OJSC RAZGULAY Group

Consolidated Financial Statements
for the year ended
31 December 2007

Contents

ZAO KPMG
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

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 (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, 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.

Basis for Qualified Opinion

The Group has adopted the revaluation model for the measurement of property, plant and equipment. The most recent valuation of the Group's property, plant and equipment was as at 31 December 2005. There are indications that the carrying amount of property, plant and equipment stated at amount of RUR 14,606 million as at 31 December 2007 might differ materially from that which would be determined using fair value. International Financial Reporting Standard IAS 16 *Property, Plant and Equipment* requires that revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The effects of this departure from International Financial Reporting Standards, if any, on property, plant and equipment, revaluation reserve, taxation and minority interest as at and for the year ended 31 December 2007 have not been determined.

Qualified Opinion

In our opinion, except for any effects of the matter described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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16 June 2008

	Note	**2007** *Million RUR*	**2006** *Million RUR*
Revenue	8	31,010	22,967
Gain from change in fair value of biological assets	9	1,600	410
		32,610	23,377
Cost of sales		(26,654)	(18,662)
Gross profit		5,956	4,715
Distribution expenses		(1,249)	(648)
Administrative expenses	10	(1,937)	(1,217)
Taxes, other than on income		(170)	(130)
Other expenses	11	(365)	(364)
Gains related to acquisitions and disposals of shares in subsidiaries	12	1,287	-
Financial income	14	292	139
Financial expenses	14	(1,357)	(974)
Share of profit/(loss) of equity accounted investees, net of income tax		35	(6)
Profit before income tax		2,492	1,515
Income tax expense	15	(1,262)	(593)
Profit for the year		1,230	922
Attributable to:			
Shareholders of the Company		1,248	887
Minority interest		(18)	35
		1,230	922
Basic and diluted earnings per share	16	11.54	8.50

These consolidated financial statements were approved by management on 16 June 2008 and signed on its behalf by:

Potapenko I.V.
Chairman, Board of Directors

Soldatov A.V.
General director, OJSC RAZGULAY Group

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 8 to 49.

	Note	**2007** Million RUR	**2006** Million RUR
ASSETS			
Non-current assets			
Property, plant and equipment	17	14,606	15,486
Intangible assets	18	783	887
Investments in equity accounted investees	19	286	250
Other non-current assets	20	2,751	601
Total non-current assets		18,426	17,224
Current assets			
Inventories	22	3,436	3,477
Other investments	23	2,132	1,506
Trade and other receivables	24	12,274	5,503
Cash and cash equivalents	25	2,696	2,193
Total current assets		20,538	12,679
Total assets		38,964	29,903
EQUITY AND LIABILITIES			
Equity	26		
Share capital		405	363
Treasury shares		-	(30)
Additional paid-in capital		2,762	1,213
Property, plant and equipment revaluation reserve		1,486	1,510
Retained earnings		11,094	9,645
Total equity attributable to shareholders of the Company		15,747	12,701
Minority interest		1,295	1,468
Total equity		17,042	14,169
Non-current liabilities			
Loans and borrowings	27	5,002	3,997
Deferred tax liabilities	21	1,380	1,814
Total non-current liabilities		6,382	5,811
Current liabilities			
Loans and borrowings	27	8,987	8,726
Trade and other payables	28	5,101	1,197
Provisions	29	1,452	-
Total current liabilities		15,540	9,923
Total liabilities		21,922	15,734
Total equity and liabilities		38,964	29,903

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 8 to 49.

	2007 *Million RUR*	**2006** *Million RUR*
OPERATING ACTIVITIES		
Profit for the year	1,230	922
Adjustments for:		
Depreciation	1,143	893
Gain from change in fair value of biological assets	(1,600)	(410)
Gains and losses related to acquisitions and disposals of shares in subsidiaries	(1,287)	-
Foreign exchange gains	(54)	(57)
Loss on disposal of property, plant and equipment	138	116
Share of (profit)/loss of equity accounted investees	(35)	6
Income tax expense	1,262	593
Interest income	(238)	(82)
Interest expense, net of related government grants	1,357	974
Operating profit before changes in working capital and provisions	1,916	2,955
Decrease/(increase) in inventories	1,533	(1,928)
Increase in trade and other receivables	(8,399)	(8,404)
Increase in trade and other payables	4,839	2,233
Cash flows utilised by operations before income taxes and interest paid	(111)	(5,144)
Income taxes paid	(183)	(673)
Interest paid	(990)	(813)
Cash flows utilised by operating activities	(1,284)	(6,630)
INVESTING ACTIVITIES		
Proceeds from disposal of subsidiaries	1,746	2,864
Proceeds from disposal of property, plant and equipment	53	-
Acquisition of property, plant and equipment	(3,405)	(1,916)
Acquisition of investments	(3)	-
Acquisition of minority interests	(22)	(215)
Loans given to related parties	(2,199)	(1,506)
Loans collected from related parties	1,506	7
Interest received	238	82
Acquisition of subsidiaries, net of cash acquired	-	(1,040)
Cash flows utilised by investing activities	(2,086)	(1,724)
FINANCING ACTIVITIES		
Proceeds from the issue of share capital, net of related costs	1,591	722
Acquisition of treasury shares	-	(30)
Proceeds from sale of treasury shares	30	-
Proceeds from borrowings	21,696	19,441
Repayment of borrowings	(19,444)	(10,145)
Cash flows from financing activities	3,873	9,988
Net increase in cash and cash equivalents	503	1,634
Cash and cash equivalents at beginning of year	2,193	559
Cash and cash equivalents at end of year	2,696	2,193

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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 8 to 49.

	Attributable to shareholders of the Company						Minority interest	Total equity
Million RUR	**Share capital**	**Treasury shares**	**Additional paid-in capital**	**Revaluation reserve, property, plant and equipment**	**Retained earnings**	**Total**		
Balance at 1 January 2006	345	-	418	1,510	8,758	11,031	1,508	12,539
Profit for the year and total recognised income and expenses for the year	-	-	-	-	887	887	35	922
Shares issued	18	-	704	-	-	722	-	722
Acquisition of treasury of shares	-	(30)	-	-	-	(30)	-	(30)
Increase in minority interest due to business combinations	-	-	-	-	-	-	136	136
Acquisition of minority interests – refer note 7(g)	-	-	-	-	-	-	(202)	(202)
Effect of disposal of subsidiaries to entities under common control – refer note 7(e))	-	-	91	-	-	91	(9)	82
Balance at 31 December 2006	363	(30)	1,213	1,510	9,645	12,701	1,468	14,169
Profit for the year and total recognised income and expenses for the year	-	-	-	-	1,248	1,248	(18)	1,230
Shares issued	42	-	1,549	-	-	1,591	-	1,591
Sales of treasury shares	-	30	-	-	-	30	-	30
Increase in minority interest due to business combinations	-	-	-	-	-	-	9	9
Acquisition of minority interests – refer note 7(g)	-	-	-	-	-	-	(164)	(164)
Effect of disposal of subsidiaries to entities under common control – refer note 7(e)	-	-	-	-	177	177	-	177
Effect of disposal of subsidiaries to third parties	-	-	-	(24)	24	-	-	-
Balance at 31 December 2007	405	-	2,762	1,486	11,094	15,747	1,295	17,042

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 8 to 49.

