OJSC RAZGULAY Group

Consolidated Financial Statements as of and for the year ended 31 December 2005

Contents

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Independent Auditors' Report

To the Board of Directors
OJSC Group Razgulay

We have audited the accompanying consolidated balance sheet of OJSC Group Razgulay (the "Company") and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

KPMG Limited

KPMG Limited
17 August 2006

	Note	2005	2004 *Restated*	2005	2004
		Million RUR		*Million USD**	
Revenues	6	19,779	18,309	687	636
Cost of sales		(17,105)	(15,564)	(593)	(541)
Gross profit		2,674	2,745	94	95
Other income	7	221	116	8	4
Distribution expenses		(303)	(244)	(11)	(8)
Administrative expenses	8	(655)	(457)	(23)	(16)
Taxes, other than on profit		(133)	(98)	(5)	(3)
Increases in the fair value of property, plant and equipment		232	-	8	-
Decreases in the fair value of property, plant and equipment		(75)	-	(2)	-
Other expenses	9	(221)	(709)	(9)	(25)
Gains and losses related to acquisitions and disposals of shares in subsidiaries	11	148	106	5	4
Financial income and expenses	12	(739)	(206)	(26)	(7)
Profit before tax		1,149	1,253	39	44
Income tax benefit	13	248	39	9	1
Net profit for the year		1,397	1,292	48	45
Attributable to:					
Shareholders of the Company		1,470	1,308	51	46
Minority interest		(73)	(16)	(3)	(1)
		1,397	1,292	48	45
Basic and diluted earnings per share (RUR / USD*)	14	14.70	13.08	0.51	0.46

The consolidated statement of income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 45.

The consolidated financial statements were approved on 17 August 2006:

Potapenko I.V.
Chairman, Board of Directors

Soldatov A.V.
General director, OJSC RAZGULAY Group

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

	Note	2005	2004 *Restated*	2005	2004
		Millions RUR		*Millions USD**	
ASSETS					
Non-current assets					
Property, plant and equipment	15	11,674	6,409	406	223
Intangible assets	16	648	(2,719)	23	(94)
Other non-current assets	17	1,875	1,995	65	69
		14,197	5,685	494	198
Current assets					
Short-term investments		402	83	14	3
Inventories	19	651	1,320	23	45
Trade and other receivables	20	4,811	3,426	167	119
Cash		157	597	5	21
		6,021	5,426	209	188
Total assets		20,218	11,111	703	386
EQUITY AND LIABILITIES					
Equity	21				
Share capital		345	345	12	12
Additional paid-in capital		318	318	11	11
Property, plant and equipment revaluation reserve		1,510	355	52	12
Retained earnings		8,866	4,988	309	174
Total equity attributable to shareholders of the Company		11,039	6,006	384	209
Minority interest		1,508	1,102	52	38
Total equity		12,547	7,108	436	247
Non-current liabilities					
Loans and borrowings	22	2,008	71	70	2
Deferred tax liabilities	18	1,437	590	50	20
		3,445	661	120	22
Current liabilities					
Loans and borrowings	22	3,087	2,386	107	83
Trade and other payables	23	1,139	956	40	34
		4,226	3,342	147	117
Total equity and liabilities		20,218	11,111	703	386

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 45.

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

	2005	2004 _Restated_	2005	2004
	Millions RUR		_Millions USD*_	
OPERATING ACTIVITIES				
Net profit for the year	1,397	1,292	48	45
Adjustments for:				
Depreciation and amortisation	687	334	25	11
Gains and losses related to acquisitions and disposals of shares in subsidiaries	(148)	(106)	(5)	(4)
Increases in fair value of property, plant and equipment recognised in income, net of decreases	(157)	-	(5)	-
Unrealised foreign exchange differences relating to loans and borrowings	123	(392)	5	(14)
Loss on disposal of property, plant and equipment	11	4	-	-
Gain on disposal of investments	-	(6)	-	-
Loss from investment in associates	14	8	-	-
Interest expense, net	609	616	21	22
Share of profits attributable to minority participants of limited liability companies	(7)	(7)	-	-
Income tax benefit	(248)	(39)	(9)	(1)
Operating profit before changes in working capital	2,281	1,704	80	59
Decrease in inventories	669	1,363	22	47
(Increase)/decrease in trade and other receivables	(82)	488	(3)	17
Increase/(decrease) in trade and other payables	183	(201)	6	(7)
Cash flows from operations before income taxes and interest paid	3,051	3,354	105	116
Income tax paid	(26)	(17)	(1)	(1)
Interest paid, net	(601)	(573)	(22)	(20)
Cash flows from operating activities	2,424	2,764	82	95
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	-	5	-	-
Proceeds from disposal of investments	-	346	-	12
Acquisition of property, plant and equipment	(1,485)	(76)	(51)	(3)
Acquisition of non-controlling interests and other investments	(1,151)	(2,045)	(39)	(71)
Acquisition of subsidiaries, net of cash acquired	(1,802)	(117)	(63)	(4)
Cash flows utilised by investing activities	(4,438)	(1,887)	(153)	(66)

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

	2005	2004 *Restated*	2005	2004
	Millions RUR		*Millions USD**	
FINANCING ACTIVITIES				
Proceeds from borrowings	6,321	13,278	220	461
Repayment of borrowings	(4,446)	(13,673)	(155)	(473)
Transactions with the controlling shareholder	(301)	-	(10)	-
Cash flows from (utilised by) financing activities	1,574	(395)	55	(12)
Net (decrease)/increase in cash and cash equivalents	(440)	482	(16)	17
Cash and cash equivalents at beginning of year	597	115	21	4
Cash and cash equivalents at end of year	157	597	5	21

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 45.

