OAO Nutrinvestholding and subsidiary undertakings

(“NUTRITEK GROUP”)

Non-Statutory Consolidated Financial Statements for the year ended 31 March 2007

Contents

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2007

The directors present their report and consolidated non-statutory financial statements for the year ended 31 March 2007 for OAO Nutrinvestholding and its subsidiary undertakings ("the Group") together with the results for the year ended 31 March 2006.

Principal activities and review of the business

The principal activity of the Group continued to be that of a producer of a wide range of dairy products, baby and other foods. The directors believe that the Group is one of the leading dairy and baby food producers in Russia holding strong positions within key regional markets.

During the year the Group's revenues increased by 15% thereby consolidating and enhancing its position within the marketplace. The Group has expanded substantially through acquisitions and the creation of new businesses and as at the balance sheet date had 26 trading subsidiaries. Included at the year end is the key acquisition of Slavex which was acquired in February 2006. Slavex owns the Vinni brand which joins the Group's stable of own brands including Kroshka, Nutrilak and Nutrien.

Results
The results for the year are set out on page 6.

Directors
The following directors have held office since 1 April 2006:

G. Sazhinov
D. Popov
K. Malofeev
A. Provotorov
D. Skuratov
B. Pastukhov
G. Vasiliev
A. Baranov
A.Zhukov
V. Chagarovsky (resigned 16 June 2006)

Directors' interests
The directors direct interest in the shares of the company was as stated below:

	Ordinary shares	
	31 March 2006	**31 March 2005**
G. Sazhinov	Nil	Nil
D. Popov	Nil	Nil
K. Malofeev	Nil	Nil
A. Provotorov	Nil	Nil
D. Skuratov	Nil	Nil
B. Pastuhov	Nil	Nil
G. Vasiliev	Nil	Nil
A. Baranov	Nil	Nil
A. Zhukov	Nil	Nil
V. Chagarovsky	Nil	Nil

G. Sazhinov and K. Malofeev are the joint equal beneficial shareholders of Marshall Milk Investments Limited that together with its subsidiaries held 70.4% of the share capital of OAO Nutrinvestholding as of 31 March 2007. The other minority shareholders are various Russian and international institutional investors.

Directors' responsibilities

The directors are responsible for preparing these non-statutory consolidated financial statements in accordance with International Generally Accepted Accounting Practice.

The directors have agreed to prepare non-statutory consolidated financial statements which give a true and fair view of the state of affairs of the Group and of the consolidated income statement of the Group. In preparing those financial statements, the directors have agreed to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the non-statutory consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the non-statutory financial statements comply with applicable laws. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the board

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G. Sazhinov
Director

Moores Rowland

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NON-STATUTORY INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OAO NUTRINVESTHOLDING

We have audited the accompanying consolidated financial statements (the "financial statements") of OAO Nutrinvestholding and subsidiary undertakings ("the Group") for the year ended 31 March 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Director's Responsibilities in the Directors' Report the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared, and whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

NON-STATUTORY INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF OAO NUTRINVESTHOLDING

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 March 2007 and of the group's profit for the year then ended;
- the information given in the Directors' Report is consistent with the financial statements; and
- the consolidated financial statements have been properly prepared

Moores Rowland

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127055 Moscow
Russia

	Note	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Revenue	17	10,129,454	6,502,306
Cost of sales	17	(8,192,064)	(5,360,164)
Gross profit		1,937,390	1,142,142
Distribution expenses		(557,186)	(327,526)
Administrative expenses	18	(329,594)	(232,575)
Operating profit		1,050,610	582,041
Financial income	19	223,019	67,770
Financial expenses	19	(513,186)	(433,784)
Other income and expenses	20	25,621	(15,714)
Profit before tax		786,064	200,313
Taxation	16	(193,514)	(23,522)
Net profit for the year		592,550	176,791
Attributable to:			
Shareholders of the Parent Company	17	632,996	237,882
Minority interest		(40,446)	(61,091)
		592,550	176,791
		RUR	**RUR**
Basic earnings per share	12	46.04	20.38
Diluted earnings per share	12	46.04	20.38

The consolidated financial statements were approved by the Board of Directors of the Company on 29 June 2007.

Sazhinov G.Yu.
General Director

Ivanov S.V.
Chief Accountant

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

	Note	31 March 2007 '000 RUR	31 March 2006 '000 RUR
ASSETS			
Non-current assets			
Intangible assets	8	968,826	998,112
Property, plant and equipment	5	4,827,109	5,107,395
Biological assets	6	534,191	301,329
Investments	7	84,119	26,228
Other long term assets		6,589	7,288
		6,420,834	6,440,352
Current assets			
Investments	7	845,169	743,953
Inventories	9	1,334,360	619,903
Trade and other receivables	10	2,999,678	1,573,950
Cash and cash equivalents	11	437,588	936,064
		5,616,795	3,873,870
Total assets		12,037,629	10,314,222

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

	Note	31 March 2007 '000 RUR	31 March 2006 '000 RUR
EQUITY AND LIABILITIES			
Equity			
Share capital	12	137	137
Share premium		2,511,314	1,388,212
Treasury shares		-	(10)
Retained earnings		2,185,236	1,547,026
Total equity attributable to shareholders of the parent company		4,696,687	2,935,365
Minority interest		957,176	1,062,049
Total equity		5,653,863	3,997,414
Non-current liabilities			
Loans and borrowings	13	1,200,000	4,076,687
Deferred income	15	116,515	91,388
Deferred tax liabilities	16	181,996	375,098
		1,498,511	4,543,173
Current liabilities			
Loans and borrowings	13	3,685,534	603,547
Income tax payable		61,731	66,926
Trade and other payables	14, 15	1,125,885	1,095,957
Provisions		12,105	7,205
		4,885,255	1,773,635
Total equity and liabilities		12,037,629	10,314,222