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 operated as a privately owned enterprise from 1992 to 2006. 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 Group is ultimately controlled by a single individual, Mr.Igor V.Potapenko, who has the power to direct transactions of the Group at his own discretion and for his own benefit. He 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 32.

(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 that:

- all property, plant and equipment is measured at fair value;
- financial investments classified as available-for-sale are stated at fair value;
- biological assets are measured at fair value less point-of-sale costs;
- agricultural produce is measured at fair value less point-of-sale costs at the point of harvest;
- the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the 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.

(d) 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 7 *Acquisitions and disposals of controlling and non-controlling interests in subsidiaries*;
- Note 17 *Property, plant and equipment;*
- Note 29 *Provisions*;
- Note 31(c) *Taxation contingencies*; and
- Note 31(d) *Bankruptcy law*.

(e) Reclassifications

The Group modified the presentation of the gain from change in fair value of biological assets. As a result, gross profit increased and other income decreased by RUR 410 million in the consolidated statement of income for the year ended 31 December 2006.

In addition, the Group also modified the presentation cash inflows and outflows from loans issued to related parties in the statement of cash flows. As a result, the cash flows utilised by operating activities decreased and cash flows utilised by investing activities increased by RUR 848 million.

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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(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. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets. The related tax contingencies are disclosed in note 31(c).

(iii) 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 Group are accounted for from the date that the Group obtains control over the entities.

The assets and liabilities acquired are recognised at the carrying amounts previously 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.

(iv) Disposals of subsidiaries to entities under common control

Disposals of subsidiaries to entities that are under the control of the shareholder that controls the Group 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.

(v) Disposals of minority interests

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.

(vi) 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 Group, 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 Group, 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.

(vii) Associates (equity accounted investees)

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 equity accounted investees, 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 an equity accounted investee, 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.

(viii) 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 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 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 denominated in a foreign currency that are measured at fair value are translated to RUR at the exchange rate 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.

(c) 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 any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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(o).

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(j)(i)), 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.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

Dividends

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

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at revalued amounts.

The cost of property, plant and equipment includes expenditure that is 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the income statement as incurred.

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.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other expenses" in the income statement.

(ii) Subsequent costs

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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Revaluation of property, plant and equipment

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 the revaluation reserve in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on property, plant and equipment is recognised in the income statement 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 the revaluation reserve is transferred to retained earnings.

(iv) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The remaining 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 reviewed at each reporting date.

(f) Intangible assets

(i) Goodwill

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

Acquisitions prior to 1 January 2005

In respect of acquisitions prior to 1 January 2005, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

Acquisitions on or after 1 January 2005

For acquisitions on or after 1 January 2005, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

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

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

(iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group’s balance sheet.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production and conversion costs and other costs incurred in 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.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Biological assets and agricultural produce

Biological assets are measured at fair value less estimated 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. Grain crops and sugar beets are transferred to inventory at their fair value less estimated point-of-sale costs at the date of harvest.

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

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 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 the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

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 the income statement. 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.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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.

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(l) Provisions

(i) Tax provisions

The Group provides for tax risks including interest and penalties, when the tax becomes payable according to effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or in another relevant line of the income statement.

(ii) Other provisions

Other provisions are 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.

(m) Insurance contracts

Where a Group subsidiary enters into financial guarantee contracts to guarantee the indebtedness of other related 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.

(n) Revenue

(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, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of white sugar and grain crops, transfer usually occurs when the produce is dispatched from the Group's warehouses; however, for sale arrangements described in note 8 transfer occurs upon loading the goods onto the ship.

(ii) Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iv) 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 the income statement 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 the income statement on a systematic basis over the useful life of the asset.

(o) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group’s right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement 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 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 it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

(q) 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. The Company has not issued potential ordinary shares that may have a dilutive effect on EPS.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related 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. Segment information is presented in respect of the Group’s business and geographical segments. The business segments are determined based on the Group’s management and internal reporting structure.

Inter-segment pricing is determined as agreed between the transacting parties and may not be on an arm’s length basis.

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 loans and borrowings and related expenses, corporate assets (primarily the Group’s headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(s) 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 2007, 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 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8 *Operating Segments,* which becomes mandatory for the Group’s 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments (see note 6). Under the management approach, the Group will present segment information in respect of Grain, Sugar, Agriculture and Trading.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet analysed the likely impact of this Standard on its financial position or performance.

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. When 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

All the Group's property, plant and equipment is measured at fair value.

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 and agricultural produce

The fair value of biological assets is based on the market price of the estimated recoverable volumes, net of the estimated costs to complete and a reasonable profit margin based on the effort required to complete and harvest the assets.

The fair value of agricultural produce at the point of harvest is based on the market prices less point-of-sale costs.

(c) Investments in equity and debt securities

The fair value of available-for-sale and held-to-maturity 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 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade receivables

Trade receivables relate mainly to the Group's wholesale customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no geographical concentration of credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes a review of customers' financial statements and background of customers' management. Purchase limits are established for each customer on individual basis; compliance with these limits is reviewed regularly by management of Grain and Sugar segments.

The Group does not require collateral in respect of trade receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

(ii) Guarantees

The Group's policy is to provide financial guarantees only to the Group subsidiaries and fellow subsidiaries.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

For the long-term perspective the Group analyzes five-year forecasts covering financial, operating and investing activities.

For the medium- and short-term periods, management considers the availability of different market instruments.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of one year, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Group monitors short- and medium-term maturities of its credit portfolio. It also considers replacement of existing instruments with more favourable facilities.

The Group has credit lines with a number of banks, to ensure sufficient liquidity levels are available on demand. At 31 December 2007 total unused credit facilities amounted to RUR 130 million. In addition, at 31 December 2007 the Group received approvals of credit committees of certain bank for additional credit lines totalling RUR 720 million.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(v) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Russian Rouble (RUR). The currency in which these transactions primarily are denominated is U.S.Dollar (USD). The Group does not use derivatives to hedge currency risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(vi) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing 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.

(vii) Other market price risk

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(c) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 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 Group comprises the following main business segments:

- *Grain:* Growing, 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.

	Grain		Sugar		Consolidated	
Million RUR	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Segment revenue	19,753	11,699	11,257	11,268	31,010	22,967
Gain from change in fair value of biological assets	698	-	902	410	1,600	410
Segment result	3,490	1,553	1,104	1,426	4,594	2,979
Unallocated expenses					(1,072)	(623)
Financial expenses, net					(1,065)	(835)
Share of profit/(loss) of equity accounted investees, net of income tax					35	(6)
Income tax expense					(1,262)	(593)
Profit for the year					1,230	922
Segment assets	20,644	12,822	17,238	15,583	37,882	28,405
Investments in equity accounted investees	286	250	-	-	286	250
Unallocated assets					796	1,248
Total assets					38,964	29,903
Segment liabilities	(4,448)	(605)	(1,603)	(553)	(6,051)	(1,158)
Loans and borrowings					(13,989)	(12,723)
Deferred tax liabilities					(1,380)	(1,814)
Other unallocated liabilities					(502)	(39)
Total liabilities					(21,922)	(15,734)
Depreciation	(430)	(351)	(707)	(535)	(1,137)	(886)
Attributable to unallocated activities					(6)	(7)
					(1,143)	(893)
Capital expenditure - acquisition of property, plant and equipment	209	168	1,104	2,440	1,313	2,608
Attributable to unallocated activities					14	11
					1,327	2,619

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

(a) Acquisition of subsidiaries

(i) Transaction in 2007

In December 2007 the Group acquired 75% shares in OAO Kavkaz by contributing property, plant and equipment with a carrying amount of RUR 25 million. The major activities of the acquired entities are growing of soy, corn and barley, and breeding of livestock.

