OJSC RAZGULAY Group

Consolidated Financial Statements
for the year ended
31 December 2008

Contents

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

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

Independent Auditors' Report

Board of Directors

OJSC RAZGULAY Group

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC RAZGULAY Group (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(d), which describes that the Group incurred a loss for the year of RUR 6,196 million for the year ended 31 December 2008 and, as at that date its current liabilities exceeded its current assets by RUR 19,598 million. These conditions, along with other matters described in Note 2(d), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

ZAO KPMG

ZAO KPMG
20 July 2009

	Note	**2008** *Million RUR*	**2007** *Million RUR* **Restated**
Revenue	7	36,403	31,010
Cost of sales		(32,156)	(26,510)
Gain from change in fair value of biological assets		1,635	1,600
Gross profit		5,882	6,100
Distribution expenses		(2,350)	(1,249)
Administrative expenses	8	(2,126)	(1,937)
Taxes, other than on income		(163)	(170)
Other income/(expenses)	9	16	(250)
Gains related to acquisitions and disposals of shares in subsidiaries	10	1,656	1,467
Impairment losses on non-financial assets	16	(4,864)	-
Financial income	12	763	292
Financial expenses	12	(3,957)	(1,548)
Share of profit of equity accounted investees, net of income tax		26	36
(Loss)/profit before income tax		(5,117)	2,741
Income tax expense	13	(1,079)	(1,289)
(Loss)/profit for the year		(6,196)	1,452
Attributable to:			
Shareholders of the Company		(6,216)	1,475
Minority interest		20	(23)
		(6,196)	1,452
Basic and diluted (loss)/earnings per share	25	(45.35)	13.64

These consolidated financial statements were approved by management on 20 July 2009 and were signed on its behalf by:

Potapenko I.V.
Chairman of the Board of Directors

Soldatov A.V.
Member of the Board of Directors

The consolidated statement of income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 57.

	Note	**2008** *Million RUR*	**2007** *Million RUR* ***Restated***
ASSETS			
Non-current assets			
Property, plant and equipment	14	15,138	12,260
Intangible assets	15	1,114	936
Investments in equity accounted investees	17	67	252
Other non-current assets	18	19,494	2,752
Total non-current assets		35,813	16,200
Current assets			
Inventories and biological assets	20	8,214	3,502
Other investments	21	848	2,132
Trade and other receivables	22	5,273	12,282
Cash and cash equivalents	23	2,024	2,696
Total current assets		16,359	20,612
Total assets		52,172	36,812
EQUITY AND LIABILITIES			
Equity	24		
Share capital		519	405
Additional paid-in capital		9,305	2,762
Retained earnings		4,742	10,958
Total equity attributable to shareholders of the Company		14,566	14,125
Minority interest		882	1,092
Total equity		15,448	15,217
Non-current liabilities			
Loans and borrowings	26	29	2,994
Deferred tax liabilities	19	723	995
Net assets attributable to participants in limited liability subsidiaries		15	60
Total non-current liabilities		767	4,049
Current liabilities			
Loans and borrowings	26	26,095	10,995
Trade and other payables	27	7,198	5,099
Provisions	28	2,664	1,452
Total current liabilities		35,957	17,546
Total liabilities		36,724	21,595
Total equity and liabilities		52,172	36,812

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part, of the consolidated financial statements set out on pages 8 to 57.

	2008 *Million RUR*	2007 *Million RUR* ***Restated***
OPERATING ACTIVITIES		
(Loss)/profit for the year	(6,196)	1,452
Adjustments for:		
Depreciation	1,127	999
Impairment losses	4,864	-
Gain from change in fair value of biological assets	(1,635)	(1,600)
Gains related to acquisitions and disposals of shares in subsidiaries	(1,656)	(1,467)
Foreign exchange losses/(gains)	75	(54)
Loss on disposal of property, plant and equipment	25	212
Share of profit of equity accounted investees, net of income tax	(26)	(36)
Income tax expense	1,079	1,289
Interest income	(516)	(238)
Interest expense, net of related government grants	2,121	1,357
Share of profits attributable to minority participants in limited liability subsidiaries	14	30
Operating (loss)/profit before changes in working capital and provisions	(724)	1,944
(Increase)/decrease in inventories	(1,294)	1,532
Decrease/(increase) in trade and other receivables	11,694	(8,394)
(Decrease)/increase in trade and other payables	(3,255)	4,838
Cash flows from/(utilised by) operations before income taxes and interest paid	6,421	(80)
Income taxes paid	(227)	(183)
Interest paid	(1,720)	(990)
Cash flows from/(utilised by) operating activities	4,474	(1,253)
INVESTING ACTIVITIES		
Proceeds from disposal of subsidiaries	1,697	1,746
Proceeds from disposal of property, plant and equipment	53	55
Proceeds from disposal of minority interests	207	-
Acquisition of property, plant and equipment	(25,728)	(3,405)
Acquisition of investments	(77)	(6)
Acquisition of minority interests	(165)	(23)
Loans given to related parties	(848)	(2,199)
Loans collected from related parties	891	1,506
Interest received	516	238
Acquisition of subsidiaries, net of cash acquired	(252)	(25)
Cash flows utilised by investing activities	(23,706)	(2,113)
FINANCING ACTIVITIES		
Proceeds from the issue of share capital, net of related costs	6,590	1,590
Proceeds from sale of treasury shares	-	30
Proceeds from borrowings	20,224	21,695
Repayment of borrowings	(8,254)	(19,446)
Cash flows from financing activities	18,560	3,869
Net (decrease)/increase in cash and cash equivalents	(672)	503
Cash and cash equivalents at beginning of year	2,696	2,193
Cash and cash equivalents at end of year	2,024	2,696

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part, of the consolidated financial statements set out on pages 8 to 57.

		Attributable to shareholders of the Company							
Million RUR	Note	Share capital	Reserve for own shares	Additional paid-in capital	Revaluation reserve, property, plant and equipment	Retained earnings	Total	Minority interest	Total equity
At 1 January 2007, as previously reported		363	(30)	1,213	1,510	9,645	12,701	1,416	14,117
Restatement	3(a)	-	-	-	(1,510)	(339)	(1,849)	(275)	(2,124)
Balance at 1 January 2007, restated		363	(30)	1,213	-	9,306	10,852	1,141	11,993
Profit and total recognized income and expenses for the year, restated		-	-	-	-	1,475	1,475	(23)	1,452
Shares issued	24(a)	42	-	1,549	-	-	1,591	-	1,591
Acquisition of treasury of shares		-	30	-	-	-	30	-	30
Increase in minority interest due to business combinations, restated	6(a)	-	-	-	-	-	-	74	74
Acquisition of minority interests	6(e)	-	-	-	-	-	-	(100)	(100)
Effect of disposal of subsidiaries to entities under common control, restated	6(c)	-	-	-	-	177	177	-	177
At 31 December 2007, restated		405	-	2,762	-	10,958	14,125	1,092	15,217
Loss and total recognised income and expenses for the year		-	-	-	-	(6,216)	(6,216)	20	(6,196)
Shares issued	24(a)	114	-	6,477	-	-	6,591	-	6,591
Increase in minority interest due to business combinations	6(a)	-	-	-	-	-	-	37	37
Acquisition of minority interests	6(e)	-	-	-	-	-	-	(443)	(443)
Effect of disposal of shares in subsidiaries to entities under common control	6(f)	-	-	31	-	-	31	176	207
Effect of acquisition of subsidiaries from entities under common control	6(b)	-	-	35	-	-	35	-	35
At 31 December 2008		519	-	9,305	-	4,742	14,566	882	15,448

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 57.

1 Background

(a) Organisation and operations

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

In 1992-2006 the Group operated as a privately owned enterprise. The Company was listed on the Russian Trading System Stock Exchange (RTS) and on the Moscow Interbank Currency Exchange (MICEX) in March 2006.

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

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

Until July 2008, the majority of the Company's shares were owned by Mr. Igor V. Potapenko, who ultimately controlled the Group and had the power to direct transactions of the Group at his own discretion and for his own benefit. In July 2008, Mr. Igor Potapenko's ownership interest decreased to 47%. In the absence of any other party owning a significant stake in the business and, as a result of his being Chief Executive Officer of the Group and Chairman of the Board of Directors of the Company, Mr. Potapenko continues to have de facto control over the operations of the Group. Mr. Potapenko has a number of other business interests outside of the Group. Further information about related party transactions is disclosed in note 31.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that:

- financial investments classified as 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;
- biological assets are measured at fair value less point-of-sale costs;
- agricultural produce is measured at fair value less point-of-sale costs at the point of harvest;

- the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest million.

(d) Going concern

The current economic situation has created considerable difficulties for Russian economy, including its agricultural sector. The Group incurred a loss of RUR 6,196 million for the year ended 31 December 2008. As at 31 December 2008, the Group's current liabilities exceeded its current assets by RUR 19,598 million. In addition, as at 31 December 2008, the Group was in breach of a number of financial covenants (as disclosed in note 26) and, as a result, lenders can request accelerated repayment of RUR 1,134 million of loans with contractual maturity dates of 2010 and later. As disclosed in note 34, in April and May 2009 the Group failed to redeem certain bonds amounting to RUR 5,418 million that were due for redemption per irrevocable public offers.

The ability of the Group to continue as a going concern is heavily dependent on the Group's ability to defer loan repayments to later periods and to secure additional borrowings. Accordingly, there is a material uncertainty related to events or conditions described above which may cast significant doubt on the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements do not include any adjustments that would be necessary in the event that the Group was unable to continue as a going concern.

(e) Use of judgments, estimates and assumptions

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

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

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

- Note 16 *Impairment;*
- Note 28 *Provisions;*
- Note 30 *Contingencies.*

(f) Reclassifications

The Group has modified its presentation of bonds issued in October 2006 with an original maturity in September 2011 amounting to RUR 2,008 million. Upon issue of the bonds, the Group made an irrevocable public offer to redeem the bonds at par in April 2008, therefore, the respective balance was reclassified to current liabilities as at 31 December 2007.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in notes 3(b) to 3(u). These accounting policies have been consistently applied, except as described in note 3(a) below.

