminsky elevator, ZAO	75
Bugulminsky KHP#1, ZAO	100
Bugulminsky KHP#2, ZAO	100
Chishminsky sakharny zavod, OAO	58
Dubovskkhleboproduct, OAO	75
Elevator Rudny Klad, OAO	52
Gerkules, OAO	86
Karachaevo-Cherkessky Mukomol, ZAO	55
Karachaevo-Cherkessky Sakharny zavod, OAO	90
Khlebnaya baza 63, OAO	52
Kineshemsky mukomolny kombinat, OAO	90
Kondopozhsky KHP, OAO	95
Krivets-Sakhar, OAO	97
Kshensky Sakharny Kombinat, ZAO	100
Lgovsky KHP, ZAO	100
Nurlatsky Elevator, ZAO	100
Nurlatsky sakhar, ZAO	100
Poltavsky KHP, OAO	90
Russko-Polyanskiy Elevator, OAO	64
Rzhavskoye HPP, OAO	97
Sakharny kombinat Alexeevsky, ZAO	83
Sakharny Kombinat Bolshevik, ZAO	100
Sakharny kombinat Kolpnyansky, ZAO	83
Sakharny Kombinat Kurganinsky, ZAO	83
Sakharny kombinat Lgovsky, OAO	100
Sakharny Kombinat Otradinsky, ZAO	83
Sakharny kombinat Tikhoretsky, ZAO	100
Starodubsky elevator, OAO	100
Svetlogradsky elevator, OAO	52
Tsimlyanskkhleboprodukt, OAO	100
Zelenokumsky elevator,OAO	50

25 Trade and other payables

	2006	2005 *Restated*	2006	2005
	Million RUR		*Million USD**	
Trade payables	614	321	23	12
Taxes payable	232	414	9	16
Advances received	152	262	6	10
Payables to employees	73	39	3	1
Payables to associates	13	20	-	1
Other payables and accrued expenses	113	21	4	1
	1,197	1,077	45	41

26 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.

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

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 3,969 million / USD* 151 million or 57% of the total receivables (2005: RUR 1,224 million / USD* 46 million or 25 % of the total receivables). In addition, the advances issued to related parties for acquisition of property, plant and equipment amounted to RUR 217 million / USD* 8 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 notes with the nominal value of RUR 2,000 million / USD* 76 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 is determinable by the issuer. The bonds amounting to RUR 1,979 million / USD* 75 million,were redeemed by the issuer on 23 March 2007 at a par value. As a result, the effective interest rate on the bonds was 11.64% per annum.

In October 2006 the Group issued 5-year rouble nominated notes with the nominal value of RUR 2,000 million / USD* 76 million. The coupons are payable twice per year. The coupon rate is set at approximately 10.25 % per annum for payments 1 to 3. The coupon rate for payments 4 to 10 is determinable by the issuer. The effective interest rate on the issue for the period ended 31 December 2006 amounted to 10.43% per annum.

Other loans and borrowings are primarily short-term and bear fixed interest rates – refer note 24.

Interest rates for interest bearing assets are disclosed in note 21.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales of grain, purchases of cane sugar 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 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.

(d) Fair values

The fair value of the Group's financial assets and liabilities as of 31 December 2006 and 31 December 2005 approximated their carrying amounts. The methods used to determine the fair values are disolosed in note 4.

27 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.

In 2006 the Group insured its property, plant and equipment and inventories for a total amount of RUR 7,487 million / USD* 284 million and RUR 1,000 million / USD* 38 million, respectively,

In addition, the Group insured certain biological assets against failure of crops. The insurance covers grain and sugar beet crops to be harvested before August 2007. The maximum insurance coverage amounts to RUR 321 million / USD* 12 million.

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

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. 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.

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.

Before 31 December 2004, the Group used a number of 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 Group's consolidated financial statements.

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. This arrangement involved transactions among Group entities in low tax jurisdictions. Some of these transactions, although technically in compliance with the Tax Code of the Russian Federation, were 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 these consolidated financial statements 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 year ended 31 December 2005 as a result of the above arrangements are disclosed in note 8. 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.

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

During the course of 2006 the Group entered into structured transactions to acquire shares in certain subsidiaries of the Group for a total consideration of RUR 1,284 million / USD* 49 million and certain items of machinery and equipment for a total consideration of RUR 959 million / USD* 36 million. If the structure of these transactions were successfully challenged by the tax or other authorities, such challenge could potentially have significant operational and financial consequences for the Group. Management has not provided any amounts in respect of these obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

(c) Bankruptcy law

The bankruptcy law in Russia 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 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 consolidated financial statements of the Group. However, management believes that the likelihood of such challenge being successful is less than probable.