Sazhinov G.Yu.
General Director

Ivanov S.V.
Chief Accountant

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
OPERATING ACTIVITIES		
Profit for the year before tax	786,064	200,313
Adjustments for:		
Depreciation	780,129	388,080
Provision against biological assets	(64,381)	(61,406)
Loss on disposal of property, plant and equipment	21,743	-
Recognition of negative goodwill	(59,798)	-
Other non-cash items	(49,259)	(12,563)
Interest expense	513,186	433,784
Operating profit before changes in working capital and provisions	1,927,684	948,208
(Increase)/decrease in inventories	(714,457)	234,017
Increase in trade and other receivables	(1,626,795)	(357,889)
Increase in trade and other payables	15,053	13,181
Increase/(decrease) in provisions	4,900	(2,330)
Cash inflow from operations before income taxes and interest	(393,615)	835,187
Income taxes paid	(391,811)	(5,197)
Interest paid	(498,311)	(326,340)
Cash inflow from operating activities	(1,283,737)	503,650

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

	Year ended 31 March 2007 ’000 RUR	Year ended 31 March 2006 ’000 RUR
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(488,461)	(1,276,976)
Acquisition of long term investments	(57,891)	(24,669)
Disposal/(acquisition) of short term investments	99,851	(697,709)
Purchase of biological assets	(171,375)	(163,988)
Acquisition of intangible assets	(3,839)	-
Purchase of subsidiaries (net of cash acquired)	(5,909)	(1,278,648)
Sale/(purchase) of other long term assets	699	(333)
Cash outflow from investing activities	(626,925)	(3,442,323)
FINANCING ACTIVITIES		
Proceeds from share issue	-	1,999,612
Acquisition of treasury stock	-	(611,363)
Proceeds from sale of treasury shares	1,123,102	-
Proceeds from borrowings	991,880	4,084,958
Repayment of borrowings	(786,336)	(1,732,235)
Grants received	83,540	107,075
Cash inflow from financing activities	1,412,186	3,848,047
Net (decrease)/increase in cash and cash equivalents	(498,476)	909,374
Cash and cash equivalents at beginning of year	936,064	26,690
Cash and cash equivalents at end of year	437,588	936,064

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

	Attributable to shareholders of the Parent						
'000 RUR	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance as of 1 April 2006	137	1,388,212	(10)	1,547,026	2,935,365	1,062,049	3,997,414
Sale of treasury shares	-	1,123,102	10	-	1,123,112	-	1,123,112
Foreign subsidiary translation difference	-	-	-	5,214	5,214	-	5,214
Acquisition of shares	-	-	-	-	-	(65,718)	(65,718)
Minority interest in newly established companies	-	-	-	-	-	1,291	1,291
Net profit	-	-	-	632,996	632,996	(40,446)	592,550
Balance as of 31 March 2007	137	2,511,314	-	2,185,236	4,696,687	957,176	5,653,863

	Attributable to shareholders of the Parent						
'000 RUR	**Share capital**	**Share Premium**	**Treasury shares**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance as of 1 April 2005	180	-	-	1,325,728	1,325,908	999,274	2,325,182
Net effect of legal restructuring	(80)	-	-	-	(80)	-	(80)
Share capital issue	37	1,999,565	-	-	1,999,602	-	1,999,602
Treasury shares acquired	-	(611,353)	(10)	-	(611,363)	-	(611,363)
Foreign subsidiary translation difference		-	-	(16,584)	(16,584)	-	(16,584)
Acquisition of new subsidiaries	-	-	-	-	-	123,866	123,866
Net profit	-	-	-	237,882	237,882	(61,091)	176,791
Balance as of 31 March 2006	137	1,388,212	(10)	1,547,026	2,935,365	1,062,049	3,997,414

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements.

1 Background

(a) Organisation and operations

OAO Nutrinvestholding (the "Parent Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation, and companies located abroad.

The Parent Company's registered office is 37A, block 14, Leningradskiy Prospect, Moscow, Russia.

The Group's principal activity is producing baby food and dairy as well as agriculture at plants and farms located in the cities and suburbs of Tallinn, Vologda, Moscow, Penza and several other cities. These products are sold in the Russian Federation and abroad.

(b) Russian business environment

Whilst in recent years there have been improvements in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some 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. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

In addition, economic conditions continue to limit the volume of activities in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Group may be significant.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards.

These consolidated financial statements have been prepared under historical cost convention, as modified by the revaluation of fixed assets.

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of IFRS. The preparation of financial statements conforming with IFRS requires the use of certain critical

2 Basis of preparation (continued)

accounting estimates. It also requires management to exercise its judgement in the process of applying the Company`s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant for the consolidated financial statements, are disclosed in Note 3 (y) “Critical accounting estimates and judgements”.

These consolidated financial statements have been approved for issue by the Board of Directors on 29 June 2007.

(b) Basis for measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss and investments available-for-sale are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, Goskomstat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Group’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group’s assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (see Note 1 (b) “Russian business environment”). The accompanying consolidated financial statements do not include any adjustments should the Company be unable to continue as a going concern.

(e) Corresponding amounts

The directors have reanalysed certain comparative amounts in order to make their disclosure more meaningful.

(f) Use of estimates and judgments

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

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

- Note 8 “Intangible assets”;

2 Basis of preparation (continued)

- Note 10 "Trade and other receivables";
- Note 16 "Income tax expense"; and
- Note 22 "Contingencies".