(ii) Transactions 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 main activity of the acquired companies is processing of rice and storage of grain crops at production facilities located in Anastasievskoye and Slavyansk-na-Kubani, Krasnodar region, Russia.

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

(b) Effect of acquisition of subsidiaries

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

	2007 *Million RUR*	2006 *Million RUR*
Non-current assets	42	913
Current assets	-	280
Non-current liabilities	(18)	(182)
Current liabilities	(16)	(215)
Net assets acquired	8	796
Minority interest	(2)	(124)
Group's share in net assets acquired	6	672
Goodwill on acquisition	-	226
Total consideration	6	898
Settled in cash	-	898
Settled by other means	6	-
	6	898

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 for the subsidiaries acquired in 2006 were performed with the assistance of an independent appraiser. The Group has not completed an independent valuation of assets of the subsidiary acquired in 2007; therefore, the purchase price was allocated to the fair values of the identifiable assets and liabilities on a provisional basis. The Group intends to finalize the valuation by the end of 2008.

Prior to the acquisition by the Group, the acquired subsidiaries prepared their financial statements in accordance with Russian accounting principles, which are, in certain respects, significantly different from IFRSs. Because the acquired subsidiaries did not prepare IFRS financial statements before they were acquired, it was impracticable to determine:

• the carrying amounts of the subsidiaries' assets and liabilities on an IFRS basis immediately prior to the date of acquisition;

• the Group's revenue and profit for the year had the acquisitions occurred on 1 January 2007 or 2006, respectively.

The acquisition of OJSC Kavkaz did not have significant impact on the Group's profit for the year.

Because of the way the businesses acquired in 2006 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 income statement for 2006.

(c) Acquisition of subsidiaries in transactions under common control

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

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.

(d) Effect of acquisition of subsidiaries from entities under common control

The acquisition of subsidiaries from entities under common control in 2006 had the following effect on the Group's assets and liabilities at the date of acquisition:

	2006 *Million RUR*
Non-current assets	1,174
Current assets	1,564
Non-current liabilities	(170)
Current liabilities	(2,075)
Net assets acquired	493
Increase in minority interest	(13)
Group's share in net assets acquired	480
Consideration paid	(480)
Net effect on the entity	-
Consideration settled in previous periods	309
Consideration settled in the current period	171
	480

(e) Disposal of subsidiaries to entities under common control

During 2007 the Group disposed of its interest in ZAO Nikalt to an entity controlled by the shareholder that controls the Group. The disposal resulted in a net increase in equity of RUR 177 million.

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 Group. The disposals resulted in a net increase in equity of RUR 91 million, including minority interest of RUR 9 million.

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

	2007	**2006**
	Million RUR	*Million RUR*
Non-current assets	-	16
Current assets	277	8,685
Non-current liabilities	-	(2)
Current liabilities	(454)	(5,903)
Net assets disposed of	(177)	2,796
Consideration received	-	(2,887)
	(177)	(91)

(f) Disposal of subsidiaries

In June 2007 the Group disposed of its interest in OOO Azovsky Portovy Elevator, ZAO Sakharny kombinat Kolpnyansky and OOO Orelagroinvest. In March 2007 and July 2007 the Group disposed, respectively, of its 25% and 75% interest in ZAO Bugulminsky KHP #1. The result on the disposals was recognised as part of the gains and losses on acquisition and disposal of subsidiaries included in the income statement.

The above subsidiaries contributed RUR 1,077 million to the Group's profit before tax for the year, including the net gain on disposal of RUR 1,145 million.

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

	2007
	Million RUR
Non-current assets	915
Current assets	1,475
Non-current liabilities	(1,137)
Current liabilities	(457)
Net assets disposed of	796
Goodwill derecognised	104
Consideration received	(2,045)
Gain on disposal	(1,182)
Loss on disposal	37
	(1,145)

(g) Acquisition of minority interests in subsidiaries

(i) Transactions in 2007

In December 2007 the Group acquired an additional 4% interest in OAO Elevator Rudny Klad for a consideration of RUR 0.27 million, increasing its ownership from 52% to 56%. The carrying amount of OAO Elevator Rudny Klad's net assets at the date of the transaction was RUR 232 million. The excess of the carrying value of minority interest over the consideration paid amounting to RUR 10 million was recognised as negative goodwill.

In April 2007 the Group acquired an additional 21% interest in OAO Russko-Polyanskiy Elevator for a consideration of RUR 7 million, increasing its ownership from 64% to 85%. The carrying amount of OAO Russko-Polyanskiy Elevator's net assets at the date of the transaction was RUR 132 million. The excess of the carrying value of minority interest over the consideration paid amounting to RUR 19 million was recognised as negative goodwill.

In July 2007 the Group acquired an additional 26% interest in OAO Chishminsky Sakharny Zavod for a consideration of RUR 15 million, increasing its ownership from 58% to 84%. By acquiring additional shares in OAO Chishminsky Sakharny Zavod the Group also increased its effective ownership in OOO Chishmy-Agroinvest, a subsidiary of OAO Chishminsky Sakharny Zavod. The carrying amount of the subsidiaries' net assets at the date of the transaction of the additional 26% interest was RUR 505 million. The excess of the book value of minority interests over the consideration paid amounting to RUR 113 million was recognised as negative goodwill.

(ii) Transactions in 2006

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Alexeyevsky for a consideration of RUR 45 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Alexeyevsky's net assets at the date of the transaction was RUR 257 million.

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Kolpnyansky for a consideration of RUR 48 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Kolpnyansky's net assets at date of the transaction was RUR 261 million.

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Kurganinsky for a consideration of RUR 66 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Kurganinsky's net assets at the date of the transaction was RUR 359 million.

In November 2006 the Group acquired an additional 17% interest in ZAO Sakharny kombinat Otradinsky for a consideration of RUR 55 million, increasing its ownership from 83% to 100%. The carrying amount of ZAO Sakharny kombinat Otradinsky's net assets at the date of the transaction was RUR 311 million.