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

Millions RUR	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	Additional paid-in capital	Revaluation reserve, property, plant and equipment	Retained earnings	Total		
Balance at 1 January 2004	345	318	355	3,536	4,554	1,593	6,147
Net profit for the year	-	-	-	1,308	1,308	(16)	1,292
Acquisition of minorities	-	-	-	-	-	(667)	(667)
Disposal of shares in subsidiaries	-	-	-	-	-	133	133
Effect of business combinations under common control	-	-	-	(14)	(14)	59	45
Adjustment to spin-off recognised in previous periods	-	-	-	158	158	-	158
Balance at 31 December 2004	345	318	355	4,988	6,006	1,102	7,108
Balance of negative goodwill (note 3(s)(i))	-	-	-	2,739	2,739	-	2,739
Net profit for the year	-	-	-	*1,470*	*1,470*	*(73)*	*1,397*
Increases in fair value of property, plant and equipment, net of deferred tax effect	-	-	*1,189*	-	*1,189*	*173*	*1,362*
Decreases in fair value of previously revalued property, plant and equipment, net of deferred tax effect	-	-	*(34)*	-	*(34)*	-	*(34)*
Total recognised income and expenses	-	-	1,155	1,470	2,625	100	2,725
Acquisition of minority interests	-	-	-	-	-	(54)	(54)
Increase in minority interest due to business combinations	-	-	-	-	-	225	225
Effect of business combinations under common control	-	-	-	(30)	(30)	135	105
Other transactions with the controlling shareholder	-	-	-	(301)	(301)	-	(301)
Balance at 31 December 2005	345	318	1,510	8,866	11,039	1,508	12,547

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

*Millions USD**	Attributable to shareholders of the Company					Minority interest	Total equity
	Share capital	Additional paid-in capital	Revaluation reserve, property, plant and equipment	Retained earnings	Total		
Balance at 1 January 2004	12	11	12	123	158	55	213
Net profit for the year	-	-	-	46	46	(1)	45
Acquisition of minorities	-	-	-	-	-	(23)	(23)
Disposal of shares in subsidiaries	-	-	-	-	-	5	5
Effect of business combinations under common control	-	-	-	-	-	2	2
Adjustment to spin-off recognised in previous periods	-	-	-	5	5	-	5
Balance at 31 December 2004	12	11	12	174	209	38	247
Balance of negative goodwill (note 3(s)(i))	-	-	-	95	95	-	95
Net profit for the year	-	-	-	51	51	(3)	48
Increases in fair value of property, plant and equipment, net of deferred tax effect	-	-	41	-	41	6	47
Decreases in fair value of previously revalued property, plant and equipment, net of deferred tax effect	-	-	(1)	-	(1)	-	(1)
Total recognised income and expenses	-	-	40	51	91	3	94
Acquisition of minority interests	-	-	-	-	-	(2)	(2)
Increase in minority interest due to business combinations	-	-	-	-	-	8	8
Effect of business combinations under common control	-	-	-	(1)	(1)	5	4
Transactions with the controlling shareholder	-	-	-	(10)	(10)	-	(10)
Balance at 31 December 2005	12	11	52	309	384	52	436

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 45.

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

1 Background

(a) Organisation and operations

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

The Group has been operating as a privately owned enterprise since 1992 and till 2005 was known as the Razguliay-UkrRos Group. On 12 September 2005, the Company changed its legal status from closed joint stock company (ZAO) to open joint-stock company (OAO), as defined by the Civil Code of the Russian Federation, and its name from “Agrocoinvest” to “RAZGULAY Group”. The Company was listed on the Russian Trading System Stock Exchange (RTS) and on the Moscow Interbank Currency Exchange (MICEX) as disclosed in note 29.

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

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

The major beneficiary of the Group is Mr. Igor Potapenko, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. Mr. Potapenko also acts as Chief Executive Officer of the Group and Chairman of the Board of Directors of the Company. He also has a number of other business interests outside of the Group. Related party transactions are disclosed in note 26.

(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 items of property, plant and equipment are stated at their revalued amounts.

(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) Convenience translation

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

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 31 December 2005 of RUR 28.7825 to one USD.

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

(e) Use of estimates and judgments

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

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

- Note 5 *Acquisitions and disposals of controlling and non-controlling interests in subsidiaries*;
- Note 15 *Property, plant and equipment*
- Note 25(b) *Taxation contingencies*;
- Note 25(c) *Bankruptcy law*.

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 except for the changes in accounting policies described in note 3(s).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Special purpose entities (SPEs)

The Group had established a number of special purpose entities for tax minimisation purposes. Use of such entities substantially ceased with effect from 1 January 2005. The Group did not have any direct or indirect shareholdings in these entities. However, the SPEs were established under terms that imposed strict limitations on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the Group retained a significant beneficial interest in the SPE's activities, even though the Group had no shareholdings in these entities. Accordingly, the financial statements of these SPEs are included in the consolidated financial statements of the Group. The related tax contingencies are disclosed in note 25(b).

(iii) Acquisition of subsidiaries

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

(iv) Disposal of subsidiaries

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

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

(v) Acquisitions from entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group, are accounted for from the date that the Group obtains control over the entities.

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

(vi) Disposal of subsidiaries to entities under common control

Disposals of subsidiaries to entities that are under the control of the same controlling shareholder as 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.

(vii) Acquisitions and disposals of minority interests

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

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

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

Any difference between the consideration paid to acquire a minority interest from an entity that is under the control of the same controlling shareholder as 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 same controlling shareholder as 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.

(ix) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(x) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

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

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at revalued amounts less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

(iii) Revaluation

A revaluation increase on an item of property, plant and equipment is recognised directly 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 an item of 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.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	5 to 54 years
Plant and equipment	2 to 16 years
Transport	2 to 9 years
Fixtures and fittings	2 to 11 years.

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(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Goodwill

Goodwill arising on an acquisition represents the excess of the cost of business combination over the acquirer's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities.

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

Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of business combination.

Negative goodwill is recognised immediately in the income statement.

(e) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Except as outlined below, investments are accounted for as follows:

- Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of investments is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(f) Inventories

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

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

(g) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(i) Impairment

The carrying amount of goodwill is tested for impairment annually. The carrying amounts of the Group's other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses in respect of revalued property, plant and equipment are recognised in the same way as revaluations – see accounting policy 3(c)(iii); other impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's held-to-maturity investments, and loans and receivables, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, 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.

(j) Dividends

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

(k) Loans and borrowings

Loans and borrowings are recognised initially at amortised cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(l) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

(m) Trade and other payables

Trade and other payables are stated at amortised cost.

(n) Insurance contracts

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

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(q) Financial income and expenses

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

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

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in associates, dividend income is credited to the investment in the associate. For investments in other companies, dividend income is recognised on the date that the Group becomes entitled to the dividend.

(r) Segment reporting

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

(s) Changes in accounting policy

During the current year the Group changed a number of its accounting policies as a result of new or revised Standards that are effective for periods beginning on or after 1 January 2005, or in order to better present the Group's results of operations and financial position. The following changes had a material impact on the Group's financial position or results of operations, or resulted in material changes in classification.

(i) Goodwill and negative goodwill

During 2004 the Group adopted IFRS 3 *Business Combinations*, revised IAS 36 *Impairment of Assets* and revised IAS 38 *Intangible Assets* for business combinations with an agreement date on or after 31 March 2004. During the current year the Group adopted the revised standards in full. In accordance with the transitional provisions of these standards:

- As at 1 January 2005 the balance of accumulated amortisation of goodwill of RUR 3 million / USD* 0.1 million was written off against the cost of that goodwill, which had no effect on the net carrying amount. All goodwill is now tested for impairment annually (see note 3(i)).
- As at 1 January 2005 the balance of negative goodwill of RUR 2,739 million / USD* 95 million was written off against opening retained earnings at that date.
- Comparatives were not restated.