(a) Change in accounting policy

In prior periods, the Group measured its property, plant and equipment at revalued amounts. Effective 1 January 2008, the Group changed its accounting policy to one of measuring property, plant and equipment at cost less accumulated depreciation and impairment losses. Property, plant and equipment was valued to determine deemed cost at 1 January 2002, the date of transfer to IFRSs. Fair value was determined based on depreciated replacement cost by an independent appraiser, OOO Balt-Audit-Expert. Management believes that measuring property, plant and equipment at cost results in the consolidated financial statements providing more relevant information, given the subjectivity associated with the regular application of fair value techniques.

The change in accounting policy has been applied retrospectively and the following adjustments have been recognised to the consolidated financial statements as at and for the year ended 31 December 2007:

Million RUR	**1 January 2007**			**31 December 2007**		
	As previously reported	**Adjustments**	**As restated**	**As previously reported**	**Adjustments**	**As restated**
Balance sheet						
Property, plant and equipment	15,486	(2,504)	12,982	14,606	(2,346)	12,260
Investments in equity accounted investees	250	(38)	212	286	(34)	252
Deferred tax liability	1,814	(418)	1,396	1,380	(385)	995
Revaluation reserve	1,510	(1,510)	-	1,486	(1,486)	-
Retained earnings	9,645	(339)	9,306	11,094	(136)	10,958
Minority interest	1,416	(275)	1,141	1,238	(146)	1,092
Statement of income						
Depreciation expense				1,143	(144)	999
Income tax expense				1,262	27	1,289
Profit attributable to minority interests				(18)	(5)	(23)
Profit attributable to shareholders of the Company				1,248	227	1,475
Basic and diluted earnings per share				11.54	2.1	13.64

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Special purpose entities (SPEs)

The Group had established a number of special purpose entities for tax minimisation purposes. Use of such entities substantially ceased with effect from 1 January 2005. The Group did not have any direct or indirect shareholdings in these entities. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets. The related tax contingencies are disclosed in note 30(c).

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date that the Group obtains control over the entities.

The assets and liabilities acquired are recognised at the carrying amounts previously recognised in the individual IFRS financial statements of the acquirees. The difference between the Group's share in the equity of the acquired company and the consideration paid is recognised as additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(iv) Disposals of subsidiaries to entities under common control

Disposals of subsidiaries to entities that are under the control of the shareholder that controls the Group are accounted for by recognising the difference between the consideration received and the carrying amount of the net assets of the subsidiary, including minority interests and attributable goodwill, as additional paid-in capital.

(v) Disposals of minority interests

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

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

Any difference between the consideration paid to acquire a minority interest from an entity that is under the control of the shareholder that controls the Group, and the carrying amount of that minority interest, is recognised as additional paid-in capital.

Any difference between the consideration received upon disposal of a minority interest to an entity that is under the control of the shareholder that controls the Group, and the carrying amount of that portion of the Group's interest in the subsidiary, including attributable goodwill, is recognised as additional paid-in capital.

(vii) Associates (equity accounted investees)

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the Group's interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(viii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to RUR at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to RUR at the exchange rate at that date. Non-monetary assets and liabilities denominated in a foreign currency that are measured at fair value are translated to RUR at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising in translation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUR at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to RUR at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in foreign currency translation reserve in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

(d) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and highly liquid promissory notes issued by banks which are used by the Group for settlement purposes, even if the stated maturity of the promissory notes at the date of acquisition exceeds three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for financial income and expenses is discussed in note 3(q).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(k)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(c)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(e) Share capital

Ordinary shares

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

Repurchase of share capital

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

Dividends

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

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2002, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

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

The estimated remaining useful lives for the current and comparative periods are as follows:

- buildings 5 to 57 years
- plant and equipment 2 to 13 years
- transport 2 to 15 years
- fixtures and fittings 2 to 9 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Intangible assets

(i) Goodwill

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

Acquisitions prior to 1 January 2005

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

Acquisitions on or after 1 January 2005

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

Acquisitions of minority interests

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

Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

(h) Leased assets

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

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

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production and conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(j) Biological assets

Biological assets are measured at fair value less estimated point-of-sale costs, with any change therein recognised as profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets. Grain crops and sugar beets are transferred to inventory at their fair value less estimated point-of-sale costs at the date of harvest.

Agricultural produce is measured at fair value less estimated point-of-sale costs at the date of harvest.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

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

(m) Provisions

(i) Tax provisions

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

(ii) Other provisions

Other provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(n) Insurance contracts

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

(o) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of white sugar and grain crops, transfer usually occurs when the produce is dispatched from the Group's warehouses; however, for sale arrangements described in note 7 transfer occurs upon loading the goods onto the ship.

(ii) Services

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

(iii) Commissions

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

(iv) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset.

(p) Other expenses

(i) Lease payments

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 as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(q) Finance income and expenses

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

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

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

(r) Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The Company has not issued potential ordinary shares that may have a dilutive effect on EPS.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The business segments are determined based on the Group's management and internal reporting structure.

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and related expenses, corporate assets (primarily the Group's headquarters) and head office expenses, and income tax assets and liabilities.

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

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 *Operating Segments,* which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments (see note 5). Under the management approach, the Group will present segment information in respect of Grain, Sugar and Agriculture.

- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

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

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require recognising the effects of transactions with non-controlling interest directly in equity.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values, when possible.

The majority of the Group's property, plant and equipment is of specialised nature and is rarely sold on an open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently, the fair value of property, plant and equipment was primarily determined using the depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost of assets in the Grain segment was determined by reference to the information on replacement expenditure provided by CNII "PromZernoProekt", a research and development institute specialising in construction projects related to the grain industry.

The depreciated replacement cost of assets in the Sugar segment was determined by reference to the information on replacement expenditure provided by "GiproSakharProm" and NPO "StroyInkor", research and development institutes specialising in construction projects related to the sugar industry.

(b) Biological assets and agricultural produce

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

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

(c) Investments in equity and debt securities

The fair value of available-for-sale and held-to-maturity financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of traded bonds is determined with reference to their market quotes at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Segment reporting

Segment information is presented in respect of the Group's business segments. The format of segment reporting is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

The Group comprises the following main business segments:

- *Grain:* Purchase, processing and sale of grain products.
- *Sugar:* Purchase of sugar beet and raw sugar, processing them into sugar, and selling sugar.
- *Agriculture*: Growing sugar beet and grain products, development of land bank.

The Group's production facilities and its markets and customers are located primarily in Russia. Operations of the Group do not include activities in economic environments with significantly differing risks and returns. Consequently, they represent one geographical segment.

	Grain		Sugar		Agriculture		Eliminations		Consolidated	
Million RUR	**2008**	**2007 Restated**	**2008**	**2007 Restated**	**2008**	**2007 Restated**	**2008**	**2007 Restated**	**2008**	**2007 Restated**
Revenue from external customers	24,483	19,066	10,930	10,405	990	1,539	-	-	36,403	31,010
Intersegment revenue	69	63	144	224	2,766	1,447	(2,979)	(1,734)	-	-
Total segment revenue	24,552	19,129	11,074	10,629	3,756	2,986	(2,979)	(1,734)	36,403	31,010
Gain from change in fair value of biological assets	-	-	-	-	1,635	1,600	-	-	1,635	1,600
Segment result before impairment	1,379	3,346	654	862	1,624	731	-	-	3,657	4,939
Impairment of non-financial assets	-	-	-	-	(4,864)	-	-	-	(4,864)	-
Segment result	1,379	3,346	654	862	(3,240)	731	-	-	(1,207)	4,939
Unallocated expenses									(742)	(978)
Financial expenses, net									(3,194)	(1,256)
Share of profit of equity accounted investees, net of income tax									26	36
Income tax expense									(1,079)	(1,289)
(Loss)/profit for the year									(6,196)	1,452
Segment assets	12,626	16,245	11,221	14,580	27,543	4,933			51,390	35,758
Investments in equity accounted investees	67	252	-	-	-	-			67	252
Unallocated assets									715	802
Total assets									52,172	36,812
Segment liabilities	(3,894)	(4,341)	(4,046)	(1,281)	(727)	(190)			(8,667)	(5,812)
Loans and borrowings									(26,124)	(13,989)
Deferred tax liabilities									(723)	(995)
Other unallocated liabilities									(1,210)	(799)
Total liabilities									(36,724)	(21,595)
Depreciation	(271)	(252)	(651)	(585)	(196)	(154)			(1,118)	(991)
Attributable to unallocated activities									(9)	(8)
Total depreciation									(1,127)	(999)
Capital expenditure - acquisition of property, plant and equipment and advances for land plots	985	149	1,257	1,469	26,066	2,202			28,308	3,820
Attributable to unallocated activities									22	13
Total capital expenditure									28,330	3,833

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

(a) Acquisition of subsidiaries

(i) Transactions in 2008

During 2008 the Group acquired controlling interests in the following companies:

Entity	Date of acquisition	Segment	Interest acquired
OAO Podolsky EMZ	March 2008	Grain	51%
OAO Shipunovsky elevator	May 2008	Grain	51%
OOO Davlekanovsky KHP#1	September 2008	Grain	100%

The total consideration paid to acquire the above interests amounted to RUR 779 million.

Acquisition of OAO Podolsky EMZ and OAO Shipunovky Elevator

As of 1 January 2008 the Group held 46% in OAO Podolsky EMZ (a flour milling plant) and 36% in OAO Shipunovsky Elevator. Consequently, the investments were previously accounted for using the equity method. The acquisition of the additional 51% interest increased the Group's interest in these companies to 97% and 87%, respectively, resulting in the Group obtaining control over these businesses.

Determination of the fair values and purchase price allocation for both acquisitions has been performed in 2008 by an independent appraiser, OOO Balt-Audit-Expert.

The fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical deterioration, functional or economical obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data, etc., and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost cash flow testing was conducted in order to assess the reasonableness of those values, which resulted in a depreciated replacement cost values being reduced by RUR 6 million for Podolsky EMZ and by RUR 228 million for Shipunovsky Elevator.

