ПАВА

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО

PAVA Open-End Joint-Stock Company

Independent Auditors' Report

Consolidated financial statements prepared in compliance with the International Financial Reporting Standards (IFRS) for the year ended 31 December 2008

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ПАВА
ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО

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Тел/факс: (3852) 63-65-57
E-mail: priemnaya@apkhleb.ru

The Company's Management is responsible for preparation of the financial statements presenting fairly in all material respects the Company's financial position as of 31 December 2008, its business performance, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements the Management is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable in the circumstances;
- State that the financial statements comply with IFRS, or disclose and represent any material deviations from IFRS, as appropriate, in the notes to the consolidated financial statements; and
- Prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the Company will continue in business.

Moreover, the Management's responsibility also includes:

- Designing, implementation and maintaining efficient and reliable internal controls throughout the Company;
- Keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with IFRS;
- Reporting compliance with accounting legal and regulatory requirements of the Company 's jurisdictions;
- Making reasonable endeavor for safeguarding the Company's assets; and
- Prevention and detection of fraud and other irregularities.

The Financial Statements for the year ended 31 December 2008 were approved by the Management on 20 February 2009 and were signed on their behalf by:

Ananin A.V.
CEO

Vorontsova E.M.
Chief Accountant

Barnaul, Russia
«20» February, 2009

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INDEPENDENT AUDITORS' REPORT

The Board of Directors PAVA JSC

We have a udited the acco mpanying consolidated financial state ments o f PAV A JSC , which co mprise t he consolidated balance sheet as at 31 December 2008, consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and notes to the financial statements.

Management's responsibility for preparation of the financial statements

The entity's management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards. This responsibility includes: designing, implementation and maintaining internal controls relevant to preparation and fair presentation of financial statements that are free of material misstatement, 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical require ments and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the 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 audit opinion on the financial statements.

Opinion

In our opinion, the accompanying consolidated financial statements give true and fair view, in all material respects, of the financial position of PAVA JSC as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

"Intercom-Audit" LLC
Moscow, Russia
April 9, 2009

Askar Akhmetov ______________
Managing Partner

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2008

(All amounts in table below are denominated in thousand of US dollars and Russian rubles, except for earnings per share amounts denominated in US dollars and Russian rubles)

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Net sales of goods, work and services	**5**	160 893	120 029	4 000 171	3 069 983
Cost of sold goods, work and services	**6**	(124 076)	(87 872)	(3 084 815)	(2 247 505)
Gross profit		**36 817**	**32 157**	**915 356**	**822 478**
General, administrative and commercial expenses	**7**	(33 123)	(28 388)	(823 514)	(726 077)
Excess of Group's share in fair value of net identifiable assets over purchase cost	**4**	3 578	55	88 951	1 405
Other operating income	**8**	2 440	3 635	60 647	92 979
Other operating expense	**9**	(3 620)	(160)	(90 009)	(4 097)
Operating profit		**6 092**	**7 299**	**151 431**	**186 688**
Finance revenue	**10**	185	238	4 588	6 096
Finance costs	**11**	(5 423)	(4 277)	(134 822)	(109 403)
Profit/loss before tax		**854**	**3 260**	**21 197**	**83 381**
Income tax reimbursement	**12**	61	1 244	1 522	31 802
Net profit/loss for the year		**915**	**4 504**	**22 719**	**115 183**
Attributable to:					
Equity holders of the entity		919	4 216	22 849	107 810
Minority interests (P&L)		(4)	288	(130)	7 373
Basic and diluted earnings/(loss) per share	**13**	USD 0,010	USD 0,05	RUR 0,25	RUR 1,30

These consolidated financial statements shall be considered subject to notes on pages 12-79 constituting an integral part hereof. Statement of management's responsibility for preparation and approval of the consolidated financial statements is given on page.5. Independent Auditors' Report is presented on page.6.

CONSOLIDATED BALANCE SHEET
for the year ended 31 December 2008

(All amounts in table below are denominated in thousand of US dollars and Russian rubles)