3 Significant accounting policies

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

(a) Exemptions from full retrospective application elected by the Group:

(i) Business combinations exemption

The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to 1 April 2004.

(ii) Fair value as deemed cost exemption

The Company has elected to measure certain property, plant and equipment at fair value as at 1 April 2004.

(b) Basis for consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 31 March 2007.

The purchase method of accounting is used to account for the acquisition of subsidiary undertakings except where otherwise stated.

(i) Subsidiaries

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

(ii) Special purpose entities

The Group operates with a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

3 Significant accounting policies (continued)

(iii) Acquisitions and disposals of minority interests

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

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

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing these consolidated financial statements.

(c) Foreign currencies – company

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

(d) Foreign currencies – group

The results and financial position of all the Group entities that have a functional currency different from the presentational currency are transferred into the presentational currencies as follows:

- ***(i)*** assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- ***(ii)*** income and expenses for each income statement are translated at average exchange rates
- ***(iii)*** all resulting exchange differences are recognised as a separate component of equity.

(e) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost/deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

3 Significant accounting policies (continued)

The Group's property, plant and equipment has been revalued as of 31 March 2004 by an independent valuer, American Appraisal, using a combination of the market, income and cost methods to arrive at the deemed cost for the purposes of preparation of the opening IFRS balance sheet as of 31 March 2004. American Appraisal was also commissioned to independently appraise property, plant and equipment for all subsidiaries acquired after 31 March 2004.

(ii) Biological assets

Special treatment applies to biological assets under IFRS, whereas these assets are treated as standard fixed assets under RAS. The special treatment of biological assets is outlined in IAS 41 - Agriculture. According to IAS 41, biological assets shall be reported at their fair value at each reporting date. The change in fair value may be attributable to physical changes or changes in market prices of biological assets. Changes in the fair value of a biological asset shall be recognised in the income statement as gains or losses. This implies that the income statement will reflect an assessed net growth in addition to actual livestock. The new rules also affect the accounting of inventory as the initial measurement of agricultural produce shall be reported at its fair value. Nutritek Group biological assets consist of workstock, productive livestock, self-maintained herds and pig herds.

(iii) Leased assets

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance leases is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(iv) Subsequent expenditure

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

(v) Depreciation

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

The estimated useful lives are as follows:

- Buildings 20 to 50 years
- Plant and equipment 6 to 15 years

3 Significant accounting policies (continued)

(f) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Adoption of IFRSs

Goodwill / negative goodwill in relation to a business combination that occurred prior to the date of adopting IFRSs, 1 April 2004, was determined at that date as the difference between the cost of acquisition of the subsidiary, adjusted for hyperinflation until the end of 2002 where applicable, and the IFRS carrying amounts of the assets and liabilities of the subsidiary in the consolidated financial statements.

Other goodwill

Other goodwill arising on an acquisition represents the excess of the cost of the acquisition over the acquirer’s interest in the net fair value of identifiable assets, liabilities and contingent liabilities.

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

Other negative goodwill

Other negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill is recognised immediately in the income statement.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

(iii) Brands

Brands are capitalised at fair value at the date of acquisition. Brands have a finite useful economic life and are appraised at fair value on acquisition based on the Group’s methodology using discounted cash flows. Amortisation is calculated using the straight line method to allocate the fair value on acquisition over their useful economic life. The useful economic life of the brands is considered to be 10 years.

(g) Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a group of assets engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

3 Significant accounting policies (continued)

(h) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are classified as held for trading or those which are upon initial recognition designated by the entity as at fair value through profit or loss. Trading instruments include those that the Group principally holds for the purpose of short-term profit taking and derivative contracts that are not designated as effective hedging instruments.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Upon application of the revised *IAS 39 Financial Instruments: Recognition and Measurement*, the Group has designated financial assets, which were previously recognised as available-for-sale assets, as financial assets at fair value through profit or loss. In previous periods, gains and losses arising from a change in the fair value of available-for-sale instruments were recognised in the profit and loss account. As a result, the designation of those assets as at fair value through profit or loss does not require restatement of financial results in the comparative information.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those where its initial investment may not be substantially recovered, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than loans and receivables and instruments designated as at fair value through profit or loss or as available for sale.

Available-for-sale assets are those financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for loans and receivables and held to maturity investments which are measured at amortised cost

3 Significant accounting policies (continued)

less impairment losses and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognised in the income statement. Gains and losses on available-for-sale financial assets are recognised directly in net assets attributable to participants (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

(i) Inventories

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

3 Significant accounting policies (continued)

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

(j) Trade and other receivables

Trade and other receivables are stated at cost less provision for bad and doubtful debts.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(l) Impairment

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

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

(i) Calculation of recoverable amount

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

The recoverable amount of other assets is the greater of their fair value less costs required to bring these assets to market and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies (continued)

(m) Share capital

(i) Repurchase of share capital

When equity share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Treasury shares are reflected at par value, the difference between the consideration paid for the treasury shares and nominal cost is adjusted through the share premium account.

(ii) Dividends

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

(n) Loans and borrowings

Loans and borrowings are recorded at the proceeds received, net of direct issue costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Direct issue costs are amortised over the period of the loans to which they relate.

(o) Retirement and other benefit obligations

The Group makes contributions for the benefit of employees to Russia’s State pension fund. The contributions are expensed as incurred. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle that obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Trade and other payables

Trade and other payables are stated at cost less any impairment allowance.