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

Podolsky EMZ

- A pre-tax nominal discount rate of 20.5% was applied for 2009, and 19.9% for subsequent periods;
- Revenue from existing assets was assumed to increase by 44.1%, 8.2%, 7.7% and 5.6% in years 2009, 2010, 2011 and 2012, respectively, and by 6.7% in the first post-forecast period. Terminal growth rate is assumed 4.5%;
- An EBITDA margin of 18.9%, 19.3%, 19.5% and 18.7% was assumed in years 2009, 2010, 2011 and 2012, respectively, and 18.7% in the post-forecast period.

Shipunovsky Elevator

- A pre-tax nominal discount rate of 20.9% was applied for 2009 and 20.0% for subsequent periods;

- Revenue from existing assets was assumed to increase by 157.8%, 82.2%, 32.2% and 10.9% in years 2009, 2010, 2011 and 2012, respectively, and 2.8% in the first post-forecast period. Terminal growth rate is assumed 4.5%;
- An EBITDA margin of 53.7%, 60.4%, 64.3% and 64.3% was assumed in 2009, 2010, 2011 and 2012, respectively, and 64.3% in the post-forecast period.

Acquisition of OOO Davlekanovsky KHP#1

In September 2008 the Group acquired the business of OAO Bashkirskiye Melnitsy for RUR 506 million by acquiring all of its property, plant and equipment and taking over most of the employment contracts. The property complex and employment contracts have been transferred to a newly formed subsidiary, OOO Davlekanovsky KHP#1. The purchase consideration has been allocated provisionally to property, plant and equipment.

(ii) Transactions in 2007

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

In the prior period the purchase price was allocated to the fair values of the identifiable assets and liabilities on a provisional basis.

In 2008 the Group adjusted the allocation of the purchase price to the fair values of identifiable assets and liabilities. Adjustments necessary to recognise the fair values of these assets have been recognised as a prior period adjustment. Accordingly, comparatives for 2007 have been restated.

Fair values and the purchase price allocation were determined in 2008 by an independent appraiser, OOO Balt-Audit-Expert.

The fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data, etc., and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost cash flow testing was conducted in order to assess the reasonableness of those values, which resulted in depreciated replacement cost values being reduced by RUR 191 million.

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

- A pre-tax nominal discount rate of approximately 17% was applied;
- Revenue from existing assets was assumed to increase annually by 10.9%, 7.3%, 8.9% and 9.9% in 2009, 2010, 2011 and 2012, respectively, and to decrease by 1.6% in the first post-forecast period. Terminal growth rate is assumed 4.5%;
- Costs attributable to existing assets were assumed to increase by 6.1%, 5.2%, 5.6% and 20.5% in 2009, 2010, 2011 and 2012, respectively, and to increase by 39.3% in the first post-forecast period.

Effect of acquisition of subsidiaries

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

	Pre-acquisition carrying amounts on a comparable IFRS basis 2008 *Million RUR*	**Fair value adjustments 2008** *Million RUR*	**Recognised fair values on acquisition 2008** *Million RUR*	**2007** *Million RUR* ***Restated***
Non-current assets	1,185	(66)	1,119	266
Current assets	115	-	115	42
Non-current liabilities	(80)	-	(80)	-
Current liabilities	(86)	-	(86)	(33)
Net identifiable assets acquired	1,134	(66)	1,068	275
Minority interest	(46)	9	(37)	(69)
Group's share of net identifiable assets acquired	1,088	(57)	1,031	206
Goodwill on acquisition			24	-
Derecognised investment in equity accounted investees			(72)	-
Excess of the fair value of the net identifiable assets over the consideration paid			(37)	(200)
Total consideration			946	6
Consideration settled in previous periods			167	-
Consideration settled in current period			779	6
			946	6

If the acquisitions of OJSC Podolsky EMZ and OJSC Shipunovsky Elevator had occurred on 1 January 2008, Group revenue for the year would have been RUR 36,547 million and the loss for the year would have been RUR 6,150 million. In determining these figures it has been assumed that the fair value adjustments at 1 January 2008 would have been the same as the fair value adjustments that arose on the date of acquisition.

It has not been practicable to determine the carrying amounts of assets, liabilities and contingent liabilities of OJSC Kavkaz on an IFRS basis immediately prior to the date of acquisition and the Group's revenue and profit for the year had the acquisition of that subsidiary occurred on 1 January 2007, respectively, because the subsidiary's financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

The Group has not completed an independent valuation of the assets OOO Davlekanovsky KHP#1 acquired in 2008 and, accordingly, the purchase price has been allocated to the fair value of identifiable assets on a provisional basis. The Group intends to finalise the valuation by the end of 2009.

Negative goodwill of RUR 200 million arose on the acquisition of OJSC Kavkaz in 2007 because of the Group's strong bargaining power in the region.

(b) Acquisition of subsidiaries in transactions under common control

In 2008 the Group acquired the following subsidiaries from entities controlled by the shareholder that controls the Group:

Entity	Month of acquisition	Segment	Interest acquired
OOO Torgoviy dom Gerkules	August 2008	Grain	100%
OOO Bashkirskaya zernovaya kompaniya	September 2008	Grain	100%
OOO Voronezhskaya zernovaya kompaniya	September 2008	Grain	100%
OOO Zapadno-Sibirskaya zernovaya kompaniya	September 2008	Grain	100%
OOO Kurskaya zernovaya kompaniya	September 2008	Grain	100%
OOO Razgulay Kuban	September 2008	Grain	100%
OOO Stavropolskoe zerno	September 2008	Grain	100%
OOO Tambovskaya zernovaya kompaniya	September 2008	Grain	100%
OOO Torgoviy dom Kubanris	September 2008	Grain	100%
OOO Uzhno-Donskoe zerno	September 2008	Grain	100%
Exim Grain Trade B.V.	November 2008	Grain	100%

The total consideration paid to acquire the above interests amounted to RUR 85 million.

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

	2008 *Million RUR*
Non-current assets	5
Current assets	11,935
Non-current liabilities	(1)
Current liabilities	(11,819)
Net assets acquired	120
Consideration paid	(85)
Net increase in equity charged to additional paid-in capital	35

(c) Disposal of subsidiaries to entities under common control

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

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

	2007 *Million RUR*
Current assets	277
Current liabilities	(454)
Net assets disposed of	(177)
Consideration received	-
Net increase in equity charged to additional paid-in capital	(177)

(d) Disposal of subsidiaries

(i) Transactions in 2008

In June 2008 the Group disposed of its interest in ZAO Nurlatsky Elevator, ZAO Nurlatsky Sakhar, OOO Russkaya bakaleynaya kompaniya and OOO Aksubaevo-Agroinvest for a total consideration of RUR 1,697 million. The above subsidiaries contributed RUR 1,218 million of profit to the Group's loss before tax for the year, including the net gain on disposal of RUR 1,282 million.

(ii) Transactions in 2007

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

The above subsidiaries contributed RUR 1,116 million to the Group's restated profit before tax for the year, including the net gain on disposal of RUR 1,167 million.

(iii) Effect of disposal of subsidiaries

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

	2008 *Million RUR*	**2007** *Million RUR* ***Restated***
Non-current assets	568	889
Current assets	479	1,475
Non-current liabilities	(58)	(1,133)
Current liabilities	(574)	(457)
Net assets disposed of	415	774
Goodwill derecognised	-	104
Consideration received	(1,697)	(2,045)
Gain on disposal	(1,282)	(1,187)
Loss on disposal	-	20
Gains from disposal of subsidiaries recognised in income (note 10)	(1,282)	(1,167)

(e) Acquisition of minority interests in subsidiaries

Acquisitions in 2008:

	Share of subsidiary controlled prior to the acquisition	Share acquired	Date	Conside-ration paid	Carrying amount of minority interest acquired	Goodwill / (negative goodwill)
				In million RUR		
Acqusition of minority shares in open joint stock companies and closed joint stock companies						
ZAO Karachaevo-Cherkessky Mukomol	75%	25%	Mar 2008	103	279	(176)
OAO Svetlogradsky Elevator	56%	40%	Apr 2008	47	100	(53)
OAO Svetlogradsky Elevator	96%	0.8%	Nov 2008	3	3	-
OAO Khlebnaya Baza 63	52%	26%	Sep 2008	8	35	(27)
OAO Dubovskkhleboproduct	75%	13%	Sep 2008	1	26	(25)
				162	443	(281)
Acqusition of minority shares in limited liability companies						
OOO Anastasievskoe	85%	12%	Aug 2008	3	41	(38)
OOO Chishmy-agroinvest	84%	16%	Nov 2008	-	18	(18)
				3	59	(56)
				165	502	(337)

Acquisition of minority shares in open and closed joint stock companies of RUR 443 million has been recognised as a decrease in equity. Acquisition of minority shares in limited liability companies of RUR 59 million has been recognised as an increase in net assets attributable to participants in limited liability subsidiaries.

Acquisitions in 2007:

	Share of subsidiary controlled prior to the acquisition	Share acquired	Date	Conside-ration paid	Carrying amount of minority interest acquired	Negative goodwill
				In million RUR		
					Restated	
OAO Elevator Rudny Klad	52%	4%	Dec 2007	-	8	(8)
OAO Russko-Polyanskiy Elevator	64%	21%	Apr 2007	8	22	(14)
OAO Chishminsky Sakharny Zavod and its subsidiary OOO Chishmy-Agroinvest	58%	26%	Jul 2007	15	93	(78)
				23	123	(100)

(f) Disposal of minority interest in subsidiaries to entities under common control

In March 2008 the Group disposed of 25% of its interest in ZAO Bugulminsky KHP#2 for a total consideration of RUR 97 million, decreasing its ownership from 100% to 75%. The carrying amount of the minority interest at the date of disposal was RUR 86 million. The gain on disposal of the minority interest of RUR 11 million was recognised in additional paid-in capital.

In March 2008 the Group disposed of 25% of its interest in ZAO Bugulminsky Elevator for a total consideration of RUR 110 million, decreasing its ownership from 100% to 75%. The carrying amount of the minority interest at the date of disposal was RUR 90 million. The gain on disposal of the minority interest of RUR 20 million was recognised in additional paid-in capital.