(ii) Presentation of minority interests

The following changes in presentation result from revised IAS 1 *Presentation of Financial Statements*:

- In the income statement, the minority interest share in the results of subsidiaries is no longer added or subtracted in arriving at the Group's net profit / (loss) for the period. Instead it is presented as an allocation of the Group's net profit / (loss) for the period.
- In the balance sheet, minority interests are presented as a separate component of equity rather than being presented between equity and liabilities. As a result, the statement of changes in equity shows the movement in minority interests during the period.
- Comparatives were restated to reflect these changes.

(iii) Shareholders' interests in Russian limited liability companies

In accordance with Russian legislation, limited liability companies are obliged to pay a withdrawing shareholder its share of the company's net assets. Accordingly, shareholders' interests in such companies are classified as a liability.

The following changes in presentation result from revised IAS 32 *Financial Instruments: Disclosure and Presentation:*

- Minority interests in limited liability company subsidiaries are presented as a current liability in the balance sheet, rather than as a separate component of equity.
- The minority interest share in the results of a Russian limited liability company subsidiaries is presented as financial expense in the income statement rather than as a minority interest.
- Comparatives were restated to reflect these changes.

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

(iv) Acquisitions from entities under common control

Effective 1 January 2005 the Group changed its accounting policy with respect to the acquisition of controlling interests in subsidiaries in transactions involving entities under common control. Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are now accounted for from the date when the Group obtains control over the entities.

The assets and liabilities acquired are recognised at their previous book values as recorded in the individual IFRS financial statements of the acquiree. The difference between the Group's share in the equity of the acquired company and consideration paid for the acquisition is recognised as additional paid-in capital.

Previously such transactions were accounted for at their previous book values as recognised in the individual IFRS financial statements of the acquiree, as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; accordingly, the comparatives were to be restated.

The above change in accounting policy did not have any impact on the Group's financial statements for the previous period as there were no acquisitions of controlling interests under common control where the common control had been established earlier than at the beginning of the annual accounting period.

The change was introduced to the accounting policy of the Group as management believes that such policy better reflects the economic substance of the transactions and conditions of the Group.

(v) Presentation of value added tax benefits

During the current period the Group modified the income statement classification of the value added tax benefit arising on transactions with SPEs – refer note 25(b). Comparative information was reclassified for consistency as follows:

- Decrease in revenues by RUR 1,889 million / USD* 66 million
- Decrease in cost of goods sold by RUR 1,773 million / USD* 62 million
- Increase in other operating income by RUR 116 million / USD* 4 million.

(t) 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 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*, which is effective for annual periods beginning on or after 1 January 2006. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item if certain criteria are met. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

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

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*, which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss". The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRIC 4 *Determining whether an Arrangement contains a Lease*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

4 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:* Purchase, processing and sale of grain products.

- *Sugar:* 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.

Million RUR	Grain		Sugar		Consolidated	
	2005	2004	2005	2004	2005	2004
Segment revenue	11,187	9,118	8,592	9,191	19,779	18,309
Segment result	1,708	1,161	399	682	2,107	1,843
Unallocated expenses					(219)	(384)
Financial income and expenses					(739)	(206)
Income tax benefit					248	39
Net profit for the year					1,397	1,292
Segment assets	9,561	6,076	10,399	4,877	19,960	10,953
Unallocated assets					258	158
Total assets					20,218	11,111
Segment liabilities	(553)	(407)	(515)	(309)	(1,068)	(716)
Loans and borrowings					(5,095)	(2,457)
Deferred tax liabilities					(1,437)	(590)
Other unallocated liabilities					(71)	(240)
Total liabilities					(7,671)	(4,003)
Depreciation and amortisation	(313)	(192)	(368)	(142)	(681)	(334)
Attributable to unallocated activities					(6)	-
					(687)	(334)
Capital expenditure – acquisition of property, plant and equipment	49	39	120	30	169	69
Attributable to unallocated activities					13	7
					182	76
Capital expenditure – acquisition of subsidiaries	875	117	2,647	-	3,522	117
Decreases in fair value						
Recognised in income	(75)	-	-	-	(75)	-
Recognised in equity	(25)	-	(20)	-	(45)	-
	(100)	-	(20)	-	(120)	-
Increases in fair value						
Recognised in income	98	-	134	-	232	-
Recognised in equity	904		846		1,750	-
	1,002		980		1,982	-

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

Million USD*	Grain		Sugar		Consolidated	
	2005	2004	2005	2004	2005	2004
Segment revenue	388	317	299	319	687	636
Segment result	60	40	14	24	74	64
Unallocated expenses					(9)	(13)
Financial income and expenses					(26)	(7)
Income tax benefit					9	1
Net profit for the year					48	45
Segment assets	332	211	361	169	693	380
Unallocated assets					10	6
Total assets					703	386
Segment liabilities	(19)	(14)	(18)	(11)	(37)	(25)
Loans and borrowings					(177)	(85)
Deferred tax liabilities					(50)	(20)
Other unallocated liabilities					(3)	(9)
Total liabilities					(267)	(139)
Depreciation and amortisation	(11)	(7)	(13)	(5)	(24)	(12)
Attributable to unallocated activities					-	-
					(24)	(12)
Capital expenditure – acquisition of property, plant and equipment	2	1	3	1	5	2
Attributable to unallocated activities					-	-
					5	2
Capital expenditure – acquisition of subsidiaries	32	5	96	1	128	6
Decreases in fair value						
Recognised in income	(2)	-	-	-	(2)	-
Recognised in equity	(1)	-	-	-	(1)	-
	(3)	-	-	-	(3)	-
Increases in fair value						
Recognised in income	3	-	5	-	8	-
Recognised in equity	32	-	29	-	61	-
	35	-	34	-	69	-

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

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

(a) Acquisition of subsidiaries

During 2005 the Group acquired the following subsidiaries:

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

The total consideration paid to acquire control over the above companies amounted to RUR 1,770 million / USD* 61 million settled in cash.

There were no acquisitions of controlling interests from third parties in 2004.