(r) Income tax

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

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

3 Significant accounting policies (continued)

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

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

(s) Revenues

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

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

(t) Accounting for government grants

Government grants related principally to biological assets on Nutritek agricultural subsidiaries. These refer primarily to the treatment of government grants which are not recognised as income initially, but rather reduce the acquisition cost of the respective item of property acquired.

Government support (grants) is allocated for the purposes of dairy cattle husbandry and bred livestock farm. Furthermore agricultural subsidiaries obtain the following government grants: acreage grants and milk production grants.

Government and other grants are recognised at their fair value when received from government or other accredited institutions.

(u) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, dividend income, foreign exchange gains and losses, gains and losses on the revaluation and disposal of investments held for trading or designated at fair value through profit and loss, and impairment losses and gains and losses on the disposal of available-for-sale investments.

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

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in other companies, dividend income is recognised on the date that the dividend is declared.

3 Significant accounting policies (continued)

(v) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(w) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 March 2007, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the impact of the new Standard on its financial position or performance.

(x) Critical accounting estimates and judgements

Estimates and judgements are consistently evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The accounting estimates will therefore seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are as follows:

(i) Brands

After 1 April 2004, the Group acquired two brands as part of corporate acquisitions as described further in Note 8 "Intangible assets". The management has estimated the value of the brands acquired using the methodology of discounted cash flows and by obtaining an independent appraisal of the intangible assets acquired.

(ii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policies. The recoverable amounts of cash generating units have been determined based on value in use calculations. The calculations require the use of estimates.

3 Significant accounting policies (continued)

(iii) Income taxes

Significant judgement is required in determining the provision for income taxes. The Group recognises tax liabilities based on their estimate of whether tax will be due. However, following the annual tax audit, there may arise tax assessments which are different from the amounts that were initially recorded. Such differences will impact the income tax and deferred tax provision in the period in which such determinations are made.

4 Businesses acquired

In August 2006, the Group acquired a further 22.44% of ZAO Plemzavod Zarya from minority investors for cash consideration of RUR 5,909 thousand.

On 1 February, 2006 the Group acquired 56% of OAO Khorolsky Molochno-Konservnyi Kombinat (“Khorolsky MKK”), a company incorporated in Ukraine, from a third party. Khorolsky MKK specialises in the production of dairy baby food products, dry milk powder, butter, and whole milk (dairy) products. The plant is located in Khorol, Ukraine. In March 2006 the Group acquired an additional 12% of Khorolsky MKK. Khorolsky MKK revenue for the year ending 31 March 2006 amounted to RUR 511,873 thousand.

On 1 March, 2006 the Group acquired 100% of Slavex Group from a third party. Slavex Group includes a trading company ZAO TD Slavex, a non-dairy baby food plant ZAO Moskovsky Zavod Detskogo Pitaniya (MZDP), a subsidiary producing special baby water OOO Aqua-Pak, and a headquarters company ZAO Slavex-Centre. All subsidiaries of Slavex Group are located in Moscow, Russia. Slavex Group’s revenue for the year ending 31 March 2006 amounted to RUR 661,847 thousand.

5 Property, plant and equipment

’000 RUR	Land and buildings	Plant and equipment	Construction in progress	Total
Cost /Deemed cost				
As of 1 April 2006	4,160,561	4,195,881	312,626	8,669,068
Additions	89,184	393,846	5,431	488,461
Disposals	(84,088)	(29,191)	-	(113,279)
As of 31 March 2007	4,165,657	4,560,536	318,057	9,044,250
Accumulated depreciation				
As of 1 April 2006	(1,818,882)	(1,742,791)	-	(3,561,673)
Depreciation charge	(172,465)	(574,539)	-	(747,004)
Disposals	62,345	29,191	-	91,536
As of 31 March 2007	(1,929,002)	(2,288,139)	-	(4,217,141)
Net book value				
As of 31 March 2006	2,341,679	2,453,090	312,626	5,107,395
As of 31 March 2007	2,236,655	2,272,397	318,057	4,827,109

’000 RUR	Land and buildings	Plant and equipment	Construction in progress	Total
Cost /Deemed cost				
As of 1 April 2005	3,543,212	3,099,931	358,323	7,001,466
Acquisitions through business combinations	149,905	240,721	-	390,626
Additions	467,444	855,229	(45,697)	1,276,976
Disposals	-	-	-	-
As of 31 March 2006	4,160,561	4,195,881	312,626	8,669,068
Accumulated depreciation				
As of 1 April 2005	(1,671,515)	(1,502,078)	-	(3,173,593)
Depreciation charge	(147,367)	(240,713)	-	(388,080)
Disposals	-	-	-	-
As of 31 March 2006	(1,818,882)	(1,742,791)	-	(3,561,673)
Net book value				
As of 31 March 2005	1,871,697	1,597,853	358,323	3,827,873
As of 31 March 2006	2,341,679	2,453,090	312,626	5,107,395

5 Property, plant and equipment (continued)

There were no finance lease agreements as at 31 March 2007.

Assets pledged as collateral

As of 31 March 2007 building, machinery and equipment with carrying value of RUR 365,711 thousand (as of 31 March 2006: RUR 299,000 thousand) were pledged as collateral for loans received by the Group from banks and other financial institutions (refer to Note 13 "Loans and borrowings"). Those assets belong to the following Group companies: OAO Zelenodolsky Molochnyi Kombinat and OAO Konservny Zavod Dinskoy.

Determination of deemed cost

In 2005 management commissioned American Appraisal (AAR), Inc. to independently appraise property, plant and equipment as at 31 March 2004 in order to determine its deemed cost. The fair value of property, plant and equipment was determined to be RUR 2,896,388 thousand. American Appraisal was also commissioned to independently appraise property, plant and equipment for all subsidiaries acquired after 31 March 2004.