7 Revenue

	2008	2007
	Million RUR	*Million RUR*
Revenue from sales	35,319	29,745
Revenue from processing and storage services and other revenues	1,084	1,265
	36,403	31,010

During 2008 and 2007 the Group entered into a series of speculative transactions with unrelated parties to purchase and sell exported grain crops under free on board terms. All transactions were conducted by subsidiaries of the Group registered outside the territory of the Russian Federation. Revenue and gross profit from the sale of the crops under the above transactions amounted to RUR 7,208 million and RUR 593 million (2007: RUR 6,413 million and RUR 1,970 million), respectively.

8 Administrative expenses

	2008	2007
	Million RUR	*Million RUR*
Wages and salaries	1,269	1,106
Bank charges	138	116
Legal and consulting services	57	74
Other administrative expenses	662	641
	2,126	1,937

9 Other (income)/expenses

	2008	2007
	Million RUR	*Million RUR* ***Restated***
Loss on disposal of property, plant and equipment	25	187
Other (income)/expenses, net	(41)	63
	(16)	250

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

	2008 *Million RUR*	**2007** *Million RUR* ***Restated***
Gains on disposal of subsidiaries (note (6(d))	1,282	1,167
Negative goodwill on acquisition of subsidiaries (note 6(a))	37	200
Negative goodwill on acquisition of minority shares in subsidiaries (note 6(e))	337	100
	1,656	1,467

11 Total personnel costs

Personnel costs included in cost of sales, administrative expenses and distribution expenses amounted to RUR 2,921 million (2007: RUR 2,346 million).

12 Financial income and expenses

	2008 *Million RUR*	**2007** *Million RUR*
Financial income		
Interest income	516	238
Gain from redemption of own bonds	247	-
Foreign exchange gain, net	-	54
	763	292
Financial expense		
Interest expense	(2,515)	(1,706)
Government grants compensating the Group's cost of financing agricultural activities	394	349
Impairment loss on trade receivables	(1,742)	(161)
Foreign exchange loss, net	(75)	-
Finance lease expense	(5)	-
Share of profits attributable to minority participants in limited liability subsidiaries	(14)	(30)
	(3,957)	(1,548)
	(3,194)	(1,256)

In 2008 the Group recognised government grants of RUR 394 million (2007: RUR 349 million) compensating the Group for interest expense incurred by certain of the Group's entities.

The grants are available to certain entities engaged in agricultural activities. They aim to compensate two-thirds of the interest expense incurred by entities over the reporting period. The compensation shall not, however, exceed two-thirds of the Russian Federation Central Bank official discount rate which varied from 10.0% to 13.0% in 2008 (2007: from 10.0% to 10.5%). The decision regarding compensation depends, among other things, on the availability of resources from the relevant state budget when an application for the grant is made. Accordingly, the Group recognises such grants when the decision about compensation is made.

13 Income tax expense

	2008 *Million RUR*	**2007** *Million RUR* **Restated**
Current tax expense	(1,369)	(1,598)
Deferred tax benefit/(expense):		
Origination and reversal of temporary differences	435	296
Change in tax rate	(145)	-
Recognition of previously unrecognised deferred tax asset	-	13
	290	309
	(1,079)	(1,289)

The applicable tax rate for the Company and its Russian subsidiaries is the income tax rate of 24% (2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities of Russian subsidiaries as at 31 December 2008. For the entities located in Cyprus, the applicable tax rate is the corporate income tax rate of 10% (2007: 10%). For the entity located in the Netherlands the effective income tax rate applied in 2008 was 23.5%. Income earned by entities incorporated in the British Virgin Islands is not currently subject to income tax.

Subsidiaries qualifying for the status of agricultural producers are taxed at 0% until 2012, at 12% from 2012 until 2015 and at 20% from 2016 onwards.

Reconciliation of effective tax rate:

	2008		**2007**	
	Million RUR	*%*	*Million RUR*	*%*
			Restated	
(Loss)/profit before income tax	(5,117)	100	2,741	100
Income tax at applicable tax rate	1,228	(24)	(658)	(24)
Recognition of previously unrecognised deferred tax asset	-	-	13	-
Items taxed in lower tax jurisdictions	(375)	7	(325)	(12)
Change in tax rate	(145)	3	-	-
Income of agricultural subsidiaries taxed at 0%	(54)	1	107	4
Provision for income tax and related penalties (note 28)	(244)	5	(394)	(14)
Non-deductible items	(1,489)	29	(32)	(1)
	(1,079)	21	(1,289)	(47)

.

14 Property, plant and equipment

Million RUR	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Construction in progress	Total
Cost						
At 1 January 2007, as previously reported	10,107	4,325	135	102	1,043	15,712
Restatement (note 3(a))	(29)	231	106	11	(11)	308
At 1 January 2007, restated	10,078	4,556	241	113	1,032	16,020
Acquisitions through business combinations, restated (note 6(a))	92	8	4	-	-	104
Additions	25	879	147	11	265	1,327
Disposals, restated	(178)	(33)	(18)	(1)	(40)	(270)
Disposals as part of sale of subsidiaries, restated	(794)	(262)	(6)	(8)	(58)	(1,128)
Transfers	56	446	18	4	(524)	-
At 31 December 2007, restated	9,279	5,594	386	119	675	16,053
Acquisitions through business combinations	299	82	3	1	2	387
Additions	2,635	2,168	81	17	274	5,175
Disposals	(38)	(31)	(11)	(1)	(13)	(94)
Disposals as part of sale of subsidiaries	(344)	(267)	(5)	(4)	(67)	(687)
Transfers	77	100	6	7	(190)	-
At 31 December 2008	11,908	7,646	460	139	681	20,834
Depreciation and impairment losses						
At 1 January 2007, as previously reported	(5)	(228)	16	(9)	-	(226)
Restatement (note 3(a))	(1,499)	(1,185)	(109)	(19)	-	(2,812)
At 1 January 2007, restated	(1,504)	(1,413)	(93)	(28)	-	(3,038)
Depreciation charge, restated	(386)	(573)	(29)	(11)	-	(999)
Disposals, restated	5	-	-	-	-	5
Disposals as part of sale of subsidiaries, restated	152	80	2	5	-	239
At 31 December 2007, restated	(1,733)	(1,906)	(120)	(34)	-	(3,793)
Impairment losses (note 16)	(398)	(437)	(23)	-	(53)	(911)
Depreciation charge	(398)	(665)	(50)	(14)	-	(1,127)
Disposals	8	6	2	-	-	16
Disposals as part of sale of subsidiaries	66	51	1	1	-	119
At 31 December 2008	(2,455)	(2,951)	(190)	(47)	(53)	(5,696)
Net book value						
At 1 January 2007, as previously reported	10,102	4,097	151	93	1,043	15,486
Restatement	(1,528)	(954)	(3)	(8)	(11)	(2,504)
At 1 January 2007, restated	8,574	3,143	148	85	1,032	12,982
At 31 December 2007, restated	7,546	3,688	266	85	675	12,260
At 31 December 2008	9,453	4,695	270	92	628	15,138

In 2008 the Group changed its accounting policy in respect of measurement of its property, plant and equipment (note 3(a)).

Certain items of property, plant and equipment have been pledged to secure bank loans - refer note 26.

15 Intangible assets

Million RUR	**Goodwill**	**Land lease rights**	**Other intangible assets**	**Total**
On 1 January 2007	886	-	1	887
Disposal as part of sale of subsidiaries	(104)	-	-	(104)
Acquisition through business combinations	-	153	-	153
On 31 December 2007	782	153	1	936
Acquisition through business combinations	24	152	2	178
On 31 December 2008	806	305	3	1,114

16 Impairment

For the purposes of impairment testing, the goodwill has been allocated to the sugar and grain business segments, which included respective Group entities whose acquisition resulted in recognition of the goodwill. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

For the purpose of impairment testing all other non-financial assets of the Group have been allocated to five cash generating units representing business segments of agriculture, sugar production, flour production, cereals production and grain trading. The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

(a) Agricultural activities

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2008 and the six-year business plan for 2009-2014. Net cash flows in the post-forecast period were determined assuming a 2% growth per year;
- The total projected area of cultivated land is 326 thousand hectares in 2009 and 2010, and 387 thousand hectares from 2011 to 2014, the increase is attributable to land plots prepaid as at 31 December 2008;
- The yield per hectare is assumed to increase from 38.89 tons to 43.78 tons for sugar beets, from 4.25 tons to 4.79 tons for winter wheat, remain stable at 3.58 tons for summer wheat, remain stable at 3.93 tons for barley and remain stable at 5.35 tons for rice over the whole forecast period;
- The sales prices of all agricultural produce were projected to remain unchanged during 2009-2014;
- A real post-tax discount rate of 20% was applied in determining the recoverable amount of the cash-generating unit. An equivalent real pre-tax discount rate equals 20%.

The cash flow testing conducted at the above assumptions resulted in an impairment loss of RUR 4,864 million, of which RUR 911 million were allocated to property, plant equipment and RUR 3,953 million to advances for the acquisition of agricultural land.

The above estimates are particularly sensitive in the following areas:

- An increase of five percentage points in the discount rate used would have increased the impairment loss by RUR 4,123 million;

- A 10% decrease in the sales prices of agricultural produce would increase the impairment loss by RUR 4,046 million.

(b) Sugar production

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2008 and the six-year business plan for 2009-2014;
- The Group assumed a 1% annual growth in quantity of processed sugar-beet in the forecast and post-forecast periods;
- The sales price of sugar was projected to remain unchanged at RUR 21,527 per ton during 2009 to 2014;
- Gross profit margin was projected to be 35% in 2009 and 30% in 2010 to 2014;
- A real post-tax discount rate of 20.0% was applied in determining the recoverable amount of the cash-generating unit. An equivalent real pre-tax discount rate equals 25.4%.

As a result of the above test the recoverable amount of the cash-generating unit exceeded its carrying amount.

The above estimates are not sensitive in the following areas:

- An increase of five percentage points in the discount rate used would result in no impairment;
- A reduction in the annual growth in quantity of processed sugar-beets from 1% to 0% would result in no impairment.