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
ASSETS					
Non-current assets					
Intangible assets	**14**	1 857	4	54 558	87
Property, plant & equipment	**15**	245 692	50 219	7 218 527	1 232 680
Construction in progress	**15,16**	887	708	26 074	17 385
Biological assets	**17**	130	-	3 813	-
Long-term investments	**18**	195	342	5 721	8 394
Non-current loans	**19**	439	94	12 910	2 308
Deferred tax assets	**12**	1 289	3 560	37 871	87 375
Held for sale non-current assets	**20**	-	1	-	20
Other non-current assets	**21**	3 911	187	114 873	4 594
Total non-current assets		**254 400**	**55 115**	**7 474 347**	**1 352 843**
Current assets					
Inventories	**22**	11 593	12 951	340 612	317 901
Trade and other receivables	**23**	30 869	26 487	906 965	650 134
Deferred expenses	**24**	61	12	1 796	300
Current loans	**19**	3 872	3 504	113 751	86 004
Other current assets	**25**	2 191	3 241	64 380	79 565
Cash and cash equivalents	**26**	798	928	23 458	22 772
Total current assets		**49 384**	**47 123**	**1 450 962**	**1 156 676**
TOTAL ASSETS		**303 784**	**102 238**	**8 925 309**	**2 509 519**
EQUITY AND LIABILITIES					
Equity					
Issued capital	**27**	3	3	89	89
Share premium		7 995	7 995	210 521	210 521
Revaluation provision		154 528	21 162	4 540 110	523 936
Exchange provision		(830)	1 571	-	-
Retained earnings		17 088	13 035	502 056	339 728
Minority interests		174	-	5 070	-
Total equity		**178 958**	**43 766**	**5 257 846**	**1 074 274**
Non-current liabilities					
Long-term loans and borrowings payable	**28**	8 743	-	256 884	-
Long bonds payable	**28**	12 802	22 175	376 126	544 315
Deferred tax liabilities	**12**	39 650	8 716	1 164 935	213 948
Other non-current liabilities	**29**	1 845	299	54 197	7 343
Total non-current liabilities		**63 040**	**31 190**	**1 852 142**	**765 606**
Current liabilities					
Trade and other payables	**30**	44 817	13 631	1 316 796	334 572
Loans payable	**31**	14 654	11 794	430 518	289 505
Other current liabilities	**32**	1 046	1 226	30 748	30 083
Provisions for liabilities and charges	**33**	234	-	6 889	-
Taxes and social security payable	**34**	1 035	631	30 370	15 479
Total current liabilities		**61 786**	**27 282**	**1 815 321**	**669 639**
TOTAL EQUITY AND LIABILITIES		**303 784**	**102 238**	**8 925 309**	**2 509 519**

These consolidated financial statements shall be considered subject to notes on pages 12-79 constituting an integral part hereof. Statement of management's responsibility for preparation and approval of the consolidated financial statements is given on page.5. Independent Auditors' Report is presented on page.6.

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2008

(All amounts in table below are denominated in thousand of US dollars and Russian rubles)

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Opening balance	**26**	**928**	**909**	**22 772**	**23 932**
Operating activities					
Cash inflows, including:					
Operating revenues		307 997	130 481	7 657 503	3 337 311
Other income		12 837	25 500	319 164	652 213
Cash outflows, including:					
Purchase of goods, work and services		(295 221)	(115 675)	(7 339 875)	(2 958 611)
Labor costs		(6 498)	(5 565)	(161 548)	(142 329)
Loan interest expenses		(6 101)	(4 445)	(151 678)	(113 689)
Tax and social security expenses		(2 852)	(1 692)	(70 917)	(43 265)
Payments to off-budget funds		(1 352)	(964)	(33 610)	(24 668)
Other operating expenses		(35 167)	(14 540)	(874 323)	(371 899)
Net cash flows from operating activities		**(26 357)**	**13 100**	**(655 284)**	**335 063**
Investing activities					
Proceeds from sale of property, plant and equipment		1 135	111	28 221	2 830
Proceeds from sale of share or debt financial instruments		1 807	2 893	44 928	73 996
Interest received		121	77	3 008	1 980
Revenues from loan disbursement by external companies		22 535	9 922	560 268	253 784
Acquisition of subsidiaries		(795)	-	(19 775)	-
Purchase of property, plant and equipment		(4 222)	(1 650)	(104 965)	(42 205)
Acquisition of share-based or debt financial instruments		(1 568)	(1 313)	(38 975)	(33 593)
Loans to external companies		(4 274)	(11 011)	(106 258)	(281 631)
Net cash flows used in investing activities		**14 739**	**(971)**	**366 452**	**(24 839)**
Financing activities					
Proceeds from loans to external companies		190 789	143 142	4 743 460	3 661 137
Settlement of financial lease liabilities		(215)	-	(5 350)	-
Repayment of borrowings (interest free)		(178 929)	(155 316)	(4 448 592)	(3 972 521)
Net cash flows used in financing activities		**11 645**	**(12 174)**	**289 518**	**(311 384)**
Translation to presentation currency		(158)	64		
Net increase in cash and cash equivalents for the year		**28**	**(44)**	**686**	**(1 160)**
Closing balance	**26**	**798**	**928**	**23 458**	**22 772**
Net foreign exchange difference			-		-