6 Biological assets

The Group is engaged in milk production for supply to various customers and for internal production. At 31 March 2007, the Group held 26 thousand calves (immature assets) and cows (mature assets) able to produce milk (2006: 22 thousand). The Group produced 56,274 tonnes of milk with a fair value of RUR 583,561 thousand to external customers and 12,928 tonnes of milk for internal production in the year ended 31 March 2007 (2006: 43,797 tonnes of milk with a fair value of RUR 293,439 thousand to external customers and 7,754 tonnes of milk for internal production).

'000 RUR	**Workstock**	**Productive livestock**	**Pig herd**	**Self-maintained herd**	**Total**
At 1 April 2006	6,988	123,992	962	169,387	301,329
Animal yield	-	-	47	31,624	31,671
Body-weight increase	-	-	940	50,411	51,351
Additions	221,010	-	320	44,848	266,178
Pithed	-	-	(143)	(6,676)	(6,819)
Disposals	(35,675)	(18,099)	(470)	(40,549)	(94,793)
Mortality	(431)	(7,286)	(114)	(4,001)	(11,832)
Transfers	-	12,647	-	(12,647)	-
Fair value adjustment	(78)	(2,792)	(24)	-	(2,894)
At 31 March 2007	191,814	108,462	1,518	232,397	534,191

6 Biological assets (continued)

’000 RUR	Workstock	Productive livestock	Pig herd	Self-maintained herd	Total
At 1 April 2005	8,054	34,427	531	36,807	79,819
Animal yield	-	-	83	31,259	31,342
Body-weight increase	-	-	829	43,205	44,034
Additions	-	-	194	177,713	177,907
Pithed	-	-	(93)	(2,297)	(2,390)
Disposals	-	-	(531)	(13,388)	(13,919)
Mortality	(805)	(8,595)	-	(2,180)	(11,580)
Transfers	-	101,732	-	(101,732)	-
Fair value adjustment	(261)	(3,572)	(51)	-	(3,884)
At 31 March 2006	6,988	123,992	962	169,387	301,329

7 Long and short term finance assets

	31 March 2007 ’000 RUR	31 March 2006 ’000 RUR
Long term finance assets		
Long term loans with (bearing no interest)	42,363	26,228
New Zealand Dairies Limited (5.6% of outstanding shares)	41,756	-
	84,119	26,228
Short term finance assets		
Refundable deposit	-	562,446
Available-for-sale promissory notes (bearing no interest)	160,304	181,507
Available-for-sale promissory notes (4.0-11.25%)	684,865	-
	845,169	743,953

For subsequent developments on New Zealand Dairies Limited see Note 25 “Events subsequent to the balance sheet date”.

8 Intangible assets

The management has estimated the value of the brands acquired to be RUR 330,548 thousand using the discounted cash flow methodology. An independent appraisal of the intangible assets (brands) acquired was performed by American Appraisal amounted to RUR 386,288 thousand. In addition American Appraisal valued the client list of Slavex Group at RUR 257,632 thousand. For the purposes of these financial statements the Group management did not allocate any value to Slavex Group client list because the client base of Slavex Group was the same as Nutritek Group's existing client base. If these estimates were to be adjusted following an independent valuation, a reduction will be required to goodwill and a potential increase in the client list.

'000 RUR	**Goodwill**	**Brands**	**Other intangible assets**	**Total**
Deemed cost and net book value				
As of 1 April 2006	667,323	330,548	241	998,112
Additions	-	-	3,839	3,839
Amortisation	-	(33,054)	(71)	(33,125)
As of 31 March 2007	667,323	297,494	4,009	968,826

'000 RUR	**Goodwill**	**Brands**	**Other intangible assets**	**Total**
Deemed cost and net book value				
As of 1 April 2005	-	-	223	223
Acquisitions through business combinations	667,323	330,548	18	997,889
As of 31 March 2006	667,323	330,548	241	998,112

9 Inventories

	31 March 2007 '000 RUR	**31 March 2006 '000 RUR**
Raw materials and consumables	685,843	308,792
Finished goods and goods for resale	487,064	240,181
Work in progress	161,453	70,930
	1,334,360	619,903

10 Trade and other receivables

	31 March 2007 '000 RUR	31 March 2006 '000 RUR
Accounts receivable – trade	2,461,349	1,071,049
Other receivables	462,695	367,889
Provision for doubtful accounts	(152,814)	(38,467)
Prepaid expenses	68,144	23,377
VAT receivable	160,304	150,102
	2,999,678	1,573,950

11 Cash and cash equivalents

Cash and cash equivalents comprise the following:	31 March 2007 '000 RUR	31 March 2006 '000 RUR
RUR denominated cash on hand and balances with banks	431,896	632,129
Foreign currency denominated balances with bank	5,692	18,935
Promissory notes	-	285,000
	437,588	936,064

12 Share capital

As at 31 March 2007 the issued share capital of the consolidating parent company equalled to RUR 137,500 (13,750,000 ordinary shares with the nominal value of RUR 0.01 each).

The Group's shareholders' structure is as follows:

	31 March 2007 ’000 RUR	31 March 2006 ’000 RUR
Marshall Milk Investments[1]	70.43%	70.43%
Private placement investors	29.57%	22.10%
Treasury shares	-	7.47%
	100%	100%

In May-August 2006, the Group sold all of its treasury stock to private investors for a total amount of RUR 1,123,102 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

No dividends were declared or paid during the year ended 31 March 2007.