(c) Flour production

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2008 and the six-year business plan for 2009-2014. Net cash flows in the post-forecast period were determined assuming a 1% growth per year.
- The Group assumed a 7% annual growth in flour production volume, which is based on an increase in capacity utilisation from 50% to 80% from 2009 to 2014;
- The sales price of wheat flour was projected to remain unchanged at RUR 9,556 per ton from 2009 to 2014;
- The gross profit margin was projected to decrease from 23% in 2008 to 20% from 2009 to 2014;
- A real post-tax discount rate of 20.0% was applied in determining the recoverable amount of the cash-generating unit. An equivalent real pre-tax discount rate equals 25.3%.

As a result of the above testing, the recoverable amount of the cash-generating unit exceeded its carrying amount.

The above estimates are not sensitive in the following areas:

- An increase of five percentage points in the discount rate used would result in no impairment;

- A reduction in the annual growth of flour production from 7% to 3% would result in no impairment.

(d) Cereals production

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2008 and the six-year business plan for 2009-2014. Net cash flows in the post-forecast period were determined assuming a 1% growth per year;
- The Group assumed a 2% annual growth in cereals production and sales, which is based on an increase in capacity utilisation from 70% to 73% from 2009 to 2014;
- The sales price of cereals was projected to remain unchanged in 2009 to 2014 at RUR 25,479 per ton for rice groats;
- The gross profit margin was projected to decrease gradually from 25.3% in 2009 to 24.7% in 2014;
- A real post-tax discount rate of 20.0% was applied in determining the recoverable amount of the cash-generating unit. An equivalent real pre-tax discount rate equals 22.1%.

As a result of the above testing, the recoverable amount of the cash-generating unit exceeded its carrying amount.

The above estimates are not sensitive in the following areas:

- An increase of five percentage points in the discount rate used would result in no impairment;
- A reduction in the annual growth in cereals production from 2% to 0% would result in no impairment.

(e) Grain trading

The following key assumptions were used in determining the recoverable amount of the non-current assets attributable to the cash-generating unit:

- Cash flows were projected based on actual operating results for 2008 and the six-year business plan for 2009-2014.
- The Group assumed a 2% annual growth in total sales from grain trading, which assumes a 3% annual growth of export grain trading and no growth of grain trading in the Russian market.
- The sales prices of grain are assumed to remain unchanged both for export and domestic markets from 2009 to 2014.
- The gross profit margin was projected to decrease gradually from 28.7% in 2009 to 28.5% in 2014.
- A real post-tax discount rate of 20.0% was applied in determining the recoverable amount of the cash-generating unit. An equivalent real pre-tax discount rate equals 22.5%.

As a result of the above test, the recoverable amount of the cash-generating unit exceeded its carrying amount.

The above estimates are not sensitive in the following areas:

- An increase of five percentage points in the discount rate used would result in no impairment;

- A reduction in annual growth of revenue from 2% to 0% would result in no impairment.

(f) Impairment

	Carrying value	Impairment	Balance after impairment
	Million RUR	Million RUR	Million RUR
Agricultural production			
Property, plant and equipment	5,251	(911)	4,340
Other non-current assets	22,797	(3,953)	18,844
	28,048	(4,864)	23,184
Sugar production	5,931	-	5,931
Flour production	1,085	-	1,085
Cereals production	2,046	-	2,046
Grain trading	1,137	-	1,137
	38,247	**(4,864)**	**33,383**

17 Investments in equity accounted investees

Investments in equity accounted investees as of 31 December 2008 represent the Group's interest in OAO Angelinsky Elevator of 25%. The entity operates in Krasnodar region, the Russian Federation.

The following is summarised financial information in respect of the equity accounted investee:

	2008	2007
	Million RUR	*Million RUR*
Total assets	658	909
Total liabilities	(381)	(137)
Revenue	459	809
Loss for the year	(16)	(23)

18 Other non-current assets

	2008	2007
	Million RUR	*Million RUR*
Advances issued to third parties for acquisition of agricultural land, net of impairment loss	18,844	2,506
Prepayment made to related party to acquire shares in equity accounted investee	357	-
Equity securities available for sale	83	6
Non-current loans issued to related parties, RUR denominated, 10% per annum, maturing in 2010	56	67
Advances issued to related parties for acquisition of property, plant and equipment	-	172
Other non-current assets	154	1
	19,494	2,752

In December 2008 the Group advanced RUR 357 million to a related party at 9.7% per annum for the acquisition of 25%+1 share interest in a fellow subsidiary, ZAO Donskaya Agrarnaya Gruppa. The Group expects to finalise the acquisition in 2009.

19 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

	Assets		**Liabilities**		**Net**	
Million RUR	**2008**	**2007 *Restated***	**2008**	**2007 *Restated***	**2008**	**2007 *Restated***
Property, plant and equipment	-	-	(820)	(1,059)	(820)	(1,059)
Other current assets/(liabilities), net	41	22	-	-	41	22
Tax loss carry-forwards	56	42	-	-	56	42
Tax assets/(liabilities)	97	64	(820)	(1,059)	(723)	(995)
Set off of tax	(97)	(64)	97	64	-	-
Net tax liabilities	-	-	(723)	(995)	(723)	(995)

(b) Unrecognised deferred tax assets

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

	2008 *Million RUR*	**2007** *Million RUR*
Deductible temporary differences	823	174
Tax loss carry-forwards	210	45
	1,033	219

Deductible temporary differences do not expire under current tax legislation. Tax losses expire in 2016 and 2017. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(c) Unrecognised deferred tax liability

A temporary difference of RUR 3,913 million (2007: RUR 8,433 million, restated) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

(d) Movement in temporary differences during the year

Million RUR	**1 January 2008**	**Recog-nised in income**	**Acquisi-tion of subsi-diaries**	**Disposal of subsi-diaries**	**31 December 2008**
Property, plant and equipment	(1,059)	250	(80)	69	(820)
Other current assets/(liabilities), net	22	25	-	(6)	41
Tax loss carry-forwards	42	15	-	(1)	56
Net tax liabilities	(995)	290	(80)	62	(723)

Million RUR, restated	1 January 2007	Recognised in income	Disposal of subsidiaries	31 December 2007
Property, plant and equipment	(1,538)	360	119	(1,059)
Other current assets/ (liabilities), net	80	(57)	(1)	22
Tax loss carry-forwards	62	6	(26)	42
Net tax liabilities	(1,396)	309	92	(995)

20 Inventories and biological assets

	2008 *Million RUR*	2007 *Million RUR*
Goods for resale		
Grain crops	2,514	511
White sugar	3,369	920
Others	-	91
Biological assets		
Grain crops	645	346
Sugar beets	658	278
Raw materials and consumables	1,028	1,356
	8,214	3,502

The value of inventory pledged to secure loans is disclosed in note 26.

At 31 December 2008 the Group wrote down raw materials in the amount of RUR 54 million (2007: RUR 40 million).

Biological assets

In 2008 the Group cultivated sugar beet, wheat, barley, sunflower, rice, soya and other crops. During 2008 the Group harvested approximately 1,342 thousand tons of sugar beet (2007: 1,477 thousand tons), 229 thousand tons of wheat (2007:109 thousand tons), 126 thousand tons of barley (2007: 40 thousand tons).

	2008 *Million RUR*	***2007*** *Million RUR*
Balance as of 1 January	624	528
Increase due to acquisitions	19	-
Additions due to growing	2,955	1,801
Changes in fair value	1,635	1,600
Harvested assets transferred to inventory	(3,930)	(3,305)
Balance as of 31 December	1,303	624

As at 31 December 2008 the Group planted 110,000 hectares of winter wheat (2007: 50,071 hectares) and prepared 46,963 hectares of sugar beet planting (2007: 40,478 hectares).

The Group is exposed to a number of risks related to its crops:

Regulatory and environmental risks

The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems are in place to manager those risks.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of grain and sugar products. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks

The Group's crops are exposed to the risk of damage from climatic changes and diseases. The Group has extensive processes in place aimed at monitoring and mitigating those risks. The Group also insures itself against failure of crops (note 30(a)).

21 Other investments

Other investments comprise unsecured RUR denominated loans issued by the Group to related parties at a fixed interest rate from 3% to 18% per annum. The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 29.

22 Trade and other receivables

	2008	**2007**
	Million RUR	*Million RUR*
Trade receivables	4,049	6,460
Taxes receivable	1,491	576
Advances paid	468	940
Receivables from equity accounted investees	352	24
Deferred expenses	109	73
Trade receivables from related parties	72	1,220
Advances paid to related parties	25	2,625
Other receivables from related parties	88	289
Other receivables	489	223
Provision for doubtful accounts	(1,870)	(148)
	5,273	12,282

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

23 Cash and cash equivalents

At 31 December 2008 cash and cash equivalents included a short-term RUR-denominated bank deposit with a Russian bank in the amount of RUR 278 million (31 December 2007: RUR 353 million).The deposit was withdrawn in full in January 2009.

At 31 December 2007 cash and cash equivalents also included highly liquid RUR denominated promissory notes which were held by the Group for settlement purposes. The promissory notes were settled in January 2008 in full.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

24 Equity

(a) Share capital

On 1 January 2007 the authorised capital of the Company comprised 120,000,000 ordinary shares with a par value of RUR 3 each. 106,000,000 shares were issued and paid up, of which 257,420 shares were redeemed and accounted as treasury shares.

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

In November 2007 the Group sold 14,000,000 newly issued ordinary shares for RUR 115.56 per share. The difference between the nominal value of the shares issued of RUR 42 million and the consideration received of RUR 1,618 million reduced by the amount of expenses incurred on issue of RUR 27 million was credited to additional paid-in capital - refer consolidated statement of changes in equity.

In July 2008 the authorised capital of the Company was increased from 120,000,000 to 190,000,000 ordinary shares with 3 RUR per share each.

In July 2008 the Group sold 38,093,157 newly issued ordinary shares for USD 7.75 per share. The difference between the nominal value of the shares issued of RUR 114 million and the consideration received of RUR 6,859 million reduced by the amount of expenses incurred on issue of RUR 268 million was credited to additional paid-in capital - refer consolidated statement of changes in equity.

