



OJSC LEBEDYANSKY
International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2007

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of open joint stock company Lebedyansky:

- 1 We have audited the accompanying consolidated financial statements of open joint stock company Lebedyansky and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of cashflows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
2 June 2008

	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	7	354,816	215,107
Goodwill	8	6,052	5,572
Other intangible assets	9	15,412	13,218
Prepayments for assets under construction and equipment		28,569	13,397
Total non-current assets		404,849	247,294
Current assets			
Inventories	10	119,900	90,129
Trade and other receivables	11	179,672	123,283
Available-for-sale investments		24	241
Cash and cash equivalents	12	9,372	4,328
Total current assets		308,968	217,981
TOTAL ASSETS		713,817	465,275
EQUITY			
Share capital	13	507	473
Share premium		313	292
Treasury shares		(4,727)	(4,406)
Share option	14	2,678	1,843
Currency translation difference	2	44,193	23,301
Retained earnings		275,609	216,022
Equity attributable to the Company's equity holders		318,573	237,525
Minority interest		-	5,790
TOTAL EQUITY		318,573	243,315
LIABILITIES			
Non-current liabilities			
Borrowings	15	131,940	49,709
Finance leases payable	16	57,283	25,222
Deferred income tax liability	24	13,906	13,790
Other non-current liabilities		-	41
Total non-current liabilities		203,129	88,762
Current liabilities			
Borrowings	15	103,847	73,310
Finance leases payable	16	8,927	4,466
Trade and other payables	17	75,281	50,590
Tax payable	18	4,060	2,528
Other current liabilities		-	2,304
Total current liabilities		192,115	133,198
TOTAL LIABILITIES		395,244	221,960
TOTAL LIABILITIES AND EQUITY		713,817	465,275

Approved for issue and signed on behalf of the Board of Directors on 2 June 2008.

M. B. Tavkazakov
 Executive Director

D. V. Glavnov
 Finance Director

The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.

OJSC Lebedyansky
Consolidated Income Statement for the year ended 31 December 2007
(all items are measured in Russian Roubles and presented in thousands of US Dollars, unless otherwise stated (Note2))

	Note	2007	2006
Revenue		944,898	709,779
Cost of sales	19	(548,352)	(413,243)
Gross profit		396,546	296,536
Selling and distribution costs	20	(210,010)	(131,598)
General and administrative expenses	21	(61,568)	(42,363)
Other operating expenses		(528)	(114)
Operating profit		124,440	122,461
Finance income	22	3,620	2,702
Finance costs	23	(17,603)	(5,734)
Profit before income tax		110,457	119,429
Income tax expense	24	(31,126)	(31,750)
Net profit for the year		79,331	87,679
Profit is attributable to:			
Equity holders of the Company		78,931	86,068
Minority interest		400	1,611
Net profit for the year		79,331	87,679
Earnings per share for profit attributable to the Company's equity holders (expressed in US\$ per share)			
- basic	25	3.89	4.24
- diluted		3.88	4.23

The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.

	Note	2007	2006
Cash flows from operating activities			
Profit before income tax		110,457	119,429
Adjustments for:			
Expense to share option program	14	672	1,020
Depreciation of property, plant and equipment	7, 21	31,152	16,317
Amortisation of other intangible assets	21	458	194
Impairment of trade and other receivables	21	705	169
Allowance for obsolete inventory		191	236
Deferred income		(2,372)	(2,232)
Losses on disposals of property, plant and equipment		638	120
Interest income, expense and finance lease charges	22, 23	13,118	2,414
Granted treasury shares	13	-	587
Reversal provision for Orisfei		(168)	-
Unrealised foreign exchange losses less gains on non-operating items		(125)	471
Operating cash flows before working capital changes		154,726	138,725
Increase in trade receivables		(30,406)	(19,084)
Increase in advances and other receivables		(3,103)	(3,297)
Increase in VAT and other tax receivables		(19,453)	(12,017)
Increase in inventories		(22,473)	(21,748)
Increase in trade and other payables		16,508	8,417
Increase/(decrease) in taxes payable		2,247	3,512
Cash generated from operations		98,046	94,508
Income taxes paid		(24,931)	(27,252)
Interest paid		(11,382)	(2,777)
Net cash generated from operating activities		61,733	64,479
Cash flows from investing activities			
Purchase of property, plant and equipment and prepayments for assets under construction and equipment		(125,408)	(69,372)
Purchase of intangible assets		(1,462)	(1,208)
Proceeds from sale of property, plant and equipment		513	1,070
Loan provided		-	(29)
Receipts from repayment of loans		173	773
Interest received		21	346
Change in available-for-sale investments		225	106
Acquisition of subsidiaries net of cash acquired		-	(45,014)
Acquisition of additional interest in subsidiary	27	(2,205)	-
Net cash used in investing activities		(128,143)	(113,328)
Cash flows from financing activities			
Proceeds from borrowings		626,547	142,048
Repayment of borrowings		(527,655)	(38,901)
Repayment of financial lease liability		(5,390)	(4,510)
Dividend paid		(22,250)	(51,213)
Net cash generated from financing activities		71,252	47,424
Net increase/(decrease) in cash and cash equivalents		4,842	(1,425)
Cash and cash equivalents at the beginning of the year		4,328	4,777
Currency translation difference on cash and cash equivalents	2	202	976
Cash and cash equivalents at the end of the year	12	9,372	4,328

The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.

	Attributable to the Company's equity holders						Minority Interest	Total equity	
	Share capital	Share premium	Treasury shares	Share options	Cumulative currency translation difference	Retained earnings			Total
Balance at January 2006	432	32	(4,351)	723	4,870	181,167	182,873	3,775	186,648
Currency translation difference (Note 2)	41	11	(393)	100	18,431	-	18,190	404	18,594
Net income recognised directly in equity	41	11	(393)	100	18,431	-	18,190	404	18,594
Profit for the year	-	-	-	-	-	86,068	86,068	1,611	87,679
Total recognised income	41	11	(393)	100	18,431	86,068	104,258	2,015	106,273
Share based compensation (Note 14)	-	-	-	1,020	-	-	1,020	-	1,020
Sale of treasury shares (Note 13)	-	249	338	-	-	-	587	-	587
Dividends paid (Note 13)	-	-	-	-	-	(51,213)	(51,213)	-	(51,213)
Balance at 31 December 2006	473	292	(4,406)	1,843	23,301	216,022	237,525	5,790	243,315
Balance at 1 January 2007	473	292	(4,406)	1,843	23,301	216,022	237,525	5,790	243,315
Currency translation difference	34	21	(321)	163	20,892	-	20,789	171	20,960
Net income recognised directly in equity	34	21	(321)	163	20,892	-	20,789	171	20,960
Profit for the year	-	-	-	-	-	78,931	78,931	400	79,331
Total recognised income	34	21	(321)	163	20,892	78,931	99,720	571	100,291
Share based compensation (Note 14)	-	-	-	672	-	-	672	-	672
Dividends paid (Note 13)	-	-	-	-	-	(23,500)	(23,500)	-	(23,500)
Acquisition of additional interest in subsidiary (Note 27)	-	-	-	-	-	4,156	4,156	(6,361)	(2,205)
Balance at 31 December 2007	507	313	(4,727)	2,678	44,193	275,609	318,573	-	318,573

The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.