Earnings per share

Basic earnings per share are calculated by dividing profit for the financial year of RUR 632,996 thousand (2006: RUR 237,882 thousand) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of 13,750,000 (2006: 11,674,658). Diluted earnings per share is weighted average number of ordinary shares in issue adjusted for the potential ordinary share dilution from share options and shares to be issued being 13,750,000 (2006: 11,674,658). There are no dilutive financial instruments.

[1] Beneficial owners of Marshall Milk Investments Limited are G. Sazhinov and K. Malofeev.

13 Loans and borrowings

	31 March 2007 '000 RUR	31 March 2006 '000 RUR
Non-current		
Secured bank loans	-	-
Unsecured loans from international financial institutions (Credit linked notes)	-	2,876,687
Unsecured loans from local financial institutions (Russian bonds)	1,200,000	1,200,000
	1,200,000	4,076,687
Current		
Loans and borrowings		
Secured bank loans	1,084,329	596,630
Short term portion of unsecured borrowings from regional state authority	15,385	6,917
	1,099,714	603,547
Short-term portion of long-term loans and borrowings		
Unsecured loans from international financial institutions (Credit linked notes)	2,585,820	-
	2,585,820	-
	4,885,534	4,680,234

Loans and borrowings as of 31 March 2007 have the following interest rate and repayment schedule:

'000 RUR	Total	Under 1 year	1-5 years
Secured bank loans:			
RUR: 9.5-13%	1,084,329	1,084,329	-
Unsecured loans from other financial institutions			
RUR: 12%	1,200,000	-	1,200,000
USD: 10.5%	2,585,820	2,585,820	-
Unsecured borrowings from regional state authority:			
RUR: 0%	15,385	15,385	-
	4,885,534	3,685,534	1,200,000

13 Loans and borrowings (continued)

Interest accrued at 31 March 2007 in the amount of RUR 121,919 thousand (2006: 107,444) is included in current liabilities.

Loans and borrowings from banks and other financial institutions were secured by the pledging of machinery and equipment (refer to Note 5 “Property, plant and equipment”) and shares in consolidated subsidiaries (refer to Note 24 “Principal subsidiaries”). Pledged equipment belongs to the following Group production subsidiaries: OAO Zelenodolskiy Molochnyi Kombinat and OAO Konservnyi Zavod Dinskoy.

Loans and borrowings as of 31 March 2006 have the following interest rate and repayment schedule:

’000 RUR	**Total**	**Under 1 year**	**1-5 years**
Secured bank loans:			
RUR: 10.5-12%	530,000	530,000	-
USD: 10.5-11.5%	66,630	66,630	-
Unsecured loans from other financial institutions			
RUR: 12%	1,200,000	-	1,200,000
USD: 10.5%	2,876,687	-	2,876,687
Unsecured borrowings from regional state authority:			
RUR: 0%	6,917	6,917	-
	4,680,234	603,547	4,076,687

The buy back lease liability was refinanced during the year ended 31 March 2006.

14 Trade and other payables

	31 March 2007 '000 RUR	31 March 2006 '000 RUR
Accounts payable – trade	801,346	865,721
Taxes payables	106,923	43,385
Payables to employees	19,280	42,164
Other payables and accrued expenses	40,413	53,842
Advances received	17,014	25,674
Deferred income	140,905	65,171
	1,125,881	1,095,957

15 Deferred income

	31 March 2007 '000 RUR	31 March 2006 '000 RUR
Non-current government grants	116,515	91,388
Non-current deferred income	-	-
	116,515	91,388
Current government grants	54,065	8,845
Current deferred income	86,840	56,326
	140,905	65,171
	257,420	156,559

The Group received government grants related to buildings, machinery and agricultural assets:

	31 March 2007 '000 RUR	31 March 2006 '000 RUR
Estonian subsidiaries grants received	76,480	119,409
Russian subsidiaries grants received	7,060	8,073
	83,540	127,482

Long term grants are recognised as income on a systematic basis over the period of usage of the corresponding assets.

16 Income tax expense

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Current income tax expense	386,616	20,643
Deferred income tax expense	(193,102)	2,879
	193,514	23,522

The Group's applicable tax rate for current and deferred tax is 24%.

Deferred tax assets and liabilities are attributable to:

'000 RUR	Assets		Liabilities		Net	
	Year ended 31 March 2007	Year ended 31 March 2006	Year ended 31 March 2007	Year ended 31 March 2006	Year ended 31 March 2007	Year ended 31 March 2006
Property, plant and equipment	101,854	3,724	318,466	367,546	(216,612)	(363,822)
Intangible assets	-	-	(3,967)	-	3,967	-
Trade and other receivables	45,441	2,450	-	-	45,441	2,450
Deferred income	-	-	8,654	8,211	(8,654)	(8,211)
Provisions	-	1,729	-	-	-	1,729
Trade and other payables	1,324	-	7,462	7,244	(6,138)	(7,244)
Tax assets / (liabilities)	148,619	7,903	330,615	383,001	(181,996)	(375,098)

Any deferred tax charge or credit is recognised in the income statement.

16 Income tax expense (continued)

Reconciliation of effective tax rate:

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Profit before tax and minority interest	786,064	200,313
Income tax at applicable tax rate of 24%	188,655	48,075
Tax effect of:		
Gain from subsidiary acquisition	(14,351)	-
Non-taxable profits for baby food in Ukraine	-	(19,614)
Other non-deductible/(non-taxable) items	19,210	(4,939)
	193,514	23,522

17 Segmental reporting

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Milk products		
Revenues	6,151,267	4,573,826
Cost of sales	(5,418,069)	(4,008,685)
Gross profit	733,198	565,141
Baby and special food		
Revenues	3,978,187	1,928,480
Cost of sales	(2,773,995)	(1,351,479)
Gross profit	1,204,192	577,001
Total revenues	10,129,454	6,502,306
Total cost of sales	(8,192,064)	(5,360,164)
Total gross profit	1,937,390	1,142,142

During the year under review, over 75% of the Group's revenue, segment results and assets originated from within Russia and not more than 10% arose from within any other individual geographical segment. On this basis, no geographical segmental analysis is included, in accordance with IAS 14.

