

OJSC RAZGULAY Group

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

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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

OJSC RAZGULAY Group
Consolidated Statement of Income for the Year Ended 31 December 2005

| | | 2005 | 2004 | 2005 | 2004 |
|--|------|--------------------|-------------|---------------------|-------------|
| | Note | <i>Restated</i> | | <i>Million USD*</i> | |
| | | <i>Million RUR</i> | | | |
| 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 |
| <i>Attributable to:</i> | | | | | |
| 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 J.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).

OJSC RAZGULAY Group
Consolidated Balance Sheet as at 31 December 2005

| | | 2005 | 2004 | 2005 | 2004 |
|---|-------------|---------------------|---------------|----------------------|-------------|
| | <i>Note</i> | <i>Restated</i> | | <i>Millions USD*</i> | |
| | | <i>Millions RUR</i> | | | |
| ASSETS | | | | | |
| <i>Non-current assets</i> | | | | | |
| 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 |
| <i>Current assets</i> | | | | | |
| 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 | | | | | |
| <i>Equity</i> | | | | | |
| | 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 |
| <i>Non-current liabilities</i> | | | | | |
| Loans and borrowings | 22 | 2,008 | 71 | 70 | 2 |
| Deferred tax liabilities | 18 | 1,437 | 590 | 50 | 20 |
| | | 3,445 | 661 | 120 | 22 |
| <i>Current liabilities</i> | | | | | |
| 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 | 2005 | 2004 |
|---|---------------------|---------|----------------------|------|
| | <i>Restated</i> | | | |
| | <i>Millions RUR</i> | | <i>Millions USD*</i> | |
| OPERATING ACTIVITIES | | | | |
| Net profit for the year | 1,397 | 1,292 | 48 | 45 |
| <i>Adjustments for:</i> | | | | |
| 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).

OJSC RAZGULAY Group
Consolidated Statement of Cash Flows for the Year Ended 31 December 2005

| | 2005 | 2004 | 2005 | 2004 |
|--|---------------------|-------------|----------------------|-------------|
| | <i>Restated</i> | | | |
| | <i>Millions RUR</i> | | <i>Millions USD*</i> | |
| 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 Razgulaiy-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.

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

All 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. |

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

(d) 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.

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

(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.

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

(n) Insurance contracts

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

(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.

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

(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.

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

| <i>Million RUR</i> | 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).

| <i>Million USD*</i> | 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:

| | <i>Million RUR</i> | <i>Million USD*</i> |
|---|--------------------|---------------------|
| 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 integrated within the Group, it is not practicable to determine the acquiree's financial results since the acquisition date included in the Group's statement of income for the year. The above also applies to the disclosure of the consolidated revenues for the year and the net financial results for the year determined on the basis that the acquisitions had occurred on 1 January 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 December | Grain mill | 100% |
| ZAO Druzhba OAO Kineshensky mukomolny kombinat | 2005 January 2005 | Grain farming Grain mill | 100% 90% |
| OAO Khlebnaya baza #63 ZAO Kolomensky kombinat khleboproduktov | January 2005 October 2005 | Grain mill Grain mill | 52% 100% |
| OAO Krivets-sakhar ZAO Nurlatsky sakhar | June 2005 June 2005 | Sugar plant Sugar plant | 97% 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 <i>Million RUR</i> | 2004 | 2005 <i>Million USD*</i> | 2004 |
|---|----------------------------|------|-----------------------------|------|
| 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 <i>Restated</i> | 2005 | 2004 |
|---|--------------------|-------------------------|---------------------|------------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| Revenues from sales | 19,048 | 17,763 | 662 | 617 |
| Revenues from processing and storage services | 731 | 546 | 25 | 19 |
| | <u>19,779</u> | <u>18,309</u> | <u>687</u> | <u>636</u> |

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 |
|-------------------------------|--------------------|--------------|---------------------|-------------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| Wages and salaries | (441) | (316) | (15) | (11) |
| Other administrative expenses | (214) | (141) | (8) | (5) |
| | <u>(655)</u> | <u>(457)</u> | <u>(23)</u> | <u>(16)</u> |

(*) 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 | 2005 | 2004 |
|---|--------------------|--------------|---------------------|-------------|
| | <i>Restated</i> | | | |
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| 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) |
| | <u>(221)</u> | <u>(709)</u> | <u>(9)</u> | <u>(25)</u> |

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 |
|--|--------------------|------------|---------------------|----------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| 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 |
| | <u>148</u> | <u>106</u> | <u>5</u> | <u>4</u> |

(*) 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 | 2005 | 2004 |
|---|--------------------|--------------|---------------------|-------------|
| | <i>Restated</i> | | | |
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| <i>Financial income</i> | | | | |
| 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 |
| <i>Financial expenses</i> | | | | |
| 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 |
|---|--------------------|-----------|---------------------|----------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| Current tax | (26) | (17) | (1) | (1) |
| <i>Deferred tax</i> | | | | |
| 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 |
| | <u>248</u> | <u>9</u> | <u>25</u> | <u>39</u> | <u>1</u> | <u>3</u> |

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

| <i>Millions RUR</i> | Land and buildings | Plant and equipment | Vehicles | Fixtures and fittings | Construction in progress | Total |
|--|--------------------|---------------------|----------|-----------------------|--------------------------|----------|
| <i>Cost/Revalued amount</i> | | | | | | |
| 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 |
| <i>Depreciation and impairment losses</i> | | | | | | |
| 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 | - | - | - | - | - | - |
| <i>Net book value</i> | | | | | | |
| 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).