1 OJSC Lebedyansky and its Operations

Open joint stock company Lebedyansky ("the Company" or "Lebedyansky") and its subsidiaries ("the Group") principal activities are production and distribution of juices, juice based drinks, baby food juices and purees and mineral water. The Group's juices and juice based drinks are distributed under the brands Ya, Tonus, Fruktovy Sad, Frustail, Privet, Vitamin, Tusa Jusa, Dolka, Severnaya Yagoda, Nektarinika; baby food juices are distributed under the brands Frutonyanya and Malysyam; baby food purees under the brand Frutonyanya; ice tea is distributed under the brand Edo; mineral water is distributed under the brand Lipitskiy Buvet. The Group's manufacturing facilities are primarily based in the Lipetsk region, Russian Federation. The parent company, open joint stock company Lebedyansky was incorporated and domiciled as an open joint stock company in the Russian Federation in 1992.

The major shareholders of the Company are Bortsov N. I., Bortsov Y. N., Belyavtseva O. A. and Fadeev D. A., who held respectively 30%, 25%, 18.4% and 2% shares of the Company at 31 December 2007. At 31 December 2006 the major shareholders of the Company were Bortsov N. I., Bortsov Y. N., Belyavtseva O. A. and Fadeev D. A., who held respectively 30%, 25%, 18.4% and 2% shares of the Company.

The Company's shares are on the RTS Stock Exchange ("RTS") and subsequently on the Moscow Interbank Currency Exchange ("MICEX").

The principal subsidiaries consolidated within the Group and the degree of control exercised by Lebedyansky are as follows:

Entity	Country of Incorporation	Activity	% share at	
			31 December 2007	31 December 2006
OJSC Progress	Russia	Juice production	100%	75%
LLC Troya Ultra	Russia	Juice production	100%	100%
DP Sandance	Ukraine	Juice distribution	100%	100%
Sandance Kazakhstan	Kazakhstan	Juice distribution	100%	100%
CJSC Enter-Logistica	Russia	Warehouse facilities	100%	100%
CJSC Lebedyansky O.P.	Russia	Investing	100%	100%
LLC Progress Activ	Russia	Water distribution	100%	100%
LLC Progress Detskoe Pitanie	Russia	Baby food distribution	100%	100%

In August 2007 the Company acquired additional 25% shares in OJSC Progress and increased its share in OJSC Progress to 100% (Note 27).

The registered office of the Company is ul. Matrosova 7, Lebedyan, Lipetsk region, Russian Federation.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. The consolidated financial statements of OJSC Lebedyansky have been prepared in accordance with International Financial Reporting Standards. These consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in Note 3.

Functional currency. The functional currency for the Group's subsidiaries located in Russia is the national currency of the Russian Federation, Russian Rouble ("RR"). In the case of subsidiaries located in other territories, where the functional currency is not the RR, the financial statements have been measured in local currency and translated into presentation currency at the applicable exchange rates as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") for inclusion in these consolidated financial statements.

Translation from functional to presentation currency. These consolidated financial statements have been presented in US dollars ("US\$"), which management believes is the most useful currency to adopt for users of these consolidated financial statements. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation (hereinafter "CBRF") as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as cumulative currency translation difference, a separate component of equity.

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 24.5462 (2006: USD 1 = RR 26.3311).

2 Basis of Preparation and Significant Accounting Policies (Continued)

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Purchases of minority interest. The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

Property, plant and equipment. Property, plant and equipment are stated at historical cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributed to the acquisition of the items. Such cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalue amounts to their residual values over their estimated useful lives, as follows:

	<u>Useful lives in years</u>
Buildings and constructions	10 to 50
Machinery and equipment	7 to 15
Computer hardware	3 to 5
Motor vehicles	3 to 7

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other operating expenses" in the income statement.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment annually and whenever there are indications that goodwill may be impaired. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets. The Group's other intangible assets include trademarks, capitalised patents, licences, computer software and customers lists. All of the Group's other intangible assets are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	<u>Useful lives in years</u>
Software licenses	5 to 7
Other (including customer lists and patents)	5 to 10

Acquired trademarks are not amortised, the Group tests the assets for impairment at each reporting date.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered a impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Financial assets. The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

(c) Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note "Trade and other receivables".

Current and deferred income tax. Income taxes have been provided for in these consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Trade and other receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than three months overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'general and administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in the income statement.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are approved (and declared) by the Company's shareholders before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or approved (and declared) by the Company's shareholders after the balance sheet date but before the financial statements are authorised for issue.

Value added tax. Output value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales are shown net of VAT, sales tax, sales incentive payments (including: retrospective bonuses, slotting fees, volume discounts) and after eliminating sales within the Group.

Revenues are measured at the fair value of the consideration received or receivable.

Segment reporting. In the context of IAS 14 "Segment information" the Group has one reportable business and geographical segment.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Share based compensation. The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) **Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

(b) **Goodwill impairment calculations.** The group test annually whether goodwill has suffered any impairment, in accordance with the policy stated in Note 2. The recoverable amount of cash-generating units have been determined based on value in use calculations. These calculation require the use of estimates (Note 8). If growth rate in the impairment test of goodwill related to acquisition of OOO Troya-Ultra had been 10%, with all other variables held constant, this goodwill would have been on breakeven. The goodwill related to acquisition of OJSC Progress and OJSC Enter-Logistica would have been impaired, if growth rate used for impairment test had been negative, with all other variables held constant.

(c) **Trademarks with indefinite useful life.** The Group accounted trademarks Dolka, Privet and Severnaya Yagoda acquired in 2006 as a part of OOO Troya-Ultra acquisition as intangible assets with indefinite useful life. The Group decision to account these trademarks as intangible assets with indefinite useful life was driven by the following factors: (i) these trademarks have been well known in the north-west region of Russia and the Group's intention is to continue production of juices under these trademarks; (ii) independence of these trademarks from technology of juice production; and (iii) indefinite life cycle for the Group's products. The Group tests annually whether trademarks with indefinite useful life has suffered any impairment, in accordance with the policy stated in Note 2. The recoverable amount of trademarks have been determined based on value in use calculations. These calculation require the use of estimates (Note 8). If growth rate in the impairment test of trademarks Dolka, Privet and Severnaya Yagoda had been 10%, with all other variables held constant, these trademarks would have been on breakeven.