18 Administrative expenses

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Wages and salaries	299,631	217,638
Lease of head office buildings	29,798	14,783
Other administrative expenses	165	154
	329,594	232,575

Average number of employees in the year ended 31 March 2006 was 5,082 (2006: 4,396).

19 Financial income and financial expenses

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Financial income		
Foreign exchange gain	208,389	101,660
Foreign exchange loss	(5,102)	(41,524)
Interest income and other financial income	19,732	7,634
	223,019	67,770
Financial expenses		
Interest expense from loans and borrowings	(513,186)	(433,784)
	(290,167)	(366,014)

20 Other income and expenses

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Research and development costs expensed as incurred	(28,715)	(22,461)
Negative goodwill	59,798	-
Government grants	9,943	12,289
Other expenses	(15,405)	(5,542)
	25,621	(15,714)

21 Contingencies

Litigation

From time to time and in the normal course of business, claims against the Group are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

For tax reduction purposes the Group operates with special purpose entities (SPEs) in which it does not hold any direct or indirect equity interest and does not appoint management. The methods used by the SPEs to reduce taxes may not comply with interpretations of applicable tax legislation by government officials. Management of these SPEs is responsible for the correctness and timeliness of the tax payments by the SPEs. However, the Group may also indirectly be held responsible.

Based on the facts available, no provision for potential tax and import duties liabilities has been made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such obligations.

Management has determined that it is not practicable to estimate the amount of potential tax and import duties liabilities, relating to the current and previous financial years, which could ultimately be imposed on the SPEs or on the Group as a result of the above.

The parent company of the Group, OAO Nutrinvestholding, borrows money at market interest rates and lends them to its subsidiaries at interest rates below market rate. As a result, interest paid might not be recognised as an expense by the tax authorities. Management believe such an outcome is unlikely, however the potential risk in this respect is estimated at RUR 25,000 thousand.

22 Contingencies (continued)

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 the environmental damage.

Government subsidies redemption

Government grants have been recognised in accordance with the disclosed accounting policies. However, there is a risk that certain criteria for the provision for the grants have not been fulfilled which means that the grants, or a portion thereof, be repaid.

Capital commitments

As at 31 March 2007 the Group had no capital commitments. As at 31 March 2006 the Group was committed to capital expenditure of approximately RUR 27,420 thousand with respect to OOO "Contractor XXI" (construction of a new office building in Moscow).

22 Related party transactions

The Group has entered into a variety of transactions with related parties during the reporting period. For the purposes of these consolidated financial statements related parties are defined by the Group as enterprises that are directly or indirectly controlled by the Group, individuals owning, directly or indirectly, an interest in the Group that gives them significant influence over the Group, and their immediate families, Directors and officers of the Group and their immediate families and enterprises in which individuals, directors or officers as described above, directly or indirectly, exercise significant influence or have control. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group has undertaken transactions of a commercial nature, purchase and sale of goods, mostly raw milk purchases and services with companies which are indicated as a related party regarding the Group production subsidiaries. These transactions are part of the normal operations of the Group and are under normal market conditions. Transactions with related parties are listed below:

'000 RUR	**Trade receivables**	**Trade payables**	**Revenues**	**Costs**
At 31 March 2007				
Minority shareholders of subsidiaries	5,928	17,835	10,659	86,314
Other	-	-	-	-
	5,928	17,835	10,659	86,314

22 Related party transactions (continued)

’000 RUR	**Trade receivables**	**Trade payables**	**Revenues**	**Costs**
At 31 March 2006				
Minority shareholders of subsidiaries	3,314	38,280	6,677	79,405
Other	-	-	-	-
	3,314	**38,280**	**6,677**	**79,405**

The operations of the holding company with the consolidated subsidiaries during the year are as follows:

Name of subsidiaries	**Year ended 31 March 2007 '000 RUR**	**Year ended 31 March 2006 '000 RUR**
ZAO Kompania Nutritek		
Trade and other payables	3,876	3,430
Long term finance assets	251	251
OAO Nutrinvest		
Trade and other payables	65,018	61,263
Long term finance assets	2,826,603	2,826,603
ZAO Torgovaya Kompania Nutritek		
Long term finance assets	865,471	865,471
ZAO Severnoe Moloko (Vologda plant)		
Cost of sales	18,221	15,954
Other		
Trade and other receivables	280,256	271,638
Trade and other payables	119,840	115,231
Long term finance assets	120,405	120,405
Loans and borrowings	78,109	74,352

22 Related party transactions (continued)

(a) Pricing policies

Related party transactions are based on market prices.

(b) Transactions with management and close family members

A former General Director of OAO Nutrinvestholding, acting through to September 2005, is a close family member of a controlling shareholder. The total salary, including related taxes, paid to this General Director during the year ended 31 March 2007 was RUR 2,460 thousand (during the year ended 31 March 2006: RUR 4,700 thousand).

(c) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs.