(b) Effect of acquisition of subsidiaries

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

	Million RUR	_Million USD*_
Non-current assets	2,098	73
Current assets	144	5
Non-current liabilities	(390)	(14)
Current liabilities	(467)	(16)
Net assets acquired	1,385	48
Increase in minority interest	(225)	(8)
Group's share in net assets acquired	1,160	40
Goodwill on acquisition	627	22
Excess of the fair value of the net identifiable assets over the consideration paid	(17)	(1)
Total consideration	1,770	61
Settled in previous periods	844	29
Settled in current period	926	32
	1,770	61

The Group determined the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired companies at the dates of acquisition on a provisional basis. The determination of the fair values of property, plant and equipment and intangible assets, and the allocation of the purchase price to the assets, liabilities and contingent liabilities were performed with the assistance of an independent appraiser.

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

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

Because of the way the businesses acquired had been intetrated within the Group, it is not practicable to determine the acquiree's financial results since the acquisition date included in the Group's statement of income for the year. The above also applies to the disclosure of the consolidated revenues for the year and the net financial results for the year determined on the basis that the acquisitions had occurred on 1 January 2005.

(c) Acquisition of subsidiaries in transactions under common control

During 2005 the Group acquired the following subsidiaries from entities controlled by the controlling shareholder of the Group:

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

The total consideration paid to acquire control over the above companies amounted to RUR 1,752 million / USD* 61 million settled in cash.

In December 2004 the Group acquired 53% interest in OAO Russko-Polyansky from entities controlled by the controlling shareholder of the Group for the consideration of RUR 101 million / USD* 4 million. This acquisition increased the Group's ownership in the company from 11% to 64%.

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

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

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Non-current assets	1,841	166	64	6
Current assets	771	8	27	-
Non-current liabilities	(319)	(8)	(11)	-
Current liabilities	(436)	(3)	(15)	-
Net assets acquired	1,857	163	65	6
Increase in minority interest	(135)	(59)	(5)	(2)
Group's share in net assets acquired	1,722	104	60	4
Difference between the consideration paid and the Group's share in the book value of the net assets acquired from related parties, recognised as additional paid-in capital	30	13	1	-
Consideration paid	1,752	117	61	4
Settled in previous periods	876	16	30	1
Settled in current period	876	101	31	3
	1,752	117	61	4

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

(e) Disposal of subsidiary

During 2005 the Group disposed of its interest in OOO Posadskiye and ZAO Argo Komplekt M. The disposal resulted in a net gain of RUR 47 million / USD* 1 million.

(f) Acquisition of minority interests in subsidiaries

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

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

In June 2005 the Group increased its effective interest in ZAO Nurlatsky elevator by selling 49% of the shares in the subsidiary from OAO Nurlatsky elevator, a subsidiary where the Group owns 48% of the shares, to ZAO Zernovaya Kompaniya Razgulay where the Group owns 100% of the shares. As a result, the effective interest in the subsidiary (ZAO Nurlatsky Elevator) increased by approximately 24%.

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

6 Revenues

	2005	2004 *Restated*	2005	2004
	Million RUR		*Million USD**	
Revenues from sales	19,048	17,763	662	617
Revenues from processing and storage services	731	546	25	19
	19,779	18,309	687	636

7 Other income

Other income comprises net value added benefits that the Group generates from transactions with SPEs - refer note 25(b). The comparative information was reclassified as described in note 3(s)(v).

8 Administrative expenses

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Wages and salaries	(441)	(316)	(15)	(11)
Other administrative expenses	(214)	(141)	(8)	(5)
	(655)	(457)	(23)	(16)

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

9 Other expenses

	2005	2004 *Restated*	2005	2004
	Million RUR		*Million USD**	
Bad debt expense	(80)	(78)	(3)	(3)
Legal and consulting services	(70)	(63)	(3)	(2)
Loss on disposal of property, plant and equipment	(11)	(4)	-	-
Business development expenses	-	(266)	-	(9)
Other operating expenses	(60)	(298)	(3)	(11)
	(221)	(709)	(9)	(25)

10 Total personnel costs

Personnel costs included in cost of sales, administrative expenses and distribution expenses amount to RUR 954 million / USD* 33 million (2004: RUR 680 million / USD* 24 million).

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

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Gain / (loss) on disposal of subsidiaries	47	(12)	1	-
Gain on acquisition of controlling interests	17	-	1	-
Gain on acquisition of minority interests	84	118	3	4
	148	106	5	4

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

12 Financial income

	2005	2004 Restated	2005	2004
	Million RUR		Million USD*	
Financial income				
Interest income	20	78	1	2
Share of profits attributable to minority participants of limited liability companies	7	7	-	-
Foreign exchange gain	-	392	-	14
Gain on disposal of available-for-sale investments	-	19	-	1
	27	496	1	17
Financial expenses				
Interest expense	(629)	(694)	(22)	(24)
Foreign exchange loss	(123)	-	(5)	-
Loss from investment in associates	(14)	(8)	-	-
	(766)	(702)	(27)	(24)
	(739)	(206)	(26)	(7)

13 Income tax benefit

	2005	2004	2005	2004
	Million RUR		Million USD*	
Current tax	(26)	(17)	(1)	(1)
Deferred tax				
Origination and reversal of temporary differences	230	(156)	8	(5)
Recognition of previously unrecognised deferred tax asset	44	212	2	7
	274	56	10	2
	248	39	9	1

The Group's applicable tax rate in 2005 and 2004 was 24%.

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

Reconciliation of effective tax rate:

	2005			2004		
	Million RUR	Million USD*	%	Million RUR	Million USD*	%
Profit before tax	1,149	39	100	1,253	44	100
Income tax at applicable tax rate	(276)	(9)	(24)	(301)	(10)	(24)
Recognition of previously unrecognised deferred tax asset	44	2	4	212	7	17
Income taxed in lower tax jurisdictions in 2005 / non-taxable items in 2004 (note 25(b))	480	16	45	128	4	10
	248	9	25	39	1	3

14 Earnings per share

The basic and diluted earnings per share are calculated by division of profit attributable to the shareholders of the Company amounting to RUR 1,470 million / USD* 51 million in 2005 and RUR 1,308 million / USD* 46 million in 2004, by the weighted average number of shares outstanding in 2005 and 2004 amounting to 100,000,000 shares.