(iii) Effect of acquisition of minority interests in subsidiaries

	2007 *Million RUR*	2006 *Million RUR*
Consideration paid	22	215
Decrease in the carrying amount of minority interest due to acquisitions	(164)	(202)
(Negative goodwill)/goodwill	(142)	13

8 Revenue

	2007 *Million RUR*	2006 *Million RUR*
Revenue from sales	29,745	21,986
Revenue from processing and storage services and other revenues	1,265	981
	31,010	22,967

In the last quarter of 2007 the Group entered into a series of speculative transactions with unrelated parties to purchase and sell exported grain crops under free on board terms. All transactions were conducted by subsidiaries of the Group registered outside of the territory of the Russian Federation. Revenues and profits from sale of the crops under the above transactions amounted to RUR 6,413 million and RUR 1,970 million, respectively. Due to the highly favourable market conditions, the Group's profitability on these transactions varied from 30% to 32%. The volume of subsequent transactions in subsequent months gradually decreased.

9 Gains from changes in fair value of biological assets

The gains from changes in fair values of biological assets represent the difference between the cost of investments in growing crops and the fair value less point-of-sale costs of the agricultural produce at the point of harvest.

10 Administrative expenses

	2007 *Million RUR*	**2006** *Million RUR*
Wages and salaries	1,106	700
Bank charges	116	24
Legal and consulting services	74	60
Other administrative expenses	641	433
	1,937	1,217

11 Other expenses

	2007 *Million RUR*	**2006** *Million RUR*
Bad debt expense	161	4
Loss on disposal of property, plant and equipment	138	77
Other expenses	66	283
	365	364

12 Gains and losses related to acquisitions and disposals of shares in subsidiaries

	2007 *Million RUR*	**2006** *Million RUR*
Gains on disposal of subsidiaries (note 7(f))	1,145	-
Negative goodwill on acquisition of minority shares in subsidiaries (note 7(g))	142	-
	1,287	-

13 Total personnel costs

Personnel costs included in cost of sales, administrative expenses and distribution expenses amounted to RUR 2,346 million (2006: RUR 1,587 million).

14 Financial income and expenses

	2007	**2006**
	Million RUR	*Million RUR*
Financial income		
Interest income	238	82
Foreign exchange gain, net	54	57
	292	139
Financial expense		
Interest expense	(1,706)	(1,075)
Government grants compensating Group's expenses incurred to finance agricultural activities	349	101
	(1,357)	(974)
	(1,065)	(835)

In 2007 the Group recognised government grants for an amount of RUR 349 million (2006: RUR 101 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 two-thirds of the interest expense incurred by the entities over the reporting period. The compensation shall not, however, exceed two-thirds of the Russian Federation Central Bank official discount rate which varied from 10.5% to 10.0% in 2007 (2006: from 12% to 11%). The decision on the compensation depends, among other things, 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.

15 Income tax expense

	2007	**2006**
	Million RUR	*Million RUR*
Current tax	(1,596)	(705)
Deferred tax		
Origination and reversal of temporary differences	321	89
Recognition of previously unrecognised deferred tax asset	13	23
	334	112
	(1,262)	(593)

The Group's applicable tax rate in 2007 and 2006 was 24%. Subsidiaries qualifying for the status of agricultural producers are taxed at 0% in 2007 and 2008 and at 6% in 2009 and 2010, at 12% in 2011 and 2012, at 18% from 2013 till 2015, and at 24% from 2016 onwards.

Reconciliation of effective tax rate:

	2007		2006	
	Million RUR	*%*	*Million RUR*	*%*
Profit before income tax	2,492	100	1,515	100
Income tax at applicable tax rate	(598)	(24)	(364)	(24)
Recognition of previously unrecognised deferred tax asset	13	1	23	1
Items taxed in lower tax jurisdictions	(325)	(13)	(95)	(6)
Income of agriculture subsidiaries taxed at 0%	107	4	-	-
Provision for income tax and related penalties (note 29)	(394)	(16)	-	-
Non-deductable items	(65)	(2)	(157)	(10)
	(1,262)	(50)	(593)	(39)

16 Earnings per share

The calculation of earnings per share is based upon the profit for the year attributable to shareholders of the Company 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	2007	2006
Issued shares at 1 January	105,743	100,000
Effect of shares issued on 17 March	-	4,477
Effect of shares resold on 19 September	86	-
Effect of shares redeemed on 30 September		(65)
Effect of shares issued in November	2,333	-
Weighted average number of shares for the year ended 31 December	108,162	104,412

17 Property, plant and equipment

Million RUR	**Land and buildings**	**Plant and equipment**	**Vehicles**	**Fixtures and fittings**	**Construction in progress**	**Total**
Cost/Revalued amount						
At 1 January 2006	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
Acquisitions through business combinations	4	5	8	25	-	42
Additions	25	879	147	11	265	1,327
Disposals	(163)	(48)	(3)	(2)	(5)	(221)
Disposals as part of sale of subsidiaries	(693)	(235)	(4)	(4)	(65)	(1,001)
Transfers	427	446	18	4	(895)	-
At 31 December 2007	9,707	5,372	301	136	343	15,859
Depreciation and impairment losses						
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)
Depreciation charge	(395)	(706)	(30)	(12)	-	(1,143)
Disposals	4	24	1	1	-	30
Disposals as part of sale of subsidiaries	41	44	-	1	-	86
At 31 December 2007	(355)	(866)	(13)	(19)	-	(1,253)
Net book value						
At 1 January 2006	9,109	2,317	86	79	215	11,806
At 31 December 2006	10,102	4,097	151	93	1,043	15,486
At 31 December 2007	9,352	4,506	288	117	343	14,606

In 2005 management commissioned ZAO Balt-Audit-Expert to independently appraise property, plant and equipment as at 31 January 2005 in order to determine its fair value. The fair value of property, plant and equipment was determined to be RUR 11,806 million.

There are indications that the carrying amount of property, plant and equipment as at 31 December 2007 might differ materially from that which would be determined using fair value. Management believes that the fair value of the property, plant and equipment as at 31 December 2007 exceeds its carrying amount.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. Except for land, which was appraised on the basis of recent market transactions, 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 depreciated replacement cost. 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 was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

Certain items of property, plant and equipment were pledged to secure bank loans - refer note 27.

18 Intangible assets

Million RUR	**Goodwill**	**Other intangible assets**	**Total**
On 1 January 2006	647	1	648
Acquisitions through business combinations	239	-	239
On 31 December 2006	886	1	887
Disposal as part of sale of subsidiaries	(104)	-	(104)
On 31 December 2007	782	1	783

For the purposes of impairment testing, goodwill is allocated to the Group's cash generating units, which comprise sugar and grain business segments. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The following key assumptions were used in perfiorming the cash flow testing:

- Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for the subsequent seven years (2013-2019) were extrapolated assuming a 2% growth in revenue and expenses per year.
- Total production at the facilities of the Sugar segment was projected at approximately 87% of the total Group's beet production capacity in 2008, and 95% in subsequent years 2009-2013.
- The production at the facilities of the Grain segment was projected at approximately 2 million tons of grain, and 88% utilisation of production capacities for cereals and flour in 2008. The anticipated annual production growth included in the cash flow projections was 6% for the years 2009 to 2012.
- A discount rate of 15% was applied in determining the recoverable amount of the plants.
- A terminal value at the end of a 12-year period was set up at zero.

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.

The cash flow testing conducted at the above assumptions resulted in no impairment losses.