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and did not have any impact on the classification and valuation of the group's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the group's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations (Continued)

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- Revised guidance on implementing IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing the impact of this standard on its consolidated financial statements.

Puttable financial instruments and obligations arising on liquidation — IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to affect its consolidated financial statements, due to the fact that the Group already capitalise all borrowing costs as part of the cost of assets that take a substantial period of time to get ready for use.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

5 New Accounting Pronouncements (Continued)

Vesting Conditions and Cancellations — Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

6 Balances and Transactions with Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 and 31 December 2006 are detailed below.

i LLC Pervomayskoe

LLC Pervomayskoe is a company controlled by one of the Group's major shareholders (Note 1). The Group purchased articles of food (254 tonn of straw in 2007 and 9 tonn of meat in 2006) and rent warehouse from LLC Pervomayskoe in the amount of US\$ 145 thousand for the year ended 31 December 2007 (US\$ 31 thousand for the year ended 31 December 2006).

The Group sold to LLC Pervomayskoe other services and materials in the amount of US\$ 81 thousand for the year ended 31 December 2007 (US\$ 2 thousand for the year ended 31 December 2006). Receivable from LLC Pervomayskoe were US\$ 772 thousand and US\$ 737 thousand at 31 December 2007 and at 31 December 2006, respectively.

Before 2005 the Group had acquired promissory notes of LLC Pervomayskoe at par value. The notes are interest free and payable upon demand. The Group held US\$ 1,435 thousand of promissory notes issued by LLC Pervomayskoe at 31 December 2006 and did not hold promissory notes issued by LLC Pervomayskoe at 31 December 2007. At 31 December 2006 and 31 December 2005 management recognised impairment provision in the full amount against promissory notes of LLC Pervomayskoe. These promissory notes were derecognised in 2007 in full amount.

ii LLC Orisfey

LLC Orisfey is a company engaged in the production and sale of low alcoholic cocktails and is controlled by one of the Group's major shareholders (Note 1).

In 2004 the Group provided LLC Orisfey with a RR denominated loan in the amount US\$ 6,135 thousand for the acquisition of equipment and maintaining working capital. In 2005 an additional loan of US\$ 106 thousand was provided to LLC Orisfey by the Group. The loan bears interest of 2% per annum. The amount of loan principle due from LLC Orisfey was US\$ 4,980 thousand and US\$ 4,578 thousand at 31 December 2007 and at 31 December 2006, respectively. Management became aware of LLC Orisfey shareholders' decision to shut down the project and after considering financial position of LLC Orisfey recognised an impairment provision against the full amount of the loan outstanding at 31 December 2007 and at 31 December 2006. In the year ended 31 December 2007 LLC Orisfey repaid US\$ 173 thousand of the loan and US\$ 41 thousand of interest. The Group reversed impairment provision against the loan for an amount repaid (Note 11).

6 Balances and Transactions with Related Parties (Continued)

ii LLC Orisfey (continued)

In 2004 the Group incurred advertising and marketing expenses in the amount of US\$ 1,344 thousand on behalf of LLC Orisfey and recharged these expenses to LLC Orisfey at cost. At 31 December 2007 and at 31 December 2006 US\$ 1,061 thousand and US\$ 996 thousand respectively, was due from LLC Orisfey. The amount is included in advances to suppliers and other receivables balance. Management recognised an impairment provision in the amount of US\$ 1,061 thousand and US\$ 996 thousand at 31 December 2007 and 31 December 2006 respectively against this receivable.

Receivable from LLC Orisfey was US\$ 1.5 thousand and US\$ 1 thousand at 31 December 2007 and at 31 December 2006, respectively.

Payables to LLC Orisfey were US\$ 54 thousand and US\$ 55 thousand at 31 December 2007 and at 31 December 2006, respectively.

iii LLC Pharma Trade

LLC Pharma Trade is a company owned by LLC Orisfey and is engaged in the production and sale of oxygenated cocktails. The Group had receivable for the promissory notes from LLC Pharma Trade amounting to US\$ 24 thousand and US\$ 209 thousand at 31 December 2007 and at 31 December 2006, respectively.

The Group purchased oxygenated cocktails from LLC Pharma Trade in the amount of US\$ 98 thousand for the year ended 31 December 2007. In the year ended 31 December 2007 the Group used promissory notes of LLC Pharma Trade to settle the liability for the oxygenated cocktails in the amount of US\$ 192 thousand. The Group had trade payable to LLC Pharma Trade amount of US\$ 0.4 thousand and US\$ 95 thousand at 31 December 2007 and at 31 December 2006, respectively.

iv LLC Assol

LLC Assol is a company controlled by certain of the Group shareholders.

In the year ended 31 December 2007 the Group has purchased from LLC Assol services in the amount of US\$ 181 thousand. The Group's accounts payable to LLC Assol were US\$ 28 thousand and US\$ 25 thousand at 31 December 2007 and at 31 December 2006, respectively.

v Key management personnel compensation

Compensation paid to directors for their services in full or part time executive management positions is made up of a contractual salary and a discretionary bonus depending on operating results. Discretionary bonuses are payable to directors, which are approved by the shareholders, provided the Group has profit for the period.

Total compensation of key management personnel including discretionary bonuses recorded in general and administrative expenses in the consolidated income statement amounted to US\$ 4,198 thousand for the year ended 31 December 2007 (2006: US\$ 4,920 thousand). The amount includes short term benefits in the amount of US\$ 3,356 thousand (2006: US\$ 3,738 thousand), an expense relating to the share option program in the amount of US\$ 672 thousand (2006: US\$ 1,020 thousand) and unified social tax in the amount of US\$ 170 thousand (2006: US\$ 162 thousand).

In January 2006 the Group also sold to the key management personnel 9,000 shares of the Company at par value of RR 0.01 per share. The market value of the Company's ordinary share was US\$ 65.3 (RR 1,774) at the date of sale.