The holders of shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company's shareholders.

All ordinary shares rank equally with regard to the Company's residual assets.

(b) Dividends

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company's distributable reserves amounted to RUR 13 million (31 December 2007: RUR 11 million).

(c) Transactions with the controlling shareholder

In years 2007 and 2008 the Group entered in a number of transactions to acquire and to dispose of shares with entities controlled by the shareholder that controls the Group (notes 6(b), 6(c) and 6(f)).

25 (Loss)/earnings per share

The calculation of (loss)/earnings per share is based upon the (loss)/profit for the year attributable to shareholders of the Company and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

In thousands of shares	2008	2007
Issued shares at 1 January	120,000	105,743
Effect of shares issued in July	17,069	-
Effect of shares resold in September	-	86
Effect of shares issued in November	-	2,333
Weighted average number of shares for the year ended 31 December	137,069	108,162

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 29.

	2008 *Million RUR*	**2007** *Million RUR* ***Restated***
Non-current		
RUR denominated bonds:		
- OOO Razgulay-Finans, issue 3	-	2,986
Unsecured non-bank loans	13	8
Finance lease liabilities	16	-
	29	2,994
Current		
Secured bank loans	10,545	8,326
Unsecured bank loans	340	-
Unsecured non-bank loans	2	4
Unsecured non-bank loans from related parties	-	508
RUR denominated bonds:		
- OOO Razgulay-Finans, issue 1	-	21
- OOO Razgulay-Finans, issue 2	1,853	2,008
- OOO Razgulay-Finans, issue 3	2,310	-
- OOO Razgulay-Finans, issue 4	2,604	-
- OOO Razgulay-Finans, issue 5	2,049	-
- OJSC Group RAZGULAY, issue BO-2	1,804	-
- OJSC Group RAZGULAY, issue BO-4	452	-
- OJSC Group RAZGULAY, issue BO-5	452	-
- OJSC Group RAZGULAY, issue BO-6	451	-
- OJSC Group RAZGULAY, issue BO-7	1,867	-
- OJSC Group RAZGULAY, issue BO-11	888	-
- OJSC Group RAZGULAY, issue BO-14	467	-
Current portion of non-current bonds	-	128
Current portion of finance lease liabilities	11	-
	26,095	10,995
	26,124	13,989

Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios and the maximum amount of the Group's debt. Covenant breaches generally permit lenders to demand accelerated repayment of principal and interest.

At 31 December 2008 the Group was in breach of certain financial covenants which allow lenders to demand immediate repayment of loans with a carrying amount of RUR 1,134 million. These loans were classified as current liabilities as at 31 December 2008.

At 31 December 2008 the Group was in compliance with covenants relating to its bonds. Subsequent to 31 December 2008, the Group failed to redeem certain bonds in accordance with irrevocable public offers (note 34).

Security

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 6,279 million (2007: RUR 4,227 million, restated);
- inventory with a carrying amount of zero (2007: RUR 144 million);
- shares in the following subsidiaries which comprise a substantial part of the Group:

	Shares pledged at 31 December, in %	
	2008	**2007**
Agrofirma Poltavskaya, ZAO	100	-
Agroinvest,OOO	100	-
Anastasievskoe,OOO	100	100
Belgorodagroinvest, OOO	100	-
Bugulminsky elevator, ZAO	-	75
Bugulminsky KHP#2, ZAO	75	75
Chishminsky sakharny zavod, OAO	-	84
Druzhba, ZAO	100	-
Dubovskkhleboproduct, OAO	75	75
Elevator Rudny Klad, OAO	-	52
Erkenagroinvest, OOO	100	-
Gerkules, OAO	86	86
Izobilie, OOO	100	100
Karachaevo-Cherkessky Mukomol, ZAO	100	75
Karachaevo-Cherkessky Sakharny zavod, OAO	90	90
Khlebnaya baza 63, OAO	-	52
Kineshemsky mukomolny kombinat, OAO	90	90
Kondopozhsky KHP, OAO	95	95
Krivetsagro, OOO	100	-
Krivets-Sakhar, OAO	-	97
Kshenagro, OOO	100	-
Kshensky Sakharny Kombinat, ZAO	100	100
Lgovagroinvest, OOO	100	-
Lgovsky KHP, ZAO	-	100
Lgovsky MKK, OAO	99	-
Nurlatsky elevator, ZAO (note 6(d))	-	100
Nurlatsky sakhar, ZAO (note 6(d))	-	100
Otradaagroinvest, OOO	100	-
Podolsky EMZ, OAO	97	-
Poltavsky KHP, OAO	90	90
Pristen-Sakhar, ZAO	100	-
Russko-Polyanskiy Elevator, OAO	85	85
Rzhavskoye HPP, OAO	97	97
Sakharny Kombinat Alexeevsky, ZAO	100	100
Sakharny Kombinat Bolshevik, ZAO	100	100
Sakharny Kombinat Kurganinsky, ZAO	100	100
Sakharny Kombinat Lgovsky, OAO	100	-
Sakharny Kombinat Otradinsky, ZAO	100	100
Sakharny Kombinat Tikhoretsky, ZAO	100	100
Slavyansky KHP	85	85
Starodubsky elevator, OAO	100	100
Tikhoretskagroinvest, OOO	100	-
Tsimlyanskkhleboprodukt, OAO	100	100
Tsimlyanskoye, OOO	100	100
Zelenokumsky elevator,OAO	-	50

Terms and debt repayment schedule

				2008		2007	
Million RUR	**Currency**	**Nominal Interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loans	RUR	11.0%-18.0%	2008-2009	8,695	8,695	8,326	8,326
Secured bank loans	USD	9.74%-15.0%	2009	1,850	1,850	-	-
Unsecured bank loans	USD	1.45%-3.4%	2009	340	340	-	-
Unsecured non-bank loans	RUR	0.0%-1.0%	2009-2014	15	15	12	12
Unsecured non-bank loans from related parties	RUR	0.0%-15.0%	2008	-	-	499	499
Unsecured non-bank loans from related parties	USD	LIBOR	2008	-	-	9	9
Unsecured bond issues	RUR	11.0%-17.0%	2008-2009	14,837	15,197	5,021	5,143
Finance lease liabilities	RUR	33%	2009-2011	27	27	-	-
				25,764	26,124	13,867	13,989

27 Trade and other payables

	2008	**2007**
	Million RUR	*Million RUR*
Advances received	3,638	904
Trade payables	2,433	3,539
Payables to equity accounted investees	360	5
Taxes payable other than income tax	221	156
Trade payables to related parties	147	90
Payables to employees	94	100
Income tax payable	55	77
Other payables to related parties	46	14
Advances received from related parties	32	3
Other payables and accrued expenses	172	211
	7,198	5,099

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

28 Provisions

Provisions as at 31 December 2008 of RUR 2,664 million (31 December 2007: RUR 1,452 million) include provisions for income and other taxes, penalties and late-payment interest in respect of the following exposures:

Disposal of interests in subsidiaries

In 2007 and 2008 the Group disposed of its interest in certain subsidiaries – refer note 6(e). If the way in which these disposals were structured were successfully challenged by the Russian tax authorities, it could result in the assessment of additional income tax, penalties and late-payment interest in the total amount of approximately RUR 1,175 million (31 December 2007: RUR 551 million). These amounts were provided in full as at 31 December 2008 and 2007.

Grain trading operations

During 2007 and 2008 certain of the Group's subsidiaries entered into various transactions to purchase and sell grain in the process of being exported from the Russian Federation both at the date of purchase and the date of sale. As a result of these transactions a gain of RUR 984 million was recognised by the Group in 2008 (2007: RUR 1,970 million). Because the subsidiaries are incorporated in a jurisdiction that has no income tax, no tax liability has been recognised in respect of these gains. The Russian tax authorities may challenge the way in which such transactions were structured and, in particular, assert that the subsidiaries involved have a permanent establishment in the Russian Federation. If such challenge were successful, it could result in the assessment of additional income tax, penalties and late-payment interest for 2007 and 2008 of approximately RUR 1,053 million as at 31 December 2008 (31 December 2007: RUR 662 million). These amounts were provided in full as at 31 December 2008 and 2007.

Other transactions

During 2006, 2007 and 2008, the Group entered into various other transactions which resulted in tax exposures relating to income and social security taxes. The Russian tax authorities may challenge the way such transactions were structured. If such challenge were successful, it could result in the assessment of additional income and uniform social taxes, penalties and late-payment interest amounting to approximately RUR 436 million as at 31 December 2008 (31 December 2007: RUR 239 million). These amounts were provided in full as at 31 December 2008 and 2007.

29 Financial instruments

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

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

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

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

(b) Credit risk

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

(i) Trade receivables

Trade receivables relate mainly to the Group's wholesale customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base has less of an influence on credit risk. Approximately 28% of the Group's revenue is attributable to sales transactions with three top customers. Approximately half of the Group's sales are in Russia, and the rest are exported to a variety of countries.

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

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, aging profile, maturity and existence of previous financial difficulties.

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables and investments. The main component of this allowance is a specific loss component that relates to individually significant exposures.

(ii) Guarantees

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

Exposure to credit risk

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

	Carrying amount	
Million RUR	**2008**	**2007**
Loans and receivables	4,081	8,136
Cash and cash equivalents	2,024	2,696
	6,105	10,832s

At 31 December 2008 there was a significant concentration of credit risk in respect of amounts receivable from related parties. The total amount receivable from related parties was RUR 1,362 million, or 26% of the total receivables (2007: RUR 6,228 million or 51% of the total receivables).

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

	Carrying amount	
Million RUR	**2008**	**2007**
Russia	2,278	3,597
Jordan	253	-
Bangladesh	204	-
Pakistan	184	-
Livan	14	-
British Virgin Islands	1,540	4,066
Other	-	41
	4,473	7,704

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
Million RUR	**2008**	**2008**	**2007**	**2007**
Not past due	3,487	(1,563)	1,630	-
Past due 0-30 days	463	(3)	1,591	-
Past due 31- 180 days	322	(113)	4,131	-
Past due 181 -365 days	59	(49)	130	(82)
More than one year	142	(142)	222	(66)
	4,473	(1,870)	7,704	(148)

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

	2008	**2007**
	Million RUR	*Million RUR*
Balance at 1 January	148	65
Impairment loss recognised	1,722	83
Balance at 31 December	1,870	148

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables arising from non-speculative transactions (see note 7) that are not past due or past due by up to 60 days.