Sensitivity analysis of the estimated fair values had the following results:

- An increase of 100 basis points in the discount rate used would result in no impairment loss adjustment to the values of goodwill and property, plant and equipment of either segment.
- A 10% decrease in the annual production volumes would result in no impairment loss adjustment to the values of goodwill and property, plant and equipment of either segment.

19 Investments in equity accounted investees

Investments in equity accounted investees as of 31 December 2007 represent the Group's interest in OAO Podolsky EMZ (a flour milling plant) of 46%, OAO Shipunovsky elevator of 36% and OAO Angelinsky Elevator of 25%.

20 Other non-current assets

	2007 *Million RUR*	**2006** *Million RUR*
Advances issued to third parties for acquisition of property, plant and equipment	2,506	384
Advances issued to related parties for acquisition of property, plant and equipment	172	217
Loans issued to related parties, RUR denominated, 10% per annum, maturing in 2010	67	-
Other	6	-
	2,751	601

21 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

	Assets		**Liabilities**		**Net**	
Million RUR	2007	2006	2007	2006	2007	2006
Property, plant and equipment	-	-	(1,482)	(1,980)	(1,482)	(1,980)
Other current assets / (liabilities), net	23	80	-	-	23	80
Tax loss carry-forwards	79	86	-	-	79	86
Tax assets/(liabilities)	102	166	(1,482)	(1,980)	(1,380)	(1,814)
Set off of tax	(102)	(166)	102	166	-	-
Net tax liabilities	-	-	(1,380)	(1,814)	(1,380)	(1,814)

(b) Unrecognised deferred tax assets

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

	2007 *Million RUR*	**2006** *Million RUR*
Deductible temporary differences	24	23
Tax loss carry-forwards	8	22
	32	45

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 9,850 million (2006: RUR 10,194 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 the form of distributions remitted to the Company, then an enacted tax rate of 9% would apply. If the temporary difference were reversed in a disposal of the subsidiaries, then a tax rate of 24% would apply.

(d) Movement in temporary differences during the year

Million RUR	1January 2007	Recognised in income	Disposal of subsidiary	31 December 2007
Property, plant and equipment	(1,980)	373	125	(1,482)
Other current assets/ (liabilities), net	80	(57)	-	23
Tax loss carry-forwards	86	18	(25)	79
Net tax assets/(liabilities)	(1,814)	334	100	(1,380)

Million RUR	1 January 2006	Recog-nised in income	Acquisi-tion of subsi-diary	Disposal of subsi-diary	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)

22 Inventories

	2007 *Million RUR*	2006 *Million RUR*
Goods for resale		
Grain crops	511	884
White sugar	920	1,039
Others	91	203
Sugar canes	-	149
Biological assets		
Grain segment	196	164
Sugar segment	428	364
Raw materials and consumables	1,290	674
	3,436	3,477

The value of inventory pledged to secure loans is disclosed in note 27.

At 31 December 2007 the Group wrote down raw materials in the amount of RUR 40 million (2006: RUR 28 million).

23 Other investments

Other investments comprise unsecured RUR denominated loans issued by the Group to related parties at a fixed interest rate of 6-11% per annum. The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 30.

24 Trade and other receivables

	2007	2006
	Million RUR	*Million RUR*
Trade receivables	7,679	2,635
Advances paid to related parties	2,625	1,115
Advances paid	940	844
Taxes receivable	576	540
Receivables from equity accounted investees	24	88
Deferred expenses	73	22
Other receivables	505	324
Provision for doubtful accounts	(148)	(65)
	12,274	5,503

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

25 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 2007 amounted to RUR 2,001 million (31 December 2006: RUR 543 million). The promissory notes were settled in January 2008 in full.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

26 Equity

(a) Share capital

On 1 January 2006 the authorised capital of OJSC RAZGULAY Group comprised 100,000,000 ordinary shares. All shares have a par value of RUR 3 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 per share. The Company sold 6,000,000 newly issued shares to the controlling shareholder at RUR 124 per share. The difference between the nominal value of the shares issued of RUR 18 million and the consideration received of RUR 744 million reduced by the amount of expenses incurred on issue of RUR 22 million was credited to additional paid-in capital.

In September 2006 the Group redeemed 257,420 shares for RUR 30 million. The difference between the nominal value of the shares redeemed and the consideration paid was debited to additional paid-in capital. In September 2007 the Group sold the above 257,420 shares for RUR 30 million. The difference between the nominal value of the shares sold and the consideration received was credited to additional paid-in capital.

In November 2007 the Group sold 14,000,000 newly issued ordinary shares for RUR 115.56 per share. The difference between the nominal value of the shares issued of RUR 42 million and the consideration received of RUR 1,618 million reduced by the amount of expenses incurred on issue of RUR 27 million was credited 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 Company's shareholders.

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 2007 the Company's distributable reserves amounted to RUR 11 million (31 December 2006: RUR 9 million).

(c) Transactions with the controlling shareholder

In 2007 the Group disposed of its interest in ZAO Nikalt to entities controlled by the shareholder that controls the Group – note 7(e). The gain on disposal of RUR 177 million was recognised as an increase in additional paid-in capital.

In 2006 the Group disposed of its interests in OAO Nurlatsky elevator, OOO Razguliay-Zerno and OOO Russkaya sakharnaya kompaniya RSK to entities controlled by the shareholder that controls the Group - note 7(e). The gain on disposal of RUR 91 million was recognised as an increase in additional paid-in capital.

27 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 30.

	2007	**2006**
	Million RUR	*Million RUR*
Non-current		
Unsecured bond issue	4,994	3,987
Unsecured non-bank loans	8	10
	5,002	3,997
Current		
Secured bank loans	8,326	8,168
Unsecured non-bank loans	4	5
Unsecured non-bank loans from related parties	508	448
Current portion of unsecured bond issue	149	105
	8,987	8,726
	13,989	12,723

Bonds

In October 2005 the Group issued 3-year rouble denominated bonds with a nominal value of RUR 2,000 million. The coupons are payable twice per year. The coupon rate is set at 11.5 % per annum for payments 1 to 3, and at 1% per annum for payments 4 to 6. Bonds amounting to RUR 1,979 million were redeemed by the issuer on 23 March 2007 at par. The effective interest rate on the bonds for the period ended 31 December 2007 was approximately 8.01% per annum.

In October 2006 the Group issued 5-year rouble denominated bonds with a nominal value of RUR 2,000 million. The coupons are payable twice per year. The coupon rate is set at 10.25 % per annum for payments 1 to 3 and at approximately 12.0% per annum for payments 4 and 5. The coupon rate for payments 6 to 10 is determinable by the issuer. The effective interest rate on the issue for the period ended 31 December 2007 amounted to approximately 11.60% per annum.

In March 2007 the Group issued 5-year rouble denominated bonds with a nominal value of RUR 3,000 million. The coupons are payable twice per year. The coupon rate is set at 10.99% per annum for payments 1 to 4. The coupon rate for payments 5 to 10 is determinable by the issuer. The effective interest rate on the issue for the period ended 31 December 2007 amounted to approximately 11.14% per annum.