	Year ended 31 March 2007 '000 RUR	Year ended 31 March 2006 '000 RUR
Salaries and bonuses	12,757	10,894
Contributions to State pension fund	2,432	2,400
	15,157	13,294

23 Principal subsidiaries

The Company has the following investments in consolidated subsidiaries[2], incorporated in the Russian Federation, Estonia and Ukraine, as of 31 March 2007, including subsidiaries owned by a common shareholder:

	% owned
OAO Nutrinvest	99.82
ZAO PTK Severnoe Moloko	93.20
OAO Zelenodolsky Molochnyi Kombinat	78.10
OAO Molochnyi Kombinat Penzensky	50.81
ZAO Nutritek-Penza	100.00
OAO Moloko	74.96
OAO Filimonovsky Molochno-Konservnyi Kombinat	50.81
ZAO Kompania Nutritek	100.00
OAO Sibaysky Molochno-Konservnyi Kombinat Detskich Produktov	100.00
OAO Konservnyi Zavod Dinskoy	50.10
ZAO Molkombinat	99.82
OOO Aktiv	99.82
ZAO Biyskiy Maslo-Syrnyi Kombinat	99.82
OOO Yaroslavsky Hladokombinat	99.82
ZAO Plemzavod Zarya	92.75
Nutritek International, Corp.	100.00
Nutritek Overseas Pte Ltd	100.00
OU Estmilk	100.00
AS Agro Piim	100.00
OOO Agrofirma Tverskoe	100.00
ZAO Torgovaya Kompania Nutritek	99.82
OOO Torgovaya Kompania Nutritek “Detkoe i Specializirovannoe Pitanie”	100.00
OOO Torgovaya Kompania Nutritek “Molochnye Producti”	100.00
ZAO Torgoviy Dom “Skorovarov”	100.00
ZAO Produkti Zauralia	100.00
OAO Nutritek-Logistics	100.00
ZAO Nutritek Tender	100.00
ZAO TD Slavex	100.00

[2] All incorporated subsidiaries close accounts for the purpose of consolidation as at 31 March 2006.

ZAO Slavex-Centre	100.00
OOO Aqua-Pak	88.00
ZAO Moscovsky Zavod Detskogo Pitaniya	100.00
ZAO Khorolsky Molochno-Konservnyi Kombinat	68.31

23 Principal subsidiaries (continued)

There were no shares of subsidiaries pledged as collateral for funds borrowed as of 31 March 2007 and as for 31 March 2006.

The Company had the following investments in consolidated subsidiaries, incorporated in the Russian Federation and Estonia, as of 31 March 2006, including subsidiaries owned by a common shareholder:

	% owned
OAO Nutrinvest	99.82
ZAO PTK Severnoe Moloko	93.20
OAO Zelenodolsky Molochnyi Kombinat	78.10
OAO Molochnyi Kombinat Penzensky	50.81
OAO Moloko	74.96
OAO Filimonovsky Molochno-Konservnyi Kombinat	50.81
ZAO Kompania Nutritek	100.00
OAO Sibaykonservmoloko	50.91
OAO Konservnyi Zavod Dinskoy	50.10
ZAO Molkombinat	99.82
OOO Aktiv	99.82
ZAO Biyskiy Maslo-Syrnyi Kombinat	99.82
OOO Yaroslavsky Hladokombinat	99.82
ZAO Plemzavod Zarya	70.30
OU Estmilk	100.00
AS Agro Piim	100.00
OOO Agrofirma Tverskoe	100.00
ZAO Torgovaya Kompania Nutritek	99.82
ZAO TD Slavex	100.00
ZAO Slavex-Centre	100.00
OOO Aqua-Pak	88.00
ZAO Moscovsky Zavod Detskogo Pitaniya	100.00
ZAO Khorolsky Molochno-Konservnyi Kombinat	68.31

24 Risk management

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The majority of sales are made on a prepayment basis.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

The Group incurs interest rate risk primarily on loans and borrowings from banks and other financial institutions. Average effective interest rates are disclosed in Note 13 "Loans and borrowings". The Group borrows on a fixed and variable interest rate basis.

Foreign exchange risk

The Group incurs foreign exchange rate risk on borrowings that are denominated in currency other than RUR. The currency giving rise to this risk is primarily US Dollar. Management does not consider this risk to have a significant impact on the Group's operations.

Biological risk

By virtue of the fact that biological assets are not directly a sale item, but are a mean of reception of raw material in the form of milk for the future processing management of risks is carried out through regulation of the market price for milk produced.

Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through adequate amounts of credit facilities. Due to the ongoing nature of the trading activities, the Group aims to maintain flexible cash reserves by ensuring sufficient credit facilities are available.

25 Events subsequent to the balance sheet date

On 21 March 2007, Nutritek Overseas Pte Ltd (Singapore) signed an agreement for a purchase of 2,000,000 shares of New Zealand Dairies Limited (approximately 9.8% of shares outstanding upon signing of the agreement). The deal was scheduled in two tranches.

The first tranche was closed on 23 March 2007. Nutritek Overseas bought 1,166,666 shares by New Zealand Dairies Limited for RUR 41,756 thousand. The remaining purchase (833,334 shares with the same price) is scheduled to be closed after obtaining a permit of Overseas Investment Office of New Zealand.

In November 2006 OAO Nutrinvestholding (the Parent Company) registered 2,406,250 new shares. In May 2007 in the course of an Initial Public Offering (IPO) the Parent Company sold 1,801,710 new shares to existing shareholders and raised approximately RUR 2,405,653 thousand. Shares are traded in the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX).

After completing the IPO the Group paid bonuses to a number of employees (mostly to financial and law specialists). The total amount came to RUR 102,024 thousand.

11 June 2007, Group raised a dollar denominated loan extended by Winterhaven Finance B.V. in the amount of USD 50,000 thousand as a part of the loan participation programme where Winterhaven Finance B.V. is acting as the issuer of the notes. Interest rate is 8.75%, maturity date – 11 December 2008.