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

15 Property, plant and equipment

Millions RUR	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
Cost/Revalued amount						
At 1 January 2004	23,427	8,279	231	70	595	32,602
Acquisitions through business combinations	135	30	1	-	-	166
Additions	11	18	8	6	33	76
Disposals	(20)	(49)	(13)	(2)	-	(84)
Transfers	344	8	-	4	(356)	-
At 1 January 2005	23,897	8,286	227	78	272	32,760
Acquisitions through business combinations	2,860	886	29	10	134	3,919
Additions	8	87	10	11	66	182
Disposals	(3)	(195)	(51)	(1)	(41)	(291)
Transfers	-	27	3	4	(34)	-
Elimination of accumulated depreciation	(18,752)	(7,732)	(140)	(27)	(182)	(26,833)
Increases in fair value	992	925	9	11	-	1,937
At 31 December 2005	9,002	2,284	87	86	215	11,674
Depreciation and impairment losses						
At 1 January 2004	(18,280)	(7,254)	(174)	(16)	(183)	(25,907)
Depreciation charge	(184)	(306)	(11)	(5)	(13)	(519)
Disposals	17	45	12	1	-	75
At 1 January 2005	(18,447)	(7,515)	(173)	(20)	(196)	(26,351)
Depreciation charge	(274)	(366)	(15)	(8)	(24)	(687)
Decreases in fair value	(34)	(41)	-	-	-	(75)
Disposals	3	190	48	1	38	280
Elimination of accumulated depreciation	18,752	7,732	140	27	182	26,833
At 31 December 2005	-	-	-	-	-	-
Net book value						
At 1 January 2004	5,147	1,025	57	54	412	6,695
At 31 December 2004	5,450	771	54	58	76	6,409
At 31 December 2005	9,002	2,284	87	86	215	11,674

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

*Millions USD**	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
Cost/Revalued amount						
At 1 January 2004	814	288	8	2	21	1,133
Acquisitions through business combinations	5	1	-	-	-	6
Additions	-	1	-	-	1	2
Disposals	(1)	(2)	(1)	-	-	(4)
Transfers	12	-	-	-	(12)	-
At 1 January 2005	830	288	7	2	10	1,137
Acquisitions through business combinations	101	32	1	-	5	139
Additions	-	3	-	-	2	5
Disposals	-	(7)	(2)	-	(1)	(10)
Transfers	-	1	-	-	(1)	-
Elimination of accumulated depreciation	(651)	(268)	(5)	(1)	(6)	(931)
Increases in fair value	34	32	-	-	-	66
At 31 December 2005	314	81	1	1	9	406
Depreciation and impairment losses						
At 1 January 2004	(635)	(252)	(6)	(1)	(6)	(900)
Depreciation charge	(6)	(11)	-	-	-	(17)
Disposals	1	2	-	-	-	3
At 1 January 2005	(640)	(261)	(6)	(1)	(6)	(914)
Depreciation charge	(10)	(13)	(1)	-	(1)	(25)
Decreases in fair value	(1)	(1)	-	-	-	(2)
Disposals	-	7	2	-	1	10
Elimination of accumulated depreciation	651	268	5	1	6	931
At 31 December 2005	-	-	-	-	-	-
Net book value						
At 1 January 2004	179	36	2	1	15	233
At 31 December 2004	190	27	1	1	4	223
At 31 December 2005	314	81	1	1	9	406

(a) Revaluation

In 2005 management commissioned ZAO Balt-Audit-Expert to independently appraise property, plant and equipment as at 31 December 2005 in order to determine its 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.

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

(b) Changes in the fair value of property, plant and equipment

The changes in the fair value of property, plant and equipment were recognised as follows:

	Million RUR	Millions USD*
Increases in fair values		
Recognised in income	232	8
Recognised in equity	1,750	61
	1,982	69
Decreases in fair values		
Recognised in income	(75)	(2)
Recognised in equity	(45)	(1)
	(120)	(3)
	1,862	66

(c) Impairment

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

	Grain assets		Sugar assets, including goodwill	
	Million RUR	Million USD*	Million RUR	Million USD*
Carrying amount	5,150	179	7,107	247
Recoverable amount	9,578	332	14,226	494

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

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

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

(d) Security

Certain items of property, plant and equipment were pledged to secure bank loans - refer note 22.

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

16 Intangible assets

RUR million	Goodwill	Negative goodwill	Other intangible assets	Total
Cost				
On 1 January 2004	23	(3,546)	-	(3,523)
Acquisitions through business combinations	-	(234)	-	(234)
Negative goodwill allocated to disposal of minority interests	-	148		148
On 31 December 2004	23	(3,632)	-	(3,609)
Negative goodwill derecognised – note 3(s)(i)	-	3,632	-	3,632
Offset – note 3(s)(i)	(3)	-	-	(3)
Acquisitions through business combinations	627	-	-	627
Additions	-	-	1	1
On 31 December 2005	647	-	1	648
Amortisation				
On 1 January 2004	(2)	725	-	723
Amortisation charge	(1)	186	-	185
Accumulated amortisation of negative goodwill allocated to disposal of minority interests	-	(18)	-	(18)
On 31 December 2004	(3)	893	-	890
Negative goodwill derecognised – note 3(s)(i)	-	(893)	-	(893)
Offset – note 3(s)(i)	3	-	-	3
On 31 December 2005	-	-	-	-
Net book value				
On 1 January 2004	21	(2,821)	-	(2,800)
On 31 December 2004	20	(2,739)	-	(2,719)
On 31 December 2005	647	-	1	648

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

USD million*	Goodwill	Negative goodwill	Other intangible assets	Total
Cost				
On 1 January 2004	1	(123)	-	(122)
Acquisitions through business combinations	-	(8)	-	(8)
Negative goodwill allocated to disposal of minority interests		5	-	5
On 31 December 2004	1	(126)	-	(125)
Negative goodwill derecognised – note 3(s)(i)	-	126	-	126
Offset – note 3(s)(i)	-	-	-	-
Acquisitions through business combinations	22	-	-	22
Additions	-	-	-	-
On 31 December 2005	23	-	-	23
Amortisation				
On 1 January 2004	-	26	-	26
Amortisation charge	-	6	-	6
Accumulated amortisation of negative goodwill allocated to disposal of minority interests	-	(1)	-	(1)
On 31 December 2004	-	31		
Negative goodwill derecognised – note 3(s)(i)	-	(31)	-	(31)
Offset – note 3(s)(i)	-	-	-	-
On 31 December 2005	-	-	-	-
Net book value				
On 1 January 2004	1	(97)	-	(96)
On 31 December 2004	1	(95)	-	(94)
On 31 December 2005	23	-	-	23

17 Other non-current assets

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Advances issued to related parties for acquisition of property, plant and equipment	1,303	-	45	-
Advances issued to related parties for acquisition of controlling and non-controlling interests	274	1,789	10	62
Investments in associates	256	80	9	3
Equity securities available for sale	42	126	1	4
	1,875	1,995	65	69

The advances issued to related parties for acquisition of property, plant and equipment were repaid by the related parties subsequent to the year end following the decision of the Group management to acquire property, plant and equipment using other legal entities controlled by the ultimate shareholder.