28 Related party transactions

(a) Control relationships

The Group's ultimate controlling party is Mr. Igor Potapenko, who also acts as Chairman of the Board of Directors and Chief Executive Officer.

No publicly available financial statements are produced by the Company's Parent Company, ultimate controlling party or any other intermediate controlling party.

(b) Transactions with management and close family members

Key management (Chairman of the Board of Directors, General Director, Deputy General Director and Finance Director of the Company, Directors of sugar and grain business segments) received RUR 27 million / USD* 1 million of remuneration during the year (2005: 22 million / USD* 1 million), which is included in personnel costs (see note 11).

(c) Transactions with other related parties

(i) Transactions with shares

In 2006 the Group acquired controlling and non-controlling interests from fellow subsidiaries controlled by the controlling shareholder of the Group. The details of the transactions are disclosed in notes 6(c) and 6(f).

(ii) Revenues

RUR million	2006 Transaction	2006 Outstanding balance	2005 Transaction	2005 Outstanding balance
Sale of goods				
- Fellow subsidiaries	952	834	125	157
- Associates	116	88	42	56
Sales to third parties under commission agreements with related parties	189	-	300	-
	1,257	922	467	213

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

USD* million	2006 Transaction	2006 Outstanding balance	2005 Transaction	2005 Outstanding balance
Sale of goods				
- Fellow subsidiaries	36	32	5	6
- Associates	4	3	2	2
Sales to third parties under commission agreements with related parties	7	-	11	-
	47	35	18	8

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.

(iii) Expenses

RUR million	2006 Transaction	2006 Outstanding balance	2005 Transaction	2005 Outstanding balance
Purchase of goods				
- Fellow subsidiaries	(2,913)	(126)	(1,849)	(94)
- Fellow subsidiaries – advances given	-	1,115	-	1,011
- Associates	(13)	(13)	(55)	(20)
Purchases from third parties under commission agreements with related parties	(1,875)	(34)	(56)	-
	(4,801)	942	(1,960)	897

USD* million	2006 Transaction	2006 Outstanding balance	2005 Transaction	2005 Outstanding balance
Purchase of goods				
- Fellow subsidiaries	(111)	(5)	(70)	(4)
- Fellow subsidiaries – advances given	-	42	-	38
- Associates	-	-	(2)	(1)
Purchases from third parties under commission agreements with related parties	(71)	(1)	(2)	-
	(182)	36	(74)	33

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 consolidated financial statements - refer note 2(d).

(iv) Loans

RUR million	2006 Amount loaned	2006 Outstanding balance	2005 Amount loaned	2005 Outstanding balance
Loans received				
- Fellow subsidiaries	(448)	(448)	(885)	(885)
Loans given				
- Fellow subsidiaries	1,518	1,518	-	-
- Associates	-	-	-	-
	1,070	1,070	(885)	(885)

USD million*	2006 Amount loaned	2006 Outstanding balance	2005 Amount loaned	2005 Outstanding balance
Loans received				
- Fellow subsidiaries	(17)	(17)	(34)	(34)
Loans given				
- Fellow subsidiaries	58	58	-	-
- Associates	-	-	-	-
	41	41	(34)	(34)

The loans from fellow subsidiaries bear interest of 0.1% to 15% per annum and are repayable on demand.

(v) Supply of property, plant and equipment

As of 31 December 2006 the balance of advances issued to related parties for the acquisition of property, plant and equipment amounted to RUR 217 million / USD* 7 million.

(d) 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.