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

As at 31 December 2008 the Group recognised a provision for impairment of RUR 1,541 million in respect of a receivable from a customer who further supplies wheat to Egypt and other international markets. The customer failed to meet its obligations in due time because of its inability to resell the wheat at the intended prices to final customers. The Group believes that the success of legal action is questionable due to significant timing delays caused by the legal routine in the jurisdictions involved, inability to control the product supplied and absence of any security over the receivable. The Group is in the process of negotiating alternative credit terms with the customer which, under different scenarios, vary from 1 to 3 years; however, the outcome of the negotiations cannot be reliably estimated. Therefore, management decided to recognise an impairment loss on the total balance of the receivable.

At 31 December 2008, the Group believes that no impairment allowance is necessary in respect of its cash or cash equivalents.

(c) Liquidity risk

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

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

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

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

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

The Group has credit lines with a number of banks, to ensure sufficient liquidity levels are available on demand. At 31 December 2008 total unused credit facilities amounted to RUR 3,163 million (31 December 2007: RUR 130 million). Refer to note 34 for details of the new loans and borrowings which became available to the Group subsequent to the balance sheet date.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements; loans whose covenants have been breached (see note 26) are shown as repayable on demand:

2008	**Average interest rate**						
Million RUR	**Contractual %**	**Effective %**	**0-12 months**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Non-derivative financial liabilities							
Secured bank loans - RUR, fixed	11.0-18.0	11.0-18.0	8,695	-	-	-	8,695
Secured bank loans - USD, fixed	10.0-15.0	10.0-15.0	1,850	-	-	-	1,850
Unsecured bank loan - USD, fixed	1.45 – 3.4	1.45 – 3.4	340	-	-	-	340
Trade and other payables			7,198	-	-	-	7,198
Unsecured bond issues - RUR, fixed	11.0-17.0	11.7-12.5	6,768	-	-	-	6,768
Unsecured bond issues - RUR, fixed	11.0-17.0	14.5-15.0	8,429	-	-	-	8,429
Finance lease - RUR, fixed	33.0	33.0	11	9	7	-	27
Unsecured non-bank loans	0.01	1.0	2	-	-	13	15
			33,293	9	7	13	33,322

2007	**Average interest rate**						
Million RUR	**Contractual %**	**Effective %**	**0-12 months**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Non-derivative financial liabilities							
Secured bank loans - RUR, fixed	11.0- 12.0	10.5- 12.0	7,619	-	-	-	7,619
Unsecured bond issues - RUR, fixed	10.99	11.14	92	2,986		-	3,078
Unsecured bond issues - RUR, fixed	10.25	11.60	2,065	-	-	-	2,065
Secured bank loans - RUR, fixed	12.5-14.0	12.5-14.0	707	-	-	-	707
Trade and other payables			5,099	-	-	-	5,099
Unsecured non-bank loans from related party - RUR, fixed	0.0- 15.0	0.0- 15.0	499	-	-	-	499
Others			13	-	-	8	21
			16,094	2,986	-	8	19,088

(d) Market risk

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

(i) Currency risk

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

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

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

Million RUR	USD-denominated 2008	USD-denominated 2007	EUR-denominated 2008	EUR-denominated 2007
Trade and other receivables	2,351	403	1	-
Cash and cash equivalents	-	-	42	-
Trade and other payables	(10)	(21)	(1)	-
Loans and borrowings	(2,190)	(9)	-	-
	501	373	42	-

The following significant exchange rates applied during the year:

In RUR	**Average rate**		**Reporting date spot rate**	
	2008	**2007**	**2008**	**2007**
USD 1	24.8553	25.5759	29.3804	24.5462

EUR 1	36.4301	35.0143	41.4411	35.9332

Sensitivity analysis

A 20% strengthening of the RUR against the USD at 31 December 2008 would have decreased equity and increased loss for the year ended 31 December 2008 by RUR 32 million. A 20% strengthening of the RUR against the USD at 31 December 2007 would have decreased equity and profit for the year ended 31 December 2007 by RUR 64 million.

A 20% weakening of the RUR against the above currencies at 31 December 2008 and 31 December 2007 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008 and 2007.

(ii) Interest rate risk

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

Interest rates for interest bearing assets are disclosed in notes 18 and 21.

Profile

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

	Carrying amount	
Million RUR	**2008**	**2007**
Fixed rate instruments		
Financial assets	848	2,132
Financial liabilities	(26,124)	(13,980)
	(25,249)	(11,848)
Variable rate instruments		
Financial liabilities	-	(9)

Fair value sensitivity analysis for fixed rate instruments

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

(e) Fair values versus carrying amounts

At 31 December 2008 and 31 December 2007, the carrying values of the Group's financial assets and liabilities approximated their fair values, except for the carrying values of financial liabilities measured at amortised cost. The basis for determining fair values is disclosed in note 4.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Million RUR	**Carrying Amount 2008**	**Fair value 2008**	**Carrying amount 2007**	**Fair value 2007**
Loans and receivables	4,081	4,081	8,136	8,136
Available-for-sale financial assets	83	83	6	6
Cash and cash equivalents	2,024	2,024	2,696	2,696
Trade and other payables	(7,198)	(7,198)	(5,099)	(5,099)
Financial liabilities measured at amortised cost	(15,197)	(14,657)	(5,143)	(5,143)
	(16,207)	(15,667)	596	596

(f) Capital management

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

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

The Group is not subject to any externally imposed capital requirements.

30 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

In 2008 the Group insured its property, plant and equipment and inventories for a total amount of RUR 6,636 million and RUR 1,133 million, respectively (2007: RUR 5,295 million and RUR 1,642 million, respectively).

In addition, the Group insured certain biological assets against crop failure. The insurance covers grain and sugar beet crops to be harvested before August 2009. The maximum insurance coverage amounts to RUR 1,327 million (2007: RUR 673 million).

The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigations

In December 2008 the Russian tax authorities initiated a process of compulsory liquidation of ZAO Karachaevo-Cherkessky Mukomol because this subsidiary's net assets disclosed by its statutory financial statements for 2006 and 2007 were lower than its share capital. The subsidiary contributed sales revenue in the amount of RUR 241 million and total assets in the amount of RUR 345 million to these consolidated financial statements. Management intends to reduce the subsidiary's share capital during 2009 to comply with the statutory legislation on closed joint stock companies. Management believes that the ultimate resolution of this litigation will not have a material adverse impact on the Group's operating results or financial condition.

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

(c) Taxation contingencies

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

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

Acquisition of machinery and equipment

From 2006 to 2008, the Group entered into transactions to acquire certain items of machinery and equipment for a total consideration of RUR 3,416 million. If the structure of these transactions were successfully challenged by the Russian tax or other authorities, such challenge could have very significant operational and financial consequences for the Group, including forfeiture of the machinery and equipment involved, assessment of additional customs duties and value added tax, penalties of up to two times the customs value of the equipment and fines.

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

Acquisition of shares in subsidiaries

In 2006 and 2008 the Group entered into structured transactions to acquire shares in certain subsidiaries for a total consideration of RUR 1,284 million and RUR 577 million, respectively. If the structure of these transactions were successfully challenged by the tax or other authorities, such challenge could potentially have significant operational and financial consequences for the Group. Management has not provided any amounts in respect of these obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

Trading operations

In 2007 and 2008 several of the Group’s subsidiaries entered into various transactions to purchase and sell grain crops in the process of being exported from the Russian Federation both at the date of purchase and the date of sale.

In addition to the exposure to assessment of the additional income taxes (note 28), the Group is also exposed to the risk of value added tax of approximately RUR 2,324 million (including penalties) being assessed on the Group as a consequence of the way the transactions were structured because the Tax Code does not contain specific rules for the taxation of transactions of this type. Management has not provided any amounts in respect of these obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

Tax compliance of the Group's suppliers

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

If the cases described above were successfully challenged by the Russian tax authorities, the additional payments could become due together with penalties, ranging from 20% to 40% of the amount of underpaid taxes, and late-payment interest. Management has not provided any amounts in respect of such obligations in these consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

Transfer pricing

The Group structured some its operations through transfer-pricing arrangements, including arrangements between Group entities and arrangements of Group entities with related parties, thereby decreasing its overall tax liability. In management's opinion, the Group is in substantial compliance with the tax laws of the Russian Federation and other countries where foreign Group companies are registered. However, relevant tax authorities could take different positions with regard to interpretative issues or court practice could develop adversely to positions taken by the Group and the effect could be significant.

(d) Bankruptcy law

The bankruptcy law in Russia is relatively new, often unclear and subject to interpretations. Application of bankruptcy procedures in practice is often contradictory, and the legality of such procedures is often challenged by different groups of stakeholders even after all bankruptcy procedures have been completed.

A significant part of the assets of the Group was acquired as a result of bankruptcy procedures. The carrying amount of the assets of such subsidiaries as at 31 December 2008 amounted to RUR 11,019 million. This fact creates uncertainty with respect to the title to such assets, which potentially may be subject to challenge by former legal owners of these assets or their stakeholders. The effect of such potential challenge, if successful, could be material and accordingly impact the consolidated financial statements of the Group. However, management believes that the likelihood of such challenge being successful is less than probable.

31 Related party transactions

(a) Control relationships

Management considers that the Group's ultimate controlling party is Mr. Igor Potapenko, who also acts as Chairman of the Board of Directors and Chief Executive Officer.

No publicly available financial statements are produced by the Company's ultimate controlling party or any other intermediate controlling party.

(b) Transactions with ultimate controlling party

At 31 December 2008 the ultimate controlling shareholder has provided, for no consideration, financial guarantees for the loans payable by the Group in the total amount of RUR 2,059 million.