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

Investments in associates as of 31 December 2005 represent Group's interest in the net assets of OAO Podolsky EMZ (a flour milling plant) of 46%, OAO Shipunovsky elevator of 36% and OAO Angelinsky Elevator of 25% (2004: OAO Podolsky EMZ 46%).

As of 31 December 2004 the Group held 20% in OAO Kondopozhsky KHP and 25% in OAO Angelinsky Elevator. The Group concluded that it did not have significant influence over the companies because of the strong position of their majority shareholders. Consequently, the investments were classified as available for sale. Because the shares are not quoted on a stock exchange, and their fair value cannot be estimated on a reasonable basis by other means, the investments are carried at cost less provision for impairment.

In 2005 the Group began to exercise significant influence over the operations of OAO Angelinsky elevator by participating in the Board of Directors. As a result the investment in shares of the Company was reclassified to investments in associates and accounted for at equity method as of 31 December 2005.

In 2006 the Group acquired control over OAO Kondopozhsky KHP – refer note 29.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

Million RUR	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	-	-	(1,554)	(619)	(1,554)	(619)
Other current assets / (liabilities), net	96	48	-	(32)	96	16
Tax loss carry-forwards	21	13	-	-	21	13
Tax assets/(liabilities)	117	61	(1,554)	(651)	(1,437)	(590)
Set off of tax	(117)	(61)	117	61	-	-
Net tax liabilities	-	-	(1,437)	(590)	(1,437)	(590)

*Million USD**	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	-	-	(54)	(21)	(54)	(21)
Other current assets / (liabilities), net	3	2	-	(1)	3	1
Tax loss carry-forwards	1	-	-	-	1	-
Tax assets/(liabilities)	4	2	(54)	(22)	(50)	(20)
Set off of tax	(4)	(2)	4	2	-	-
Net tax liabilities	-	-	(50)	(20)	(50)	(20)

(b) Unrecognised deferred tax assets

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

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Deductible temporary differences	56	104	2	4
Tax loss carry-forwards	12	8	-	-
	68	112	2	4

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

The 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) Movement in temporary differences during the year

Million RUR	1 January 2005	Recognised in income	Recognised in equity	Acquisition of subsidiary	Disposal of subsidiary	31 December 2005
Property, plant and equipment	(619)	186	(412)	(709)	-	(1,554)
Other current assets / (liabilities), net	16	80	-	-	-	96
Tax loss carry-forwards	13	8	-	-	-	21
Net tax assets/(liabilities)	(590)	274	(412)	(709)	-	(1,437)

*Million USD**	1 January 2005	Recognised in income	Recognised in equity	Acquisition of subsidiary	Disposal of subsidiary	31 December 2005
Property, plant and equipment	(21)	7	(15)	(25)	-	(54)
Other current assets / (liabilities), net	1	2	-	-	-	3
Tax loss carry-forwards	-	1	-	-	-	1
Net tax assets/(liabilities)	(20)	10	(15)	(25)	-	(50)

Million RUR	1 January 2004	Recognised in income	Acquisition of subsidiary	Disposal of subsidiary	31 December 2004
Property, plant and equipment	(657)	46	(8)	-	(619)
Other current assets / (liabilities), net	6	10	-	-	16
Tax loss carry-forwards	13	-	-	-	13
Net tax assets/(liabilities)	(638)	56	(8)	-	(590)

*Million USD**	1 January 2004	Recognised in income	Acquisition of subsidiary	Disposal of subsidiary	31 December 2004
Property, plant and equipment	(23)	2	-	-	(21)
Other current assets / (liabilities), net	-	1	-	-	1
Tax loss carry-forwards	1	(1)	-	-	-
Net tax assets/(liabilities)	(22)	2	-	-	(20)

19 Inventories

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Goods for resale – grain	308	728	11	25
Goods for resale – sugar	148	401	5	14
Other inventories	195	191	7	6
	651	1,320	23	45

The value of inventory pledged to secure loans is disclosed in note 22.

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

20 Trade and other receivables

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Trade receivables	3,219	2,911	112	101
Advances paid to related parties	1,011	17	35	1
Advances paid	180	170	6	6
Taxes receivable	147	207	5	7
Receivables from associated companies	56	87	2	3
Loans given	39	4	1	-
Deferred expenses	37	15	1	1
Other receivables	204	95	8	3
Provision for doubtful accounts	(82)	(80)	(3)	(3)
	4,811	3,426	167	119

21 Equity

(a) Share capital

On 31 December 2004 and 31 December 2005 the authorised capital of OJSC RAZGULAY Group (prior to 12 September 2005 - ZAO Agrocoinvest) comprised 100,000,000 ordinary shares. All shares have a par value of RUR 3 / USD* 0.10 each. All shares were issued and paid up.

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

All ordinary shares rank equally with regard to the Group'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 Parent Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2005 the Parent Company had cumulative retained earnings, including profit for the current year, of RUR 8 million / USD* 0 million (2004: RUR 8 million / USD* 0 million).

(c) Transactions with the controlling shareholder

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

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

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

During 2004 the Group had the following transactions with the controlling shareholder:

	2004 *Million RUR*	2004 *Million USD**
Adjustment to previously recorded spin-off	158	5
Difference on acquisition of controlling interest from a related party	(14)	-
	144	5

22 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 24.

	2005	2004 *Restated*	2005	2004
	Million RUR		*Million USD**	
Non-current				
Unsecured bond issue	2,000	-	70	-
Unsecured non-bank loans	8	7	-	-
Secured bank loans	-	64	-	2
	2,008	71	70	2
Current				
Secured bank loans	2,202	2,378	76	83
Unsecured non-bank loans from related parties	885	8	31	-
	3,087	2,386	107	83
	5,095	2,457	177	85

Terms and repayment schedule:

RUR million	Total	1 year or less	2-5 years
Unsecured bond issue – RUR, variable at 11.5%	2,000	-	2,000
Secured bank loans			
- RUR, fixed at 13.5%	200	200	-
Unsecured non-bank loans	8	-	8
Secured bank loans:			
- RUR, fixed at 13%-14%	1,143	1,143	-
- RUR, variable at Mosprime** plus 4.75%	286	286	-
- USD, fixed at 11.3%-13.5%	458	458	-
- USD, variable at Libor plus 5.54%	115	115	-
Unsecured non-bank loans from related parties – fixed at 12%-13.2%	885	885	-
	5,095	3,087	2,008

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

USD* million	Total	1 year or less	2-5 years
Unsecured bond issue – RUR, variable at 11.5%	70	-	70
Secured bank loans			
- RUR, fixed at 13.5%	7	7	-
Unsecured non-bank loans	-	-	-
Secured bank loans:			
- RUR, fixed at 13%-14%	39	39	-
- RUR, variable at Mosprime** plus 4.75%	10	10	-
- USD, fixed at 11.3%-13.5%	16	16	-
- USD, variable at Libor plus 5.54%	4	4	-
Unsecured non-bank loans from related parties – fixed at 12%-13.2%	31	31	-
	177	107	70

(**) Mosprime rate represents an index determined by the National Foreign Exchange Association by reference to the interest rates on RUR denominated deposits and loans received and issued by the leading financial institutions in Russia. During 2005 the rate fluctuated between 4% and 6%.