OJSC Lebedyansky
Notes to the Consolidated Financial Statements – 31 December 2007
(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2))
7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and constructions	Machinery and equipment	Computer hardware	Motor vehicles	Other	Assets under construction and equipment for installation	Total
<u>Cost</u>							
Balance at 1 January 2006	19,286	89,802	1,908	9,789	2,818	25,889	149,492
Acquisition of subsidiaries	13,670	10,705	148	2	6,316	648	31,489
Additions	3	18,235	41	177	103	54,149	72,708
Disposals	(428)	(394)	(120)	(958)	(187)	(392)	(2,479)
Internal movements	2,550	46,916	1,034	4,533	1,065	(56,098)	-
Currency translation difference	2,165	10,650	211	1,035	439	2,351	16,851
Balance at 31 December 2006	37,246	175,914	3,222	14,578	10,554	26,547	268,061
<u>Accumulated Depreciation</u>							
Balance at 1 January 2006	(3,389)	(25,610)	(956)	(3,099)	(1,163)	-	(34,217)
Depreciation charge	(1,088)	(11,383)	(628)	(2,763)	(455)	-	(16,317)
Disposals	173	279	72	637	122	-	1,283
Currency translation difference	(345)	(2,762)	(107)	(358)	(131)	-	(3,703)
Balance at 31 December 2006	(4,649)	(39,476)	(1,619)	(5,583)	(1,627)	-	(52,954)
<u>Carrying amount</u>							
Balance at 1 January 2006	15,897	64,192	952	6,690	1,655	25,889	115,275
Balance at 31 December 2006	32,597	136,438	1,603	8,995	8,927	26,547	215,107

7 Property, Plant and Equipment (Continued)

	Buildings and constructions	Machinery and equipment	Computer hardware	Motor vehicles	Other	Assets under construction and equipment for installation	Total
Cost							
Balance at 1 January 2007	37,246	175,914	3,222	14,578	10,554	26,547	268,061
Additions	145	38,573	57	316	318	119,775	159,184
Disposals	(2,268)	(4,496)	(137)	(831)	(586)	(7,030)	(15,348)
Internal movements	8,735	21,465	1,062	5,761	13,829	(50,852)	-
Currency translation difference	2,984	15,660	275	1,281	1,372	4,530	26,102
Balance at 31 December 2007	46,842	247,116	4,479	21,105	25,487	92,970	437,999
Accumulated Depreciation							
Balance at 1 January 2007	(4,649)	(39,476)	(1,619)	(5,583)	(1,627)	-	(52,954)
Depreciation charge	(1,903)	(21,082)	(981)	(4,168)	(3,018)	-	(31,152)
Disposals	1,204	4,075	105	630	303	-	6,317
Currency translation difference	(389)	(3,409)	(201)	(554)	(841)	-	(5,394)
Balance at 31 December 2007	(5,737)	(59,892)	(2,696)	(9,675)	(5,183)	-	(83,183)
Carrying amount							
Balance at 1 January 2007	32,597	136,438	1,603	8,995	8,927	26,547	215,107
Balance at 31 December 2007	41,105	187,224	1,783	11,430	20,304	92,970	354,816

Property, plant and equipment of with net book value of US\$ nil (2006: US\$ 8,576) have been pledged as collateral for bank loans (Note 15).

7 Property, Plant and Equipment (Continued)

Leased assets included in the table above, where the Group is a lessee under a finance lease arrangements, comprise machinery and equipment:

	2007	2006
Cost: capitalised finance leases	109,884	65,314
Accumulated depreciation	(22,986)	(15,106)
Carrying amount at 31 December	86,898	50,208

The additions of finance leases in the year ended 31 December 2007 and 31 December 2006 amounted to US\$ 38,216 thousand and US\$ 18,223 thousand respectively.

Total borrowing cost capitalized relating to assets under construction, at a rate of 4.89% (2006: 4.73%) in the year ended 31 December 2007 amounted to US\$ 42 thousand (2006: US\$ 679 thousand).

8 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	2007	2006
Gross book value as previously reported at 1 January	5,572	486
Carrying amount at 1 January	5,572	486
Acquisition of subsidiaries	-	4,953
Currency translation difference	480	133
Carrying amount at 31 December	6,052	5,572
Gross book value at 31 December	6,052	5,572
Carrying amount at 31 December	6,052	5,572

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	2007	2006
LLC Troya Ultra	4,639	4,325
CJSC Enter-Logistica	843	715
OJSC Progress	570	532
Total carrying amount of goodwill	6,052	5,572

The recoverable amount of OJSC Progress, LLC Troya Ultra and CJSC Enter-Logistica was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	OOO Troya Ultra 2007	OJSC Progress 2007	CJSC Enter-Logistica 2007
Growth rate	15% p.a.	10% p.a.	20% p.a.
Pre-tax discount rate	13% p.a.	13% p.a.	13% p.a.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

9 Other Intangible Assets

	Trademarks	Software and Other	Total
Cost at 1 January 2006	193	2,534	2,727
Accumulated depreciation	-	(192)	(192)
Carrying amount at 1 January 2006	193	2,342	2,535
Acquisitions of subsidiaries	8,051	844	8,895
Additions	4	1,566	1,570
Amortization charge	-	(203)	(203)
Currency translation difference	145	276	421
Carrying amount at 31 December 2006	8,393	4,825	13,218
Cost at 31 December 2006	8,393	5,242	13,635
Accumulated depreciation	-	(417)	(417)
Carrying amount at 31 December 2006	8,393	4,825	13,218
Additions	-	1,641	1,645
Amortization charge	-	(458)	(458)
Currency translation difference	611	400	1,007
Carrying amount at 31 December 2007	9,004	6,408	15,412
Cost at 31 December 2007	9,004	7,291	16,295
Accumulated depreciation	-	(883)	(883)
Carrying amount at 31 December 2007	9,004	6,408	15,412

Trademarks include Dolka, Privet and Severnaya Yagoda, with a carrying amount of US\$ 9,004 thousand at 31 December 2007 (2006: US\$ 8,393 thousand) have an indefinite useful life.

The Group did not recognise impairment of these trademarks at 31 December 2007 as recoverable amount determined based on value-in-use calculations exceeded their carrying amount. The main assumptions used for value-in-use calculations are stated in the Note 8.