Security

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 4,939 million (2006: RUR 5,332 million);
- inventory with a carrying amount of RUR 144 million (2006: RUR 69 million);
- shares in the following subsidiaries of the Group:

	Shares pledged at 31 December, in %	
	2007	**2006**
Anastasievskoe,OOO	100	-
Azovsky portovy elevator, OOO	-	100
Bugulminsky elevator, ZAO	75	75
Bugulminsky KHP#1, ZAO	-	100
Bugulminsky KHP#2, ZAO	75	100
Chishminsky sakharny zavod, OAO	84	58
Dubovskkhleboproduct, OAO	75	75
Elevator Rudny Klad, OAO	52	52
Gerkules, OAO	86	86
Izobilie, OOO	100	-
Karachaevo-Cherkessky Mukomol, ZAO	75	55
Karachaevo-Cherkessky Sakharny zavod, OAO	90	90
Khlebnaya baza 63, OAO	52	52
Kineshemsky mukomolny kombinat, OAO	90	90
Kondopozhsky KHP, OAO	95	95
Krivets-Sakhar, OAO	97	97
Kshensky Sakharny Kombinat, ZAO	100	100
Lgovsky KHP, ZAO	100	100
Nurlatsky elevator, ZAO	100	100
Nurlatsky sakhar, ZAO	100	100
Poltavsky KHP, OAO	90	90
Russko-Polyanskiy Elevator, OAO	85	64
Rzhavskoye HPP, OAO	97	97
Sakharny Kombinat Alexeevsky, ZAO	100	83
Sakharny Kombinat Bolshevik, ZAO	100	100
Sakharny Kombinat Kolpnyansky, ZAO	-	83
Sakharny Kombinat Kurganinsky, ZAO	100	83
Sakharny Kombinat Lgovsky, OAO	-	100
Sakharny Kombinat Otradinsky, ZAO	100	83
Sakharny Kombinat Tikhoretsky, ZAO	100	100
Slavyansky KHP	85	-
Starodubsky elevator, OAO	100	100
Svetlogradsky elevator, OAO	-	52
Tsimlyanskkhleboprodukt, OAO	100	100
Tsimlyanskoye, OOO	100	-
Zelenokumsky elevator,OAO	50	50

Terms and debt repayment schedule

				2007		2006	
Million RUR	**Currency**	**Nominal Interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loans	RUR	10.5%-14.0%	2007-2008	8,326	8,326	8,168	8,168
Unsecured non-bank loans	RUR	0.0% -1.0%	2007-2014	11	11	14	14
Unsecured non-bank loans	USD	0.0%	2009	1	1	1	1
Unsecured non-bank loans from related parties	RUR	0.0%-15.0%	2007-2008	499	499	448	448
Unsecured non-bank loans from related parties	USD	LIBOR	2008	9	9	-	-
Unsecured bond issue	RUR	1.0%-12.0%	2008-2011	5,021	5,143	4,000	4,092
				13,867	13,989	12,631	12,723

28 Trade and other payables

	2007	2006
	Million RUR	*Million RUR*
Trade payables	3,630	614
Advances received	907	152
Taxes payable	156	187
Income tax payable	77	45
Payables to employees	100	73
Payables to equity accounted investees	6	13
Other payables and accrued expenses	225	113
	5,101	1,197

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

29 Provisions

Provisions as at 31 December 2007 of RUR 1,452 million (31 December 2006: nil) include provisions for income and other taxes, penalties and late-payment interest in respect of the following exposures:

Disposal of interests in subsidiaries

In 2007 the Group disposed of its interest in certain subsidiaries – refer note 7(f). If the way in which these disposals were structured were successfully challenged by the Russian tax authorities, it could result in the assessment of additional income tax, penalties and late-payment interest in the amount of approximately RUR 551 million. Such amount has been provided in full during the year ended 31 December 2007.

Grain trading operations

During 2007 several of the Group's subsidiaries entered into various transactions to purchase and sell grain in the process of being exported from the Russian Federation both at the date of purchase and the date of sale. As a result of these transactions a gain of RUR 1,970 million was recognised by the Group during the year ended 31 December 2007. Because the subsidiaries are incorporated in a jurisdiction that has no income tax, no tax liability has been declared in respect of these gains. The Russian tax authorities may challenge the way in which such transactions were structured and, in particular, assert that the subsidiaries involved have a permanent establishment in the Russian Federation. If such challenge were successful, it could result in the assessment of additional income tax, penalties and late-payment interest of approximately RUR 661 million. Such amount has been provided in full during the year ended 31 December 2007.

Other transactions

During 2006 and 2007, the Group entered into various other transactions which resulted in tax exposures relating to income and social security taxes. The Russian tax authorities may challenge the way such transactions were structured. If such challenge were successful, it could result in the assessment of additional income and uniform social taxes, penalties and late-payment interest amounting to approximately RUR 240 million. Such amount has been provided in full during the year ended 31 December 2007.

30 Financial instruments

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

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
Million RUR	**2007**	**2006**
Loans and receivables	10,259	4,488
Cash and cash equivalents	2,696	2,193
	12,955	6,681

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 6,355 million, or 46% of the total receivables (2006: RUR 3,969 million or 57% of the total receivables).

In addition, the advances issues to related parties to finance agricultural suppliers amounted to RUR 2,625 million (2006: RUR 1,115 million) and the advances issued to related parties for acquisition of property, plant and equipment amounted to RUR 172 million (2006: RUR 217 million).

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region where customers are registered was:

	Carrying amount	
Million RUR	**2007**	**2006**
Russia	3,572	2,589
British Virgin Islands	4,066	-
Netherlands	41	46
	7,679	2,635

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

As at 31 December 2007 there was a significant concentration of credit risk in respect of nine customers registered in the British Virgin Islands amounting to RUR 4,066 million (2006: nil).

Impairment losses

The aging of trade receivables at the reporting date was:

Million RUR	**Gross 2007**	**Impairment 2007**	**Gross 2006**	**Impairment 2006**
Not past due	1,605	-	898	-
Past due 0-30 days	1,591	-	249	-
Past due 31- 180 days	4,131	-	1,245	-
Past due 181 -365 days	130	82	79	-
More than one year	222	66	164	65
	7,679	148	2,635	65

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007 *Million RUR*	**2006** *Million RUR*
Balance at 1 January	65	82
Impairment loss recognised/(reversed)	83	(17)
Balance at 31 December	148	65

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 180 days; a large proportion of this balance relates to customers that have a good track record with the Group.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

At 31 December 2007, the Group does not have any impairment on its cash or cash equivalents.

(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.