29 Significant subsidiaries

	Effective ownership, % 2006	2005
Holding companies		
Razgulay-Finans, OOO (formerly, Agrocofinans, 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
AgroServicGrup, OOO – newly formed	100	-
Razguliay Capital Limited – newly formed	100	-
Grain segment		
Agrofirma Poltavskaya, ZAO	100	-
Anastasievskoe, OOO	84	-
Azovskaya zernovaya kompaniya, OOO	100	100
Azovsky portovy elevator, OOO	100	100
Bugulminsky elevator, ZAO	100	100
Bugulminsky KHP#1, ZAO	100	100

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

	Effective ownership, % 2006	2005
Bugulminsky KHP#2, ZAO	100	100
Dubovskkhleboproduct, OAO	75	75
Elevator Rudny Klad, OAO	52	52
Gerkules, OAO	86	86
Izobilie, OOO	100	-
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
Poltavsky KHP, OAO	90	90
Razguliay-Krupa, OOO	100	100
Razguliay-Muka, OOO	100	100
Russkaya bakaleynaya kompaniya, OOO	100	100
Russko-Polyanskiy elevator, OAO	64	64
Rzhavskoye HPP, OAO	97	97
Slavyansky KHP, OAO	84	-
Starodubsky elevator, OAO	100	100
Svetlogradsky elevator, OAO	56	56
Torgovy Dom Razgulay-Zerno, OOO (formerly, Transgrain, OOO)	100	100
Tsimlyanskoe, OOO	100	-
Tsimlyanskkhleboprodukt, OAO	100	100
Zelenokumsky elevator,OAO	50	50
Nurlatsky elevator, OAO (refer note 6(e))	-	48
Razguliay-Zerno, OOO (refer note 6(e))	-	100
Sugar segment		
Agroinvest, OOO	100	-
Chishminsky sakharny zavod, OAO	58	58
Druzhba, ZAO	100	100
Karachaevo-Cherkessky sakharny zavod,OAO	90	90
Krivets-Sakhar, OAO	97	97
Krivets-Agro, OOO	97	-
Kshensky sakharny kombinat, ZAO	100	100
Lgovagroinvest, OOO	100	-
Lgovsky MKK, OAO	99	99
Nikalt, ZAO	100	100
Nurlatsky sakhar, ZAO	100	100
Pristen-Sakhar, ZAO	100	100
Sakharny kombinat Alexeevsky, ZAO	100	83
Sakharny kombinat Bolshevik, ZAO	100	100
Sakharny kombinat Kolpnyansky, ZAO	100	83
Sakharny kombinat Kurganinsky, ZAO	100	83
Sakharny kombinat Lgovsky, OAO	100	100
Sakharny kombinat Otradinsky, ZAO	100	83
Sakharny kombinat Tikhoretsky, ZAO	100	100
Torgovy Dom RSK, OOO	100	100
Tikhoretskagroinvest, OOO	100	100
Kurganinskagroinvest, OOO	100	83
Erkenagroinvest, OOO	90	90
Chishmy-agroinvest, OOO	58	58
Otradaagroinvest, OOO	100	83
Belgorodagroinvest, OOO	100	83
Kshenagro, OOO	100	100
Nurlatagroinvest, OOO	100	100
Orelagroinvest, OOO	100	83
Russkaya sakharnaya kompaniya RSK, OOO - (refer note 6(e))	-	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 consolidated financial statements - refer note 2(d).

30 Earnings before interest, tax, depreciation and amortisation

	2006	2005	2006	2005
	Million RUR		*Million USD**	
Profit for the year	922	1,397	34	52
Adjustments for:				
Income tax expense / (benefit)	593	(248)	23	(9)
Depreciation	893	687	34	26
Interest expense, net	892	609	34	23
Foreign exchange gain / (loss)	(57)	123	(2)	5
Increases in fair value of property, plant and equipmnent	-	(232)	-	(9)
Decreases in fair value of property, plant and equipmnent recognised in income	-	75	-	3
	3,243	2,411	123	91

31 Events subsequent to the balance sheet date

Bond redemption

In March 2007 the Group redeemed bonds in the amount of RUR 1,979 million / USD* 75 million issued in October 2005.

Bond issue

In March 2007 the Group issued 5-year rouble nominated notes with the nominal value of RUR 3,000 million / USD* 114 million. The coupons are payable twice per year. The coupon rate is set at approximately 10.99% per annum for payments 1 to 4. The coupon rate for payments 5 to 10 is determinable by the issuer.

Disposal of shares

In March 2007 the Group sold 25% shares of ZAO Bugulminsky KHP#1 to the entity controlled by the controlling shareholder for a consideration of RUR 137 million / USD* 5 million.

Sale of subsidiaries

As of the date of issue of these financial statements the Group is in process of finalising the terms for the transactions to sell all of its shares in ZAO Sakharny Kombinat Kolpnyansky and OOO Azovsky Portovy Elevator. It is not possible to estimate the effect of the transactions on the consolidated financial statements until the Group finalises the terms of the deal.

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