The following assets secure loans:

- property, plant and equipment with a carrying amount of RUR 3,934 million / USD* 137 million;
- inventory with a carrying amount of RUR 75 million / USD* 3 million;
- shares in the following subsidiaries of the Group:

	Shares pledged %
Bugulminsky KHP#1, ZAO	100
Dubovskkhleboproduct, OAO	75
Elevator Rudny Klad, OAO	52
Gerkules, OAO	86
Karachaevo-Cherkessky Mukomol, ZAO	55
Kineshemsky mukomolny kombinat, OAO	75
Krivets-Sakhar, OAO	97
Nurlatsky sakhar, ZAO	100
Pristen-Sakhar, ZAO	100
Poltavsky KHP, OAO	90
Sakharny kombinat Alexeevsky, ZAO	83
Sakharny kombinat Lgovsky, OAO	100
Sakharny kombinat Tikhoretsky, OOO	75
Starodubsky elevator, OAO	100
Svetlogradsky elevator, OAO	52
Zelenokumsky elevator,OAO	50
Tsimlyanskkhleboprodukt, OAO	100

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

23 Trade and other payables

	2005	2004 Restated	2005	2004
	Million RUR		*Million USD**	
Taxes payable	414	179	15	6
Trade payables	321	325	11	12
Advances received	262	145	9	5
Interest payable	62	54	2	2
Payables to employees	39	22	1	1
Payables to associates	20	1	1	-
Share of net assets attributable to minority participants of limited liability companies	-	143	-	5
Other payables and accrued expenses	21	87	1	3
	1,139	956	40	34

24 Financial instruments

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

(a) Credit risk

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

At the balance sheet date there was a significant concentration of credit risk in respect of amounts receivable from related parties. The total amount receivable from related parties was RUR 1,224 million / USD* 43 million or 25% of the total receivables. In addition the advances issued to related parties for acquisition of shares and property, plant and equipment amounted to RUR 1,577 million / USD* 55 million.

(b) Interest rate risk

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

In October 2005 the Group issued 3-year rouble nominated notes with the nominal value of RUR 2,000 million / USD* 69 million. The coupons are payable twice per year. The coupon rate is set at approximately 11.5 % per annum for payments 1 to 3. The coupon rate for payments 4 to 6 will be determined by the issuer. The effective interest rate on the issue for the period ended 31 December 2005 amounted to 11.8% per annum.

In addition the Group's current loans included RUR 115 million / USD* 4 million of USD denominated loan with a variable interest rate of LIBOR plus 5.54% which is revised every 3 months and RUR 286 million / USD* 10 million of RUR denominated loan with a variable interest rate of Mosprime (refer note 22) plus 4.75% which is revised on a monthly basis.

Other loans and borrowings are primarily short-term and bear fixed interest rates – refer note 22.

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

(c) Foreign currency risk

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

On 31 December 2005 the Group has USD denominated current loans amounting to RUR 573 million / USD* 20 million (2004: RUR 2,336 million / USD* 81 million).

(d) Fair values

The fair value of unquoted equity investments is discussed in note 17. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

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

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

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

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

25 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

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

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

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

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

Management of these SPEs is responsible for the correctness and timeliness of the tax payments by the SPEs. The entities have not reported their tax obligations to the tax authorities or settled their tax liabilities, as required by Russian Federation tax and accounting legislation They have also not made any provisions for the corresponding tax liabilities in their separate statutory financial statements.

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

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

The tax benefits recognised by the Group during the two years ended 31 December 2005 as a result of the above arrangements are disclosed in notes 7 and 13. If these arrangements were successfully challenged by the Russian tax authorities, these amounts could become due together with penalties, ranging from 20%-40% of the amount of underpaid taxes, and late-payment interest. Other outcomes are possible, however, and management has determined that it is impracticable to estimate the potential financial effect, if any, of the contingent liabilities referred to above.

(c) Bankruptcy law

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

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

26 Related party transactions

(a) Control relationships

The majority beneficiary of the Group 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 Parent Company, Directors of sugar and grain business segments) received RUR 22 million / USD* 1 million of remuneration during the year (2004: 24 million / USD* 1 million), which is included in personnel costs (see note 10).

(c) Transactions with other related parties

(i) Transactions with shares

In 2005 the Group acquired controlling and non-controlling interests from fellow subsidiaries controlled by the ultimate shareholder of the Group. The details of the transactions are disclosed in notes 5(c) and 5(f).

As of 31 December 2005 the balance of advances issued to fellow subsidiaries for acquisition of controlling and non-controlling interests amounted to RUR 274 / USD* 10 million (2004: RUR 939 / USD* 33 million).

(ii) Revenues

RUR million	2005 Transaction	2005 Outstanding balance	2004 Transaction	2004 Outstanding balance
Sale of goods				
- Fellow subsidiaries	125	157	514	166
- Associates	42	56	7	5
Sales to third parties under commission agreements with fellow subsidiaries	300	-	780	-
	467	213	1,301	171

*USD*million*	2005 Transaction	2005 Outstanding balance	2004 Transaction	2004 Outstanding balance
Sale of goods				
- Fellow subsidiaries	4	5	18	6
- Associates	1	2	-	-
Sales to third parties under commission agreements with fellow subsidiaries	11	-	27	-
	16	7	45	6

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

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

(iii) Expenses

RUR million	2005 Transaction	2005 Outstanding balance	2004 Transaction	2004 Outstanding balance
Purchase of goods				
- Fellow subsidiaries	(1,849)	(94)	(2,618)	(29)
- Fellow subsidiaries – advances given	-	1,011	-	17
- Associates	(55)	(20)	(59)	(1)
Purchases from third parties under commission agreements with fellow subsidiaries	(56)	-	(14)	-
	(1,960)	897	(2,691)	(13)