Interest rates for interest bearing assets are disclosed in notes 20 and 23.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
Million RUR	**2007**	**2006**
Fixed rate instruments		
Financial assets	2,199	1,506
Financial liabilities	(13,980)	(12,723)
	(11,781)	(11,217)
Variable rate instruments		
Financial liabilities	(9)	-

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(c) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2007	Average interest rate						
Million RUR	**Contractual %**	**Effective %**	**0-12 moths**	**3-4 years**	**4-5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities							
Secured bank loans – RUR, fixed	10.5- 12.0	10.5- 12.0	7,619	-	-	-	7,619
Trade and other payables			6,533	-	-	-	6,533
Unsecured bond issues, RUR, fixed	10.99	11.14	92	-	2,986	-	3,078
Unsecured bond issues, RUR, fixed	10.25	11.60	57	2,008	-	-	2,065
Secured bank loans – RUR, fixed	12.5-14.0	12.5-14.0	707	-	-	-	707
Unsecured non-bank loans from related party – RUR, fixed	7.94- 15.0	7.94- 15.0	499	-	-	-	499
Others			13	-	-	8	21
			15,520	2,008	2,986	8	20,522

2006	Average interest rate						
Million RUR	**Contractual %**	**Effective %**	**0-12 months**	**3-4 years**	**4-5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities							
Secured bank loans – RUR, fixed	10.5-12.0	10.5 -12.0	6,744	-	-	-	6,744
Unsecured bond issues, RUR, fixed	10.25	10.47	51	-	2,000	-	2,051
Unsecured bond issues, RUR, fixed	11.50	11.53	54	1,987	-	-	2,041
Secured bank loans – RUR, fixed	12.5-13.5	12.5-13.5	1,424	-	-	-	1,424
Trade and other payables			1,197	-	-	-	1,197
Unsecured non-bank loans from related party – RUR, fixed	7.94-11.45	7.94-11.45	294	-	-	-	294
Unsecured non-bank loans from related party – RUR, fixed	0-2.5	0.0-2.5	154	-	-	-	154
Others			5	-	-	10	15
			9,923	1,987	2,000	10	13,920

(d) Currency risk

Exposure to 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.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

Million RUR	USD-denominated **2007**	USD-denominated **2006**
Trade and other receivables	403	173
Trade and other payables	(21)	(53)
Non-current loans and borrowings	(10)	-
	372	120

The following significant exchange rates applied during the year:

	1 USD equals **2007**	1 USD equals **2006**
RUR	25.5759	27.1852

(e) Fair values

Management believes that the fair value of the Group's financial assets and liabilities as at 31 December 2007 and 31 December 2006 approximates their carrying amounts. The methods used to determine fair values are disclosed in note 4.

31 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 2007 the Group insured its property, plant and equipment and inventories for a total amount of RUR 5,295 million and RUR 1,642 million, respectively (2006: RUR 7,487 million and RUR 1,000 million, respectively).

In addition, the Group insured certain biological assets against failure of crops. The insurance covers grain crops to be harvested before August 2008 and winter grain crops to be harvested in 2009. The maximum insurance coverage amounts to RUR 673 million (2006: RUR 321 million).

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) Litigation

The Group is involved in various claims and legal proceedings arising in the normal course of business. Management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

(c) 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 statements, if the authorities were successful in enforcing their interpretations, could be significant.

Prior to 1 January 2005

Prior to 1 January 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.

Subsequent to 1 January 2005

During the year ended 31 December 2005, the Group gradually ceased using the SPEs described above and adopted a new legal structure to reduce corporate income tax and value added tax. 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 Russian tax authorities. The use of such arrangements ceased with effect from 31 December 2005.

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 amounted to RUR 221 million. 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, including those resulting in significantly higher tax costs, are possible; however, management has determined that it is impracticable to estimate the potential financial effect, if any, of the contingent liabilities referred to above.

Years ended 31 December 2006 and 2007

Acquisition of machinery and equipment

During the years ended 31 December 2006 and 2007, the Group entered into transactions to acquire certain items of machinery and equipment for a total consideration of RUR 1,350 million. If the structure of these transactions were successfully challenged by the Russian tax or other authorities, such challenge could have very significant operational and financial consequences for the Group, including forfeiture of the machinery and equipment involved, assessment of additional customs duties and value added tax, penalties of up to two times the customs value of the equipment and fines.

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.

Acquisition of shares in subsidiaries

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. 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.

Trading operations

During 2007 several of the Group's subsidiaries entered into various transactions to purchase and sell grain crops in the process of being exported from the Russian Federation both at the date of purchase and the date of sale.

In addition to the exposure to assessment of the additional income taxes (note 29), the Group is also exposed to the risk of value added tax of approximately RUR 978 million (including penalties) being assessed on the Group as a consequence of the way the transactions were structured because the Tax Code does not contain specific rules for the taxation of transactions of this type. 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.

Tax compliance of the Group's suppliers

The Group entered into transactions with various suppliers in which it did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing tax authorities' practice, if these entities' tax compliance is challenged by the tax authorities as not being in full conformity with applicable tax legislation, this may result in additional tax risks for the Group. Should these suppliers be successfully challenged, the Group may become liable to additional tax payments, although management of these entities is primarily responsible for the correctness and timeliness of the entities' tax payments. Management of the Group believes that it is not practicable to estimate the financial effect of potential tax liabilities which ultimately could be imposed on the Group due to transactions with suppliers. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

If the cases described above were successfully challenged by the Russian tax authorities, the additional payments could become due together with penalties, ranging from 20% to 40% of the amount of underpaid taxes, and late-payment interest. 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.

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

32 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 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 42 million of remuneration during the year (2006: 27 million), which is included in personnel costs (see note 13).

(c) Transactions with other related parties

(i) Transactions with shares

In 2007 the Group disposed of its interest in ZAO Nikalt to entity controlled by the shareholder that controls the Company (see note 7(e)).

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 7(c) and 7(e).

(ii) Revenues

Million RUR	**Transaction 2007**	**Outstanding balance 2007**	**Transaction 2006**	**Outstanding balance 2006**
Sale of goods to				
- Fellow subsidiaries	5,267	1,220	952	834
- Associates	197	24	116	88
Sales to third parties under commission agreements with related parties	2	-	189	-
	5,466	1,244	1,257	922

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

Million RUR	**Transaction 2007**	**Outstanding balance 2007**	**Transaction 2006**	**Outstanding balance 2006**
Purchases of goods from fellow subsidiaries	(5,289)	(90)	(2,913)	(126)
Advances given to fellow subsidiaries	-	2,885	-	1,115
Advances given to associates	(51)	(6)	(13)	(13)
Purchases from third parties under commission agreements with related parties	(178)	(14)	(1,875)	(34)
	(5,518)	2,775	(4,801)	942

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.

(iv) Loans

Million RUR	**Amount loaned 2007**	**Outstanding balance 2007**	**Amount loaned 2006**	**Outstanding balance 2006**
Loans received from fellow subsidiaries	(491)	(508)	(448)	(448)
Loans given to fellow subsidiaries	2,199	2,199	1,506	1,506
	1,708	1,691	1,058	1,058

The loans from fellow subsidiaries bear interest of 0.1% to 15% per annum and maturing primarily in 2008, with the exception of 2 long-term loans – refer note 20.

(v) Supply of property, plant and equipment

As of 31 December 2007 the balance of advances issued to related parties for the acquisition of property, plant and equipment amounted to RUR 172 million (31 December 2006: RUR 217 million).

(d) Pricing policies

Normally, 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. Certain non-trading transactions may not be based on market prices.