(c) Transactions with management and close family members

Key management (Chairman of the Board of Directors, General Director, Deputy General Director and Finance Director of the Company, Directors of sugar, grain and agricultural business segments) received RUR 43 million of remuneration during the year (2007: RUR 42 million), which is included in personnel costs (see note 11).

(d) Transactions with other related parties

(i) Transactions with shares

In 2008 the Group acquired controlling interests from fellow subsidiaries controlled by the controlling shareholder of the Group. The details of the transactions are disclosed in note 6(b).

In 2008 the Group disposed of non-controlling interests in ZAO Bugulminsky KHP#2 and ZAO Bugulminsky Elevator to entities controlled by the shareholder that controls the Company (see note 6(f)).

In 2007 the Group disposed of its interest in ZAO Nikalt to entity controlled by the shareholder that controls the Company (see note 6(c)).

(ii) Revenues

Million RUR	**Transaction 2008**	**Outstanding balance 2008**	**Transaction 2007**	**Outstanding balance 2007**
Sale of goods to				
- Fellow subsidiaries	4,179	72	5,267	1,220
- Equity accounted investees	333	352	197	24
Sales to third parties under commission agreements with related parties	95	-	2	-
	4,607	424	5,466	1,244

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

(iii) Expenses

Million RUR	Transaction 2008	Outstanding balance 2008	Transaction 2007	Outstanding balance 2007
Purchases of goods from fellow subsidiaries and equity accounted investees	(2,630)	(147)	(5,289)	(90)
Advances given to fellow subsidiaries	-	25	-	2,625
Purchases from equity accounted investees	(405)	(360)	(51)	(5)
Purchases from third parties under commission agreements with related parties	(25)	(46)	(178)	(14)
	(3,060)	(528)	(5,518)	2,516

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

(iv) Loans

Million RUR	Amount loaned 2008	Outstanding balance 2008	Amount loaned 2007	Outstanding balance 2007
Loans received from fellow subsidiaries	-	-	(491)	(508)
Loans given to fellow subsidiaries	848	848	2,199	2,132
	848	848	1,708	1,624

Loans given to fellow subsidiaries are unsecured, bear interest at rates from 3% to 18% per annum and mature in 2010.

(v) Supply of property, plant and equipment

As of 31 December 2008 the balance of advances issued to related parties for the acquisition of property, plant and equipment amounted to zero (31 December 2007: RUR 172 million).

(e) Pricing policies

Normally, when goods are transferred between related parties prior to the sale of the same goods to an independent party, the transfer price is determined as the eventual resale price, reduced by a margin sufficient to cover costs and allow the related party to make an appropriate profit. Certain non-trading transactions may not be based on market prices.

32 Significant subsidiaries

	Country of incorporation	Effective ownership, in % 2008	2007
Holding companies			
Razgulay-Finans, OOO	Russia	100	100
Purpose Ventures Incorporated	British Virgin Islands	100	100
Razguliay UkrRos Group Limited	Cyprus	100	100
Secure Global Solutions	British Virgin Islands	100	100

		Effective ownership, in %	
	Country of incorporation	**2008**	**2007**
AgroServicGrup, OOO	Russia	100	100
Razguliay Capital Limited	Cyprus	100	100
Invest-Alliance, OOO	Russia	100	100
Kingfisher Global Business Limited	Cyprus	100	100
Razguliay-Agro, OOO	Russia	100	0
Grain segment			
Zernovaya kompaniya Razguliay, ZAO	Russia	100	100
Azovskaya zernovaya kompaniya, OOO	Russia	100	100
Bugulminsky elevator, ZAO	Russia	75	100
Bugulminsky KHP#2, ZAO	Russia	75	100
Davlekanovsky KHP#1, OOO (note 6(a))	Russia	100	-
Dubovskkhleboproduct, OAO	Russia	88	75
Elevator Rudny Klad, OAO	Russia	56	56
Exim Grain Trade B.V. (note 6(b))	Netherlands	100	-
Gerkules, OAO	Russia	88	86
Karachaevo-Cherkessky Mukomol, ZAO	Russia	100	75
Khlebnaya baza 63, OAO	Russia	77	52
Kineshemsky mukomolny kombinat, OAO	Russia	90	90
Kolomensky KHP,ZAO	Russia	100	100
Kondopozhsky KHP, OAO	Russia	95	95
Kuban-Ris, OOO	Russia	50	50
Lgovsky KHP, ZAO	Russia	100	100
Nurlatsky Elevator, ZAO (note 6(d))	Russia	-	100
Ostadar Trading Limited	British Virgin Islands	100	100
Podolsky EMZ, OAO (note 6(a))	Russia	97	46
Poltavsky KHP, OAO	Russia	90	90
Razguliay-Krupa, OOO	Russia	100	100
Razguliay-Muka, OOO	Russia	100	100
Rusagroservis, OOO	Russia	100	100
Russkaya bakaleynaya kompaniya, OOO	Russia	-	100
Russko-Polyanskiy elevator, OAO (note 6(e))	Russia	85	85
Rzhavskoye HPP, OAO	Russia	97	97
Shipunovsky Elevator, OAO (note 6(a))	Russia	87	36
Slavyanskaya Khlebnaya Kompania, OOO	Russia	100	100
Slavyansky KHP, OAO	Russia	85	85
Starodubsky elevator, OAO	Russia	100	100
Svetlogradsky elevator, OAO	Russia	96	56
Torgovy Dom Razgulay-Zerno, OOO	Russia	100	100
Tsimlyanskkhleboprodukt, OAO	Russia	100	100
Ultimate Global Investment Limited	British Virgin Islands	100	100
Zelenokumsky elevator,OAO	Russia	50	50
Bashkirskaya zernovaya kompaniya, OOO	Russia	100	-
Voronezhskaya zernovaya kompaniya, OOO	Russia	100	-
Zapadno-Sibirskaya zernovaya kompaniya, OOO	Russia	100	-
Kurskaya zernovaya kompaniya, OOO	Russia	100	-
Razguliay-Kuban, OOO	Russia	100	-
Stavropolskoye zerno, OOO	Russia	100	-
Tambovskaya zernovaya kompaniya, OOO	Russia	100	-
Torgovyi Dom Gerkules, OOO	Russia	100	-

	Country of incorporation	Effective ownership, in % 2008	2007
Torgovyi Dom Kubanris, OOO	Russia	100	-
Yuzhno-Donskoe zerno, OOO	Russia	100	-
Sugar segment			
Sakharnaya kompaniya Razguliay, ZAO	Russia	100	100
Chishminsky sakharny zavod, OAO (note 6(e))	Russia	84	84
Karachaevo-Cherkessky sakharny zavod,OAO	Russia	90	90
Krivets-Sakhar, OAO	Russia	97	97
Kshensky sakharny kombinat, ZAO	Russia	100	100
Lgovsky MKK, OAO	Russia	99	99
Nurlatsky sakhar, ZAO (note 6(d))	Russia	-	100
Pristen-Sakhar, ZAO	Russia	100	100
Sakharny kombinat Alexeevsky, ZAO	Russia	100	100
Sakharny kombinat Bolshevik, ZAO	Russia	100	100
Sakharny kombinat Kurganinsky, ZAO	Russia	100	100
Sakharny kombinat Lgovsky, OAO	Russia	100	100
Sakharny kombinat Otradinsky, ZAO	Russia	100	100
Sakharny kombinat Tikhoretsky, ZAO	Russia	100	100
Torgovy Dom RSK, OOO	Russia	100	100
Agricultural segment			
Blagovar-agroinvest, OOO	Russia	100	-
Druzhba, ZAO	Russia	100	100
Svetly-agroinvest, OOO	Russia	100	-
St.Buzdyak-agroinvest, OOO	Russia	100	-
Shipunovo-agroinvest, OOO	Russia	100	-
Tsimlyanskoe, OOO	Russia	100	100
Kavkaz, OAO (note 6(a))	Russia	75	75
Agrofirma Poltavskaya, ZAO	Russia	100	100
Agroinvest, OOO	Russia	100	100
Anastasievskoe, OOO	Russia	100	85
Belgorodagroinvest, OOO	Russia	100	100
Izobilie, OOO	Russia	100	100
Kshenagro, OOO	Russia	100	100
Krivets-Agro, OOO	Russia	100	97
Kurganinskagroinvest, OOO	Russia	100	100
Lgovagroinvest, OOO	Russia	100	100
Nurlatagroinvest, OOO	Russia	100	100
Otradaagroinvest, OOO	Russia	100	100
Chelnovershinyagroinvest, OOO*	Russia	100	100
Chishmy-agroinvest, OOO (note 6(e))	Russia	100	84
Erkenagroinvest, OOO	Russia	100	90
Ilara, OOO	Russia	100	-
Tikhoretskagroinvest, OOO	Russia	100	100
Pochaevo-Agro, OOO	Russia	100	90

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

33 Earnings before interest, tax, depreciation and amortisation

	2008 *Million RUR*	**2007** *Million RUR* ***Restated***
(Loss)/profit for the year	(6,196)	1,452
Adjustments for:		
Income tax expense	1,079	1,289
Depreciation	1,127	999
Impairment losses related to property, plant and equipment and advances for the purchase of land (note 16)	4,864	-
Interest income and expense, net	1,605	1,119
Foreign exchange loss/(gain)	75	(54)
	2,554	4,805

34 Events subsequent to the balance sheet date

In April and May 2009 the Group failed to redeem bonds of its subsidiary OOO Razgulay Finance (issues 2, 3 and 4) when they became due for redemption per irrevocable public offers. Of the total balance of bonds due for redemption of RUR 5,418 million, the Group has restructured bonds of RUR 4,877 million as follows: bonds of RUR 1,219 million were redeemed, and bonds of RUR 3,658 million will be redeemed not earlier than in March - May 2010 when the bondholders may claim for redemption under a new irrevocable public offer. The remaining balance of RUR 541 million is unsettled. The above balances are stated at nominal values.

In June 2009 the Group received a RUR 2,700 million of 5-year RUR denominated loan from a major state-owned Russian bank. The Group is in process of negotiating further financing opportunities for the amount of RUR 8,500 million for a period of 5 to 8 years.