10 Inventories

	2007	2006
Raw materials	80,409	50,700
Work in progress	7,199	9,598
Finished products	32,554	30,262
Less obsolescence provision	(262)	(431)
Total inventories	119,900	90,129

11 Trade and Other Receivables

	2007	2006
Trade receivables	115,676	77,594
Less: impairment provision	(2,656)	(2,622)
Loan to LLC Orisfey	4,980	4,578
Less: impairment provision against loan to LLC Orisfey	(4,980)	(4,578)
Total financial assets	113,020	74,972
VAT recoverable	43,278	29,269
Advances to supplier and other receivables	21,442	17,291
Profit tax advance	1,932	1,751
Total trade and other receivables	179,672	123,283

11 Trade and Other Receivables (Continued)

The above financial assets will have matured in less than one year; therefore the carrying amounts are assumed to be approximate their fair values.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of US\$ 15,061 thousand (2006: US\$ 10,038 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007	2006
Up to 3 months	14,040	10,038
3 to 6 months	835	-
Past due more than 6 months	186	-
	15,061	10,038

As of 31 December 2007, trade receivables of US\$ 2,656 thousand (2006: US\$ 2,622 thousand) were impaired and provided for. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007	2006
3 to 6 months	1,677	1,099
Over 6 months	979	1,523
	2,656	2,622

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2007	2006
Russian rouble	175,473	121,567
United States dollar	2,054	317
EURO	338	332
Other currencies	1,807	1,067
	179,672	123,283

Movements on the Group provision for impairment of trade receivables are as follows:

	2007	2006
At 1 January	2,622	2,746
Provision for receivables impairment	705	169
Receivables written off during the year as uncollectible	(708)	(602)
Currency translation difference	37	309
At 31 December	2,656	2,622

The creation and release of provision for impaired receivables have been included in General and Administrative expenses in the income statement (Note 21). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Loan to LLC Orisfey was fully impaired at 31 December 2007 and 31 December 2006. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Analysis of the credit quality of receivables at the reporting date is presented in Note 28.

The Group does not hold any collateral as security.

12 Cash and Cash Equivalents

	2007	2006
RR denominated cash on hand and balances with bank	8,757	4,313
Foreign currency denominated balances with bank (UAH)	96	-
Foreign currency denominated balances with bank (KZT)	519	15
Total cash and cash equivalents	9,372	4,328

Cash balances with banks bear interest from 0.1 to 3.5% per annum depending on the level of daily balances.

12 Cash and Cash Equivalents (Continued)

All bank balances are neither past due nor impaired. Analysis of credit quality of bank balances is as follows:

	2007	2006
AAA rated	5,645	2,842
BB to BBB+	3,613	1,365
Cash on hand	114	121
Total cash and cash equivalents	9,372	4,328

13 Share Capital

	Number of outstanding shares	Number of treasury shares	Total number of issued shares
At 1 January 2006	20,288,832	122,468	20,411,300
Treasury shares sold	9,000	(9,000)	-
At 31 December 2006	20,297,832	113,468	20,411,300
At 31 December 2007	20,297,832	113,468	20,411,300

The issued share capital value was US\$ 507 thousand at 31 December 2007 (31 December 2006: US\$ 473 thousand). Nominal value of the issued share capital was RR 204,113 at 31 December 2007 and 31 December 2006. The authorized and issued number of ordinary shares was 20,411,300 at 31 December 2007 and 31 December 2006 with a nominal value per share of RR 0.01. All the shares were fully paid up at 31 December 2007 and 31 December 2006.

The company shares have been admitted to placement and listing on the RTS Stock Exchange ("RTS") and on the Moscow Interbank Currency Exchange ("MICEX").

In April 2005 the Group acquired from one of the Company's shareholders 122,468 ordinary shares of Lebedyansky for US\$ 4,499 thousand at RR 1,022 per share (market price at the date of agreement was RR 1,092 per share). The Company reserved these treasury shares for a share option program for senior management.

In January 2006 the Group sold 9,000 treasury shares to senior management at par value (market price at the date of sale was RR 1,774 per share).

Distributable reserves. In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2007, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was US\$ 78,757 thousand at average exchange rate of RR 25.5770 per US\$ (2006: US\$ 85,344 thousand at average exchange rate of RR 27.1852 per US\$) and the closing balance of the accumulated profit including the current year net statutory profit totalled US\$ 311,951 thousand at official exchange rate of Central Bank of Russian Federation at 31 December 2007 of RR 24,5562 per US\$ (2006: US\$ 236,638 thousand at official exchange rate of Central Bank of Russian Federation at 31 December 2006 of RR 26.3311 per US\$). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

Dividends. On 20 June 2007 Shareholders approved Board of Directors' decision to pay dividends in the amount of US\$ 22,374 thousand (RR 28.42 per ordinary share or US\$ 1.1 per share at official exchange rate of Central Bank of Russian Federation at 20 June 2007 of RR 25.9268 per US\$). The dividends were fully paid out in 2007. The cash paid outside the Group totalled US\$ 22,250 thousand, since US\$ 124 thousand related to treasury shared held by one of the Group subsidiaries remained within the Group.

On 30 June 2006 Shareholders approved Board of Directors' decision to pay dividends in the amount of US\$ 51,213 thousand (RR 68.59 per ordinary share or US\$ 2.53 per share at official exchange rate of Central Bank of Russian Federation at 30 June 2006 of RR 27.08 per US\$).

14 Share Option Plan

In March 2005 the Group granted senior management options to acquire in total 65,500 of the Company's ordinary shares at par value of RR 0.01. The options are exercisable after the Company publishes its financial results for the fourth quarter of 2007 (vesting date), subject to certain conditions, including remaining in employment in the Group by the vesting date and achievement of a targeted market capitalization. The number of vesting options is adjustable upon achievement of targeted market capitalization at the vesting date and this was considered in determining option values at the grant date. The holders of the options are allowed to exercise options before vesting date, in the event that present shareholders cease control over the Company. In case of death of the holder of the options the Group must repurchase the options at a price calculated based on a special formula, linked to EBITDA and long-term liabilities. The amount of the Company's shares that may be granted under this option program should not exceed 122,468.

At 31 December 2007 the Group had 65,500 outstanding options with exercise price of RR 0.01 per share (31 December 2006: 65,500). The vesting and expiry date of outstanding options is publication of the Group's financial results for the fourth quarter of 2007. In March 2008 the options were exercised by the holders. In the year ended 31 December 2007 the Group recognized an expense in the amount of US\$ 672 thousand (in the year ended 31 December 2006 US\$ 1,020 thousand).

The Group has not granted options in the year ended 31 December 2007.

15 Borrowings

The Group borrowings are denominated in the following currencies:

	2007	2006
Non-current		
Bank borrowings denominated in Euro	39,331	27,709
Bank borrowings denominated in US Dollars	31,500	22,000
Bonds issued denominated in Russian roubles	61,109	-
Total non-current borrowings	131,940	49,709
Current		
Bank borrowings denominated in Euro	14,905	8,521
Bank borrowings denominated in US Dollars	4,217	-
Bank borrowings denominated in Russian roubles	84,725	64,789
Total current borrowings	103,847	73,310
Total borrowings	235,787	123,019

All bank borrowings are unsecured at 31 December 2007. Bank borrowings denominated in Russian roubles and amounted to US\$ 1,834 thousand at 31 December 2006 were secured by property plant and equipment (Note 7).