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| <i>Millions USD*</i> | Land and buildings | Plant and equipment | Vehicles | Fixtures and fittings | Construction in progress | Total |
|--|--------------------|---------------------|----------|-----------------------|--------------------------|-------|
| <i>Cost/Revalued amount</i> | | | | | | |
| 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 |
| <i>Depreciation and impairment losses</i> | | | | | | |
| 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 | - | - | - | - | - | - |
| <i>Net book value</i> | | | | | | |
| 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 "Stroylnkor", 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 |
|---|----------|-------------------|-------------------------|---------|
| <i>Cost</i> | | | | |
| 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 |
| <i>Amortisation</i> | | | | |
| 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 | - | - | - | - |
| <i>Net book value</i> | | | | |
| 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).

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| <i>USD* million</i> | Goodwill | Negative goodwill | Other intangible assets | Total |
|---|----------|-------------------|-------------------------|-------|
| <i>Cost</i> | | | | |
| 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 |
| <i>Amortisation</i> | | | | |
| 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 | - | - | - | - |
| <i>Net book value</i> | | | | |
| 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 <i>Million RUR</i> | 2004 | 2005 <i>Million USD*</i> | 2004 |
|---|----------------------------|-------|-----------------------------|------|
| 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:

| <i>Million RUR</i> | 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) |

| <i>Million USD*</i> | 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 |
|----------------------------------|--------------------|------|---------------------|------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| 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

| <i>Million RUR</i> | 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) | <u>(590)</u> | <u>274</u> | <u>(412)</u> | <u>(709)</u> | <u>-</u> | <u>(1,437)</u> |

| <i>Million USD*</i> | 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) | <u>(20)</u> | <u>10</u> | <u>(15)</u> | <u>(25)</u> | <u>-</u> | <u>(50)</u> |

| <i>Million RUR</i> | 1 January 2004 | Recognised in income | Recognised in equity | 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) | <u>(638)</u> | <u>56</u> | <u>(8)</u> | <u>-</u> | <u>-</u> | <u>(590)</u> |

| <i>Million USD*</i> | 1 January 2004 | Recognised in income | Recognised in equity | 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) | <u>(22)</u> | <u>2</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(20)</u> |

19 Inventories

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

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 |
|---------------------------------------|--------------------|--------------|---------------------|------------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| 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 |
|--|--------------------|---------------------|
| | <i>Million RUR</i> | <i>Million USD*</i> |
| 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 <i>Million RUR</i> | 2004 <i>Million USD*</i> |
|--|----------------------------|-----------------------------|
| 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 <i>Restated</i> | 2005 | 2004 |
|---|--------------------|-------------------------|---------------------|------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| <i>Non-current</i> | | | | |
| Unsecured bond issue | 2,000 | - | 70 | - |
| Unsecured non-bank loans | 8 | 7 | - | - |
| Secured bank loans | - | 64 | - | 2 |
| | 2,008 | 71 | 70 | 2 |
| <i>Current</i> | | | | |
| 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:

| <i>RUR million</i> | 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).

| <i>USD* million</i> | 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 | - |
| | <u>177</u> | <u>107</u> | <u>70</u> |

(**) 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 | 2005 | 2004 |
|--|--------------------|------------|---------------------|-----------|
| | <i>Restated</i> | | | |
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| 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 Razgulyay-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

| <i>RUR million</i> | 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 |
| | | | | |
| <i>USD*million</i> | 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

| <i>RUR million</i> | 2005 | 2005 | 2004 | 2004 |
|---|----------------|---------------------|----------------|---------------------|
| | Transaction | Outstanding balance | Transaction | 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) | - |
| | <u>(1,960)</u> | <u>897</u> | <u>(2,691)</u> | <u>(13)</u> |
| | | | | |
| <i>USD*million</i> | 2005 | 2005 | 2004 | 2004 |
| | Transaction | Outstanding balance | Transaction | 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) | - | - | - |
| | <u>(68)</u> | <u>32</u> | <u>(93)</u> | <u>-</u> |

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

| <i>RUR million</i> | 2005 | 2005 | 2004 | 2004 |
|-----------------------|---------------|---------------------|---------------|---------------------|
| | Amount loaned | Outstanding balance | Amount loaned | Outstanding balance |
| Loans received | | | | |
| - Fellow subsidiaries | (885) | (885) | - | - |
| Loans given | | | | |
| - Fellow subsidiaries | - | - | 2 | 2 |
| - Associates | - | - | 37 | 37 |
| | <u>(885)</u> | <u>(885)</u> | <u>39</u> | <u>39</u> |

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

| <i>USD* million</i> | 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 |
| Rusko-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 |
| <i>Sugar segment</i> | | |
| 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 |
| <i>Subsidiaries disposed of to third parties</i> | | |
| 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 |
|---|--------------------|--------------|---------------------|-----------|
| | <i>Million RUR</i> | | <i>Million USD*</i> | |
| 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.

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