33 Significant subsidiaries

	Country of incorporation	Effective ownership, in % 2007	2006
Holding companies			
Razgulay-Finans, OOO	Russia	100	100
Sakharnaya kompaniya Razguliay, ZAO	Russia	100	100
Zernovaya kompaniya Razguliay, ZAO	Russia	100	100
Purpose Ventures Incorporated	British Virgin Islands	100	100
Razguliay UkrRos Group Limited	Cyprus	100	100
Secure Global Solutions	British Virgin Islands	100	100
AgroServicGrup, OOO	Russia	100	100
Razguliay Capital Limited	Cyprus	100	100
Invest-Alliance, OOO – newly formed	Russia	100	-
Grain segment			
Agrofirma Poltavskaya, ZAO	Russia	100	100
Anastasievskoe, OOO	Russia	85	84
Azovskaya zernovaya kompaniya, OOO	Russia	100	100
Azovsky portovy elevator, OOO (refer note 7(f))	Russia	-	100
Bugulminsky elevator, ZAO	Russia	100	100
Bugulminsky KHP#1, ZAO (refer note 7(f))	Russia	-	100
Bugulminsky KHP#2, ZAO	Russia	100	100
Dubovskkhleboproduct, OAO	Russia	75	75
Elevator Rudny Klad, OAO	Russia	56	52
Gerkules, OAO	Russia	86	86
Izobilie, OOO	Russia	100	100
Karachaevo-Cherkessky Mukomol, ZAO	Russia	75	75
Khlebnaya baza 63, OAO	Russia	52	52
Kineshemsky mukomolny kombinat, OAO	Russia	90	90
Kolomensky KHP,ZAO	Russia	100	100
Kondopozhsky KHP, OAO	Russia	95	95
Kuban-Ris, OOO	Russia	50	50
Lgovsky KHP, ZAO	Russia	100	100
Nurlatsky Elevator, ZAO	Russia	100	100
Ostadar Trading Limited – newly formed	British Virgin Islands	100	-
Poltavsky KHP, OAO	Russia	90	90
Razguliay-Krupa, OOO	Russia	100	100
Razguliay-Muka, OOO	Russia	100	100
Rusagroservis, OOO	Russia	100	-
Russkaya bakaleynaya kompaniya, OOO	Russia	100	100
Russko-Polyanskiy elevator, OAO (refer note 7(g))	Russia	85	64
Rzhavskoye HPP, OAO	Russia	97	97
Slavyanskaya Khlebnaya Kompania, OOO – newly formed	Russia	100	-
Slavyansky KHP, OAO	Russia	85	84
Starodubsky elevator, OAO	Russia	100	100
Svetlogradsky elevator, OAO	Russia	56	56
Torgovy Dom Razgulay-Zerno, OOO (formerly, Transgrain, OOO)	Russia	100	100
Tsimlyanskoe, OOO	Russia	100	100
Tsimlyanskkhleboprodukt, OAO	Russia	100	100
Ultimate Global Investment Limited	British Virgin Islands	100	100
Zelenokumsky elevator,OAO	Russia	50	50
Sugar segment			
Agroinvest, OOO	Russia	100	100
Chishminsky sakharny zavod, OAO (refer note 7(g))	Russia	84	58
Druzhba, ZAO	Russia	100	100
Karachaevo-Cherkessky sakharny zavod,OAO	Russia	90	90
Kavkaz, OAO (refer note 7(a))	Russia	75	-

	Country of incorporation	Effective ownership, in % 2007	2006
Krivets-Sakhar, OAO	Russia	97	97
Krivets-Agro, OOO	Russia	97	97
Kshensky sakharny kombinat, ZAO	Russia	100	100
Lgovagroinvest, OOO	Russia	100	100
Lgovsky MKK, OAO	Russia	99	99
Nikalt, ZAO (refer note 7(f))	Russia	-	100
Nurlatsky sakhar, ZAO	Russia	100	100
Pristen-Sakhar, ZAO	Russia	100	100
Sakharny kombinat Alexeevsky, ZAO	Russia	100	100
Sakharny kombinat Bolshevik, ZAO	Russia	100	100
Sakharny kombinat Kolpnyansky, ZAO (refer note 7(f))	Russia	-	100
Sakharny kombinat Kurganinsky, ZAO	Russia	100	100
Sakharny kombinat Lgovsky, OAO	Russia	100	100
Sakharny kombinat Otradinsky, ZAO	Russia	100	100
Sakharny kombinat Tikhoretsky, ZAO	Russia	100	100
Torgovy Dom RSK, OOO	Russia	100	100
Tikhoretskagroinvest, OOO	Russia	100	100
Kurganinskagroinvest, OOO	Russia	100	100
Erkenagroinvest, OOO	Russia	90	90
Chishmy-agroinvest, OOO (refer note 7(g))	Russia	84	58
Otradaagroinvest, OOO	Russia	100	100
Belgorodagroinvest, OOO	Russia	100	100
Kshenagro, OOO	Russia	100	100
Nurlatagroinvest, OOO	Russia	100	100
Orelagroinvest, OOO	Russia	-	100

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

34 Earnings before interest, tax, depreciation and amortisation

	2007 *Million RUR*	2006 *Million RUR*
Profit for the year	1,230	922
Adjustments for:		
Income tax expense	1,262	593
Depreciation	1,143	893
Interest income and expenses, net	1,119	892
Foreign exchange gain	(54)	(57)
	4,700	3,243

35 Events subsequent to the balance sheet date

Sale of subsidiaries

As of the date of issue of these consolidated financial statements the Group is in process of finalising the terms for the transactions to sell all of its shares in ZAO Nurlatsky Sakhar and ZAO Nurlatsky 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.

Bonds

In May 2008 the Group issued 5-year rouble denominated bonds with a nominal value of RUR 3,000 million. The coupons are payable twice per year. The coupon rate is set at 11.7 % per annum for the first and the second payments. The coupon rate for payments 3 to 10 is determinable by the issuer.

In May 2008 the Group also issued 1-year rouble denominated bonds with a nominal value of RUR 500 million. The bonds were issued for trading on MICEX at the discounted value of RUR 471.8 million. The date of early redemption fixed upon issuance of the bonds is 18 December 2008.

Acquisition of subsidiaries

In March 2008 the Group acquired, from third parties, an additional 51% interests in OAO Podolsky EMZ and OAO Shipunovsky Elevator, Group associates, for a consideration of RUR 182 million and RUR 71 million, respectively. The carrying value of the net assets of the associates as at 31 December 2007 was RUR 262 million and RUR 216 million, respectively.

Acquisition of minority interest in subsidiaries

In March 2008 the Group acquired, from a third party, an additional 25% interest in OAO Karachaevo-Cherkessky Mukomol, a Group subsidiary, for a consideration of RUR 103 million. The carrying value of the net assets of the subsidiary as at 31 December 2007 was RUR 1,150 million.

In April 2008 the Group acquired, from a third party, an additional 40% interest in OAO Svetlogradsky Elevator, a Group subsidiary, for a consideration of RUR 47 million. The carrying value of the net assets of the subsidiary as at 31 December 2007 was RUR 275 million.

Disposal of subsidiaries

In March 2008 the Group sold a 25% interest in ZAO Bugulminsky KHP №2 and ZAO Bugulminsky elevator, Group subsidiaries, to the controlling shareholder for a total consideration of RUR 207 million. The carrying value of the net assets of the subsidiaries as at 31 December 2007 was RUR 387 million and RUR 440 million, respectively.

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