Bank borrowings denominated in Euro in the total value of US\$ 24,394 thousand as of 31 December 2007 are unsecured and bear floating interest rates ranging from EURIBOR +0.4% to EURIBOR +1% at 31 December 2007 and from EURIBOR +0.8% to EURIBOR +1% at 31 December 2006.

Bank borrowing denominated in Euro in the amount of US\$ 29,842 thousand as of 31 December 2007 is unsecured and bear fixed interest rates ranging from 4.61% to 6.43%.

Bank borrowing denominated in US Dollars in the amount of US\$ 35,717 thousand as of 31 December 2007 is unsecured and bears a floating interest rates of LIBOR +2.5%.

Bank borrowings denominated in Russian roubles in the amount of US\$ 44,557 thousand as at 31 December 2007 are unsecured and bear floating interest rate ranging from MOSPRIME +1.15%.

Bank borrowings denominated in Russian roubles in the amount of US\$ 39,766 thousand as at 31 December 2007 bear fixed interest rates ranging from 7% to 8.95% (2006: ranging from 7.86% to 8.00%).

Issued bonds denominated in Russian roubles in the amount of US\$ 61,511 thousand as at 31 December 2007 bear floating interest rate of MOSPRIME +1.43%.

On 6 March 2007, the Group placed 1,500 thousand bonds at par value RR 1,000 each through Moscow Interbank Currency Exchange ("MICEX") with maturity date in 2010. Coupon rate of interest is MOSPRIME rate for three months plus a premium of 1.43%. Issued bonds comprised US\$ 61,109 thousand as of 31 December 2007. Accrued interest comprised US\$ 3,445 thousand for the year ended 31 December 2007 of which unpaid balance was US\$ 401 thousand as of 31 December 2007. The fair value of the bonds at 31 December 2007 was US\$ 60,650 thousand (RR 1,488,750 thousand at exchange rate of RR 24.55 per US\$) based on MICEX quotation of 99.25% at 28 December 2007.

15 Borrowings (Continued)

The exposure of the Group's borrowings to interest rate changes and the contractual reprising dates at the balance sheet dates, are as follows:

	2007	2006
Borrowings due:		
less than 1 year	103,847	73,310
- between 1 and 5 years	128,440	42,630
- over 5 years	3,500	7,349
Total borrowings	235,787	123,019

Management believes that the fair value of these borrowings is not materially different from their carrying amounts.

16 Finance Leases Payable

Minimum lease payments under finance leases and their present values are as follows:

	2007	2006
Finance leases liabilities – minimum lease payments		
Not later than 1 year	12,239	5,783
Later than 1 year and not later than 5 years	47,700	22,700
Later than 5 years	20,937	6,621
	80,876	35,104
Future finance charges on finance leases	(14,666)	(5,417)
Present value of finance leases liabilities	66,210	29,687
Not later than 1 year	8,927	4,466
Later than 1 year and not later than 5 years	38,115	19,291
Later than 5 years	19,168	5,930
	66,210	29,687

The Group leases machinery and equipment for a period of 42-96 months with an option to acquire leased assets at 5% of contract value at the end of the lease. Interest rates for finance leases are determined as LIBOR plus premium within the range of 1.65% - 2.5%.

17 Trade and Other Payables

	2007	2006
Trade payables	56,369	38,390
Payables for property, plant and equipment	7,697	3,946
Total financial payables	64,066	42,336
Accrued salaries and bonuses to personnel	9,846	6,941
Advances received	1,369	1,313
Trade and other payables	75,281	50,590

The carrying amounts of the company's trade payables are denominated in the following currencies:

	2007	2006
Russian Roubles	49,887	23,757
United States dollar	13,440	16,547
EURO	11,762	10,164
Other currencies	192	122
	75,281	50,590

18 Tax Payable

	2007	2006
Income tax	105	185
Payroll taxes	1,057	920
Property tax	975	296
Other taxes	1,923	1,127
	4,060	2,528

In 2007 the Group settled income tax liability in the amount of US\$ 7,993 thousand against VAT recoverable (2006: US\$ 7,366 thousand).

19 Cost of Sales

	2007	2006
Materials and components used	486,177	373,885
Labour cost	21,241	15,163
Depreciation	22,715	12,076
Production overheads	18,219	12,119
	548,352	413,243

20 Selling and Distribution Expenses

	2007	2006
Advertising	47,533	33,068
Transportation	77,898	43,980
Labour cost	47,740	32,842
Warehousing	21,482	11,862
Write-off of inventories and finished goods	6,855	3,441
Other	8,502	6,405
	210,010	131,598

21 General and Administrative Expenses

	2007	2006
Labour cost	27,733	20,669
Depreciation and amortisation	8,895	4,435
Taxes	2,450	839
Telecommunication expenses	1,832	1,304
Provision for impairment of receivables	705	169
Business trip expenses	1,916	1,627
Office rent	4,460	3,162
Other	13,577	10,158
	61,568	42,363

The total staff costs included in all income statement captions amounted to US\$ 96,714 thousand (2006: US\$ 68,674 thousand), including short-term benefits of US\$ 79,706 thousand (2006: US\$ 55,730 thousand), unified social tax of US\$ 16,336 thousand (2006: US\$ 11,337 thousand), an expense relating to the share option program of US\$ 672 thousand (2006: US\$ 1,020 thousand) and fair value of the shares amounted to US\$ 587 (Note 6) granted to the management in 2006.

The total depreciation and amortisation expenses included in all income statement captions amounted to US\$ 31,610 thousand (2006: US\$ 16,511 thousand).

22 Finance Income

	2007	2006
Interest income on originated loans and bank deposits	25	453
Foreign exchange gain	3,422	1,926
Reversal of provision for impairment of loan granted to LLC Orisfey (Note 6)	173	323
	3,620	2,702

23 Finance Costs

	2007	2006
Interest expense on bank loans and bonds	11,051	2,212
Finance lease charge	1,864	655
Foreign exchange losses	4,408	2,670
Other	280	197
	17,603	5,734

24 Income Taxes

Income tax expense comprises the following:

	2007	2006
Income tax expense - current	32,061	31,911
Tax effect of deductible tax losses in previous years	(84)	-
Deferred tax expense - origination and reversal of temporary differences	(851)	(161)
Income tax expense for the year	31,126	31,750

A reconciliation between the expected and the actual taxation charge is provided below.

	2007	2006
IFRS profit before tax	110,457	119,429
Theoretical tax charge at statutory rate of 24% (2006: 24%)	26,510	28,663
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non deductible expenses		
- Write-off of spoiled finished goods and raw material storage	1,659	710
- Non-production unit expenses	246	340
- Options	161	245
- Advertising	168	46
- Other non-deductible expenses	2,749	1,824
- Provision against promissory notes and available-for-sale investments	(367)	(78)
Income tax expense for the year	31,126	31,750

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2006: 24%).