*USD*million*	2005 Transaction	2005 Outstanding balance	2004 Transaction	2004 Outstanding balance
Purchase of goods				
- Fellow subsidiaries	(64)	(3)	(91)	(1)
- Fellow subsidiaries – advances given	-	36	-	1
- Associates	(2)	(1)	(2)	-
Purchases from third parties under commission agreements with fellow subsidiaries	(2)	-	-	-
	(68)	32	(93)	-

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

RUR million	2005 Amount loaned	2005 Outstanding balance	2004 Amount loaned	2004 Outstanding balance
Loans received				
- Fellow subsidiaries	(885)	(885)	-	-
Loans given				
- Fellow subsidiaries	-	-	2	2
- Associates	-	-	37	37
	(885)	(885)	39	39

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

USD million*	2005 Amount loaned	2005 Outstanding balance	2004 Amount loaned	2004 Outstanding balance
Loans received				
- Fellow subsidiaries	(31)	(31)	-	-
Loans issued				
- Fellow subsidiaries	-	-	-	-
- Associates	-	-	1	1
	(31)	(31)	1	1

The loans from fellow subsidiaries bear interest of 12 to 13% per annum and are repayable on demand.

(v) Supply of property, plant and equipment

As of 31 December 2005 the balance of advances issued to related parties for acquisition of property, plant and equipment amounted to RUR 1,303 / USD* 45 million.

(vi) Guarantees issued

On 31 December 2005 the amount of the Group's outstanding guarantees securing loan obligations of fellow subsidiaries amounted to approximately RUR 555 million / USD* 19 million (2004: RUR 1,000 / USD* 35 million). The guarantees have been granted to secure liabilities of the fellow subsidiaries which provided loans to the Group – refer notes 22 and 26(c)(iv).

(d) Pricing policies

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

27 Significant subsidiaries

	Effective ownership	
	2005	2004
Holding companies		
Razguliay-Finans, OOO (formerly, Agrocofinans, OOO)	100	100
Sakharnaya kompaniya Razguliay, ZAO	100	100
Zernovaya kompaniya Razguliay, ZAO	100	100
Newly formed subsidiaries		
Purpose Ventures Inc. (BVI)	100	-
Razguliay UkrRos Group Limited (Cyprus)	100	-
Secure Global Solutions (BVI)	100	-
Ultimate Global Investment Limited (BVI)	100	-
Grain segment		
Azovskaya zernovaya kompaniya, OOO	100	100
Azovsky portovy elevator, OOO	100	100
Bugulminsky elevator, ZAO	100	100
Bugulminsky KHP#1, ZAO	100	-
Bugulminsky KHP#2, ZAO	100	100
Dubovskkhleboproduct, OAO	75	75
Elevator Rudny Klad, OAO	52	52
Gerkules, OAO	86	86
Karachaevo-Cherkessky Mukomol, ZAO	75	75
Khlebnaya baza 63, OAO	52	-
Kineshemsky mukomolny kombinat, OAO	90	-

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

	Effective ownership 2005	2004
Kolomensky KHP,ZAO	100	-
Kuban-Ris, OOO	50	50
Lgovsky KHP, ZAO	100	100
Nurlatsky elevator, ZAO	100	76
Nurlatsky elevator, OAO	48	48
Poltavsky KHP, OAO	90	90
Razguliay-Zerno, OOO	100	100
Russkaya bakaleynaya kompaniya, OOO	100	100
Russko-Polyanskiy elevator, OAO	64	64
Rzhavskoye HPP, OAO	97	97
Starodubsky elevator, OAO	100	100
Svetlogradsky elevator, OAO	56	53
Transgrain, OOO	100	100
Tsimlyanskkhleboprodukt, OAO	100	100
Zelenokumsky elevator,OAO	50	50
Sugar segment		
Chishminsky sakharny zavod, OAO	58	58
Druzhba, ZAO	100	-
Karachaevo-Cherkessky sakharny zavod,OAO	90	90
Krivets-Sakhar, OAO	97	-
Kshensky sakharny kombinat, ZAO (formerly, Shchigry-Agroinvest, ZAO)	100	100
Lgovsky MKK, OAO	99	99
Nikalt, ZAO	100	100
Nurlatsky sakhar, ZAO	100	-
Pristen-Sakhar, ZAO	100	-
Russkaya sakharnaya kompaniya RSK, OOO	100	100
Sakharny kombinat Alexeevsky, ZAO	83	-
Sakharny kombinat Bolshevik, ZAO	100	100
Sakharny kombinat Kolpnyansky, ZAO	83	-
Sakharny kombinat Kurganinsky, ZAO	83	-
Sakharny kombinat Lgovsky, OAO	100	100
Sakharny kombinat Otradinsky, ZAO	83	-
Sakharny kombinat Tikhoretsky, OOO	100	75
Torgovy Dom RSK, ZAO (formerly, RSK Impex, ZAO)	100	100
Subsidiaries disposed of to third parties		
Argo Komplekt M, ZAO	-	100
Posadskiye, OOO	-	100

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

28 Earnings before interest, tax, depreciation and amortisation

	2005	2004	2005	2004
	Million RUR		*Million USD**	
Net profit for the year	1,397	1,292	48	45
Income tax benefit	(248)	(39)	(9)	(1)
Depreciation and amortisation	687	334	25	11
Interest expense, net	602	609	21	22
Increases in fair value of property, plant and equipment recognised in income	(232)	-	(8)	-
Decreases in fair value of property, plant and equipment recognised in income	75	-	3	-
	2,281	2,196	80	77

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

29 Events subsequent to the balance sheet date

Share issue

In March 2006 the Parent Company issued 6,000,000 ordinary shares with the par value of RUR 3 / USD* 0.10 each.

Initial public offering

In March 2006 the Company was listed with the Russian Trading System Stock Exchange (RTS) and with the Moscow Interbank Currency Exchange (MICEX). As part of the listing the Parent Company sold 6 million shares issued prior to the offering, and the controlling shareholder sold 24 million shares in the Company at RUR 140 / USD* 4.8 per share.

Acquisition of subsidiaries

Subsequent to the year end the Group acquired controlling interest in OOO Agroinvest (100%), OAO Kondopozhsky KHP (75%) OOO Lgovagroinvest (100%) for a total consideration of RUR 271 million / USD* 9 million.

Loans issued

In March 2006 the Group issued short-term loans to related parties amounting to RUR 600 / USD* 21 million at a fixed rate of 9% per annum. The rate may be revised at discretion of Management.

Loans attracted

In June 2006 the Group received a loan from the Bank of Moscow amounting to RUR 1,000 / USD* 35 million. The loan is repayable in November 2006 and is subject to a prolongation till May 2007. The loan bears a fixed interest rate of 9.5% per annum prior to November and 10.5% per annum for subsequent periods.

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