The net effect of the changes on deferred tax balances recognised at 31 December 2007 and 31 December 2006 are reflected in the consolidated statements of income for the year ended 31 December 2007 and 2006, respectively.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company.

The Company has not recognised deferred tax liability of US\$ 1,557 thousand and US\$ 1,591 thousand at 31 December 2007 and 31 December 2006 in respect of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

24 Income Taxes (Continued)

Net deferred tax liability in the amount of US\$ 8,884 and US\$ 6,739 thousand at 31 December 2007 and 31 December 2006 respectively is expected to be settled after more than 12 months from balance sheet dates.

	31 December 2006	Differences recognition and reversals	Currency translation movement	31 December 2007
Tax effects of deductible temporary differences:				
Accounts payable/receivable	21,014	12,309	2,044	35,367
Inventories	224	1,433	78	1,735
Tax effects of taxable temporary differences:				
Property, plant and equipment	(25,699)	(12,085)	(2,376)	(40,160)
Accounts payable/receivable	(7,639)	(386)	(571)	(8,596)
Other	(1,690)	(420)	(142)	(2,252)
Total net deferred tax (liability)/assets	(13,790)	851	(967)	(13,906)

	31 December 2005	Differences recognition and reversals	Acquisition of Subsidiaries	Currency translation movement	31 December 2006
Tax effects of deductible temporary differences:					
Accounts payable/receivable	8,118	10,954	818	1,124	21,014
Inventories	54	160	-	10	224
Tax effects of taxable temporary differences:					
Property, plant and equipment	(12,340)	(5,285)	(6,621)	(1,453)	(25,699)
Accounts payable/receivable	(1,623)	(4,949)	(742)	(325)	(7,639)
Other	(693)	(719)	(190)	(88)	(1,690)
Total net deferred tax (liability)/assets	(6,484)	161	(6,735)	(732)	(13,790)

25 Earnings per Share

Basic. Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during period. The weighted average number of ordinary shares for the year ended 2007 and 2006 was adjusted for the effect of treasury shares held by the Group.

	2007	2006
Weighted average number of ordinary shares in issue	20,411,300	20,411,300
Adjustment for weighted average number of treasury shares acquired	(113,468)	(114,218)
Weighted average number of ordinary shares outstanding	20,297,832	20,297,082
Profit for the period attributable to the equity holders of the Company	78,931	86,068
Basic earnings per share	US\$ 3.89	US\$ 4.24

Diluted. Diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares under the share based compensation program (Note 14). For the share options used in the share based compensation program a calculation is done to determine the number of shares that could have been issued at the balance sheet dates if these dates were the vesting date.

	2007	2006
Weighted average number of ordinary shares in issue	20,411,300	20,411,300
Adjustment for weighted average number of treasury shares acquired	(113,468)	(114,218)
Weighted average number of ordinary shares outstanding	20,297,832	20,297,082
Adjustment for weighted average number of share options	54,363	52,450
Weighted average number of ordinary shares outstanding	20,352,195	20,349,532
Profit for the period attributable to the equity holders of the Company	78,931	86,068
Diluted earnings per share	US\$ 3.88	US\$ 4.23

26 Contingencies, Commitments and Operating Risks

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Tax contingencies. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past, including those relating to transfer pricing, may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group entities.

As at 31 December 2007 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2007 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US\$ 64,576 thousand (2006: US\$ 14,567 thousand).

Operating lease commitments. The Group's future minimum lease payments under non-cancellable operating leases comprised US\$ 374 thousand at 31 December 2007 (2006: US\$ 112 thousand). Operating leases mainly represent rent of office and warehouse premises with fixed monthly charges. The maturity of operating lease liabilities (minimum lease payments) is as follows:

	2007	2006
Not later than 1 year	374	112
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
Total operating lease commitments	374	112

Insurance policies. Commencing from August 2006 the Group holds insurance policy in respect of public liability and a policy relating to buildings, machinery and equipment owned by OJSC Lebedyansky, covering property damage and business interruption.

The Group also holds insurance policies covering equipment leased under finance lease agreements and motor vehicles.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

27 Acquisition of Additional Interest in OJSC Progress

In August 2007 the Group acquired the further 25% (75,000 shares) of OJSC Progress, the Group's 75% subsidiary. These shares were acquired from governmental authorities of Lipetsk region for a consideration of US\$ 2,205 thousand (56,398 thousand Roubles at RR 25.577 for 1 US\$, an average official CBRF exchange rate for 2007), paid in cash.

For purchases from minority interests, the difference between the consideration paid and the relevant share acquired of the carrying value of net assets of OJSC Progress is recorded in equity.

28 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The overall risk management programme seeks to minimize potential adverse effects on the financial performance of the Group.

(a) Market risk

Foreign exchange risk. Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the Group functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results. The Group does not currently hedge foreign exchange exposure using financial instruments. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange risk exposure and primarily arises from US dollar/ Euro denominated borrowings, finance lease contracts and raw materials accounts payable. In 2007 some suppliers of raw materials fixed liability in Rubles at USD/EURO rates at the dates of deliveries and as the result these BS liabilities are not exposed to currency rate fluctuations. 95% revenue of the Group is in Russian Roubles and the policy of the Group is to keep as much as possible expenses in Russian Roubles, monitor currency rate fluctuation for US/Euro based expenses and increase product selling prices to offset negative currency trends.

The sensitivity analysis of the foreign exchange risk is shown in the table below:

At 31 December 2007, if the US Dollar had weakened/strengthened by 5% against the Russian Roubles with all other variables held constant, post tax profit for the year and equity would be higher or lower by the following:

	2007	2006
Post tax profit	1,712	1,403
Equity	1,712	1,403

Profit increase/ decrease is explained by US dollar exchange rate expenses due to revaluation of US dollar based receivables and payables.

At 31 December 2007, if EURO had weakened/ strengthened by 5% against the Russian Roubles with all other variables held constant, post tax profit for the year and equity would be higher or lower by the following:

	2007	2006
Post tax profit	4,399	2,458
Equity	4,399	2,458

Profit increase/ decrease is explained by EURO exchange rate expenses due to revaluation of EURO based receivables and payables.

Price Risk. The Group is not exposed to equity securities price risk, because the available-for-sale investment is considered immaterial.

Cash flow and fair value interest rate risk. Borrowings and finance leases payable issued at variable rates (EURIBOR, LIBOR, MOSPRIME) expose the Group to cash flow interest rate risk. The Group has no significant interest-bearing assets.

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is to protect the net interest result. Interest risk management is carried out by the corporate finance and corporate treasury functions of the Group.

All entities of the Group obtain any required financing through the corporate treasury function of the Group in the form of loans or get corporate treasury approval for external loans. Generally, the same concept is adopted for deposits of cash generated by the units.

28 Financial Risk Management (Continued)

(a) Market risk (continued)

Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the corporate treasury and corporate finance functions as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

At the end of 2007 Group had approximately 30% of its borrowings in fixed rate instruments and 70% in variable rate instruments. During 2007 and 2006, the Group's borrowings were denominated in US Dollars, EURO and Russian Roubles.

At 31 December 2007, if interest rates on currency-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit and equity for the year would have been:

	2007	2006
Post tax profit	1,699	661
Equity	1,699	661

The Group does not use any hedging instruments to manage its exposure to changes in interest rates because management considers that there is no necessity to do so.

(b) Credit risk

Credit risk arises from cash and cash equivalents and credit exposures to trade receivables. Cash and short term deposits are placed in major multinational and Russian banks with independent credit rating. Refer to analysis by credit quality of bank balances in Note 12.

The monitoring and controlling of credit risk is performed by the Credit department of the Group. The credit policy requires the performance of credit evaluation of customers. The credit quality of each new customer is analyzed before the Group provides it with the standard terms of goods supply and payments. The credit quality of customers is assessed taking into account their financial position, past experience and other factors. The Group classifies its customers by the following credit quality categories: retail chains; distributors and wholesalers; and other. The Group grants different payment period for the above categories of its customers. Retail chains are granted with the highest payment period from the shipment date comparing with other categories. Customers which do not meet the credit quality requirements are supplied on a prepayment basis only.

The table below shows trade receivables by category in accordance with Group's Credit policy (ranged by increase in credit risk):

Trade receivables	31 December 2007	31 December 2006
Retail chains	43,034	30,380
Distributors and wholesalers	59,165	38,478
Others	10,821	6,114
Total	113,020	74,972

Trade receivables of retail chains and distributors and wholesalers are more reliable for cash collection in contrast to others trade receivables. Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 11).

(c) Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, such as settlements of financial debt and payments to suppliers. The Group's approach to liquidity risk management is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

Liquidity planning is performed by the corporate treasury function and corporate finance and reported to the management of the Group. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

In order to take advantage of financing opportunities in local and international capital markets the Group has obtained credit ratings from Moody's. This institution have rated the Group as BA3 with stable outlook.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

28 Financial Risk Management (Continued)

(c) <i>Liquidity risk (continued)</i>	Less than 1 year	Between 1 and 5 years	Over 5 years
At 31 December 2007			
Trade accounts payable	56,369	-	-
Payables for property, plant and equipment	7,697	-	-
Borrowings	114,406	144,133	3,569
Finance leases payable	12,239	47,700	20,937
Total	190,711	191,833	24,506
At 31 December 2006			
Trade accounts payable	38,390	-	-
Payables for property, plant and equipment	3,946	-	-
Borrowings	76,522	49,616	7,747
Finance leases payable	5,783	22,700	6,621
Total	124,641	72,316	14,368

The liquidity ratio of the Group, calculated as ratio of current assets to current liabilities were 1.6 at 31 December 2007 (2006: 1.6).

29 Capital Management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, to have available the necessary financial resources for investing activities and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by net debt to shareholder's equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet and Payables for property, plant and equipment as shown in note 17) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The group's strategy, which was unchanged from 2006, was to maintain the gearing ratio within 60%. The gearing ratio at 31 December 2007 and 2006 were as follows:

	2007	2006
Total borrowings (Note 15)	235,787	123,019
Finance leases payable (Note 16)	66,210	29,687
Payables for property, plant and equipment	7,697	3,946
Less: cash and cash equivalents (Note 12)	(9,372)	(4,328)
Net debt	300,322	152,325
Total equity	318,574	237,525
Total capital	618,896	389,850
Gearing ratio	49%	39%

The increase in the gearing ratio during 2007 resulted primarily from bonds' issue.

The Group has established a policy that the ratio of the Group indebtedness to its EBITDA should not exceed three times. For this purpose debt is determined as the sum of borrowings, finance leases payable and payable for property, plant and equipment outstanding.

The ratio of Debt to EBITDA as of 31 December 2007 and 31 December 2006 is shown in the table below:

	2007	2006
Operating profit	124,440	103,748
Add: depreciation and amortization	31,610	16,511
EBITDA	156,050	120,259
Net debt	300,322	152,325
Debt/EBITDA	1.9	1.3

29 Capital Management (Continued)

There are certain requirements on statutory capital in Russian Federation. In particular share capital of open joint stock companies should be not less than RR 100 thousand. The Group's accounting and legal departments monitor compliance of the Company's statutory capital to the applicable legislation at each reporting date.

30 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables are presented below.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Carrying amounts of borrowings is presented below.

	Loans and receivables	Available-for- sale	Total Carrying value	Total Fair Value
31 December 2007				
Assets per the balance sheet				
Available-for-sale financial assets	-	24	24	24
Loans	-	-	-	-
Trade receivables	113,020	-	113,020	113,020
Cash and cash equivalents	9,372	-	9,372	9,372
Total	189,045	24	191,724	189,069
		Other financial liabilities	Total Carrying value	Total Fair Value
Liabilities as per balance sheet				
Borrowings		235,787	235,787	235,328
Lease liabilities		66,210	66,210	66,210
		301,997	301,997	301,997

30 Fair Value of Financial Instruments (Continued)

	Loans and receivables	Available-for- sale	Total Carrying value	Total Fair Value
31 December 2006				
Assets per the balance sheet				
Available-for-sale financial assets	-	241	241	241
Loans	-	-	-	-
Trade receivables	74,972	-	74,972	74,972
Cash and cash equivalents	4,328	-	4,328	4,328
Total	127,611	241	130,503	127,852
		Other financial liabilities	Total Carrying value	Total Fair Value
Liabilities as per balance sheet				
Borrowings		123,019	123,019	123,019
Lease liabilities		29,687	29,687	29,687
		152,706	152,706	152,706

31 Events after the Balance Sheet Date

Disposal of Progress. On 20 March 2008, the four largest individual shareholders of JSC Lebedyansky entered into a conditional agreement with PepsiCo to sell their shares in Lebedyansky totalling 75.53%, excluding the baby food and mineral water business, for US\$ 1,357 million or US\$ 88.02 per share.

Share option plan. In March 2005 the Group granted senior management options to acquire in total 65,500 of the Company's ordinary shares at par value of RR 0.01. In March 2008 all the options were exercised and the Group delivered the ordinary shares of the Group at the price RR 0.01 per share.