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008
(All amounts in table below are denominated in thousand of Russian rubles)

	Authorized capital	Share Premium	Capital surplus	Provision for PP&E revaluation	Currency translation reserve	Retained Earnings	Minority interest	Total equity
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Balance as of December 31, 2006	**89**	**210 521**	**4 383**	**76 338**	**-**	**216 339**	**4 514**	**512 185**
Net loss for the year	-	-	-	-	-	107 810	7 373	**115 183**
Depreciation and disposal of provision for retired PP&E revaluation	-	-	-	(16 786)	-	16 786	-	**-**
Revaluation of PP&E as of 31.12.2007	-	-	-	464 384	-	-	-	**464 384**
Acquisition of subsidiaries	-	-	-	-	-	-	(11 887)	**(11 887)**
Payment of dividends to shareholders	-	-	-	-	-	(5 591)	-	**(5 591)**
Result of loan discounting	-	-	(4 383)	-	-	4 383	-	**-**
Balance as of December 31, 2007	**89**	**210 521**	**-**	**523 936**	**-**	**339 727**	**-**	**1 074 274**
Retrospective revaluation of capital components due to error correction	**-**	**-**	**-**	**-**	**-**	**(13 399)**	**-**	**(13 399)**
Balance as of January 1, 2008	**89**	**210 521**	**-**	**523 936**	**-**	**326 328**	**-**	**1 060 875**
Net profit for the year	-	-	-	-	-	22 848	(130)	**22 718**
Depreciation and disposal of provision for retired PP&E revaluation	-	-	-	(122 304)	-	122 304	-	**-**
Revaluation of PP&E as of 30.09.2008	-	-	-	81 396	-	-	-	**81 396**
Revaluation of ground areas as of 31.12.2008	-	-	-	4 029 507	-	-	-	**4 029 507**
Deferred tax	-	-	-	-	-	30 576	-	**30 576**
Effect of interest rate change	-	-	-	27 575	-	-	-	**27 575**
Acquisition of subsidiaries	-	-	-	-	-	-	5 200	**5 200**
Balance as of December 31, 2008	**89**	**210 521**	**-**	**4 540 110**	**-**	**502 056**	**5 070**	**5 257 846**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008
(All amounts in table below are denominated in thousand of US dollars)

	Authorized capital '000 USD	Share Premium '000 USD	Capital surplus '000 USD	Provision for PP&E revaluation '000 USD	Currency translation reserve '000 USD	Retained Earnings '000 USD	Minority interest '000 USD	Total equity '000 USD
Balance as of December 31, 2006	**3**	**7 995**	**166**	**2 899**	**-**	**8 216**	**171**	**19 450**
Net loss for the year	-	-	-	-	-	4 216	288	**4 504**
Depreciation and disposal of provision for retired PP&E revaluation	-	-	-	(656)	-	656	-	**-**
Revaluation of PP&E as of 31.12.2007	-	-	-	18 919	-	-	-	**18 919**
Acquisition of subsidiaries	-	-	-	-	-	-	(465)	**(465)**
Payment of dividends to shareholders	-	-	-	-	-	(219)	-	**(219)**
Result of loan discounting	-	-	(166)	-	-	166	-	**-**
Presentation currency translation	-	-	-	-	1 571	-	6	**1 577**
Balance as of December 31, 2007	**3**	**7 995**	**-**	**21 162**	**1 571**	**13 035**	**-**	**43 766**
Retrospective revaluation of capital components due to error correction	-	-	-	-	-	(546)	-	**(546)**
Balance as of January 1, 2008	**3**	**7 995**	**-**	**21 162**	**1 571**	**12 489**	**-**	**43 220**
Net profit for the year	-	-	-	-	-	919	(4)	**915**
Depreciation and disposal of provision for retired PP&E revaluation	-	-	-	(4 919)	-	4 919	-	**-**
Revaluation of PP&E as of 30.09.2008	-	-	-	3 224	-	-	-	**3 224**
Revaluation of PP&E as of 31.12.2008	-	-	-	137 149	-	-	-	**137 149**
Deferred tax	-	-	-	-	-	1 230	-	**1 230**
Effect of deferred tax interest rate change	-	-	-	1 109	-	-	-	**1 109**
Acquisition of subsidiaries	-	-			-	-	209	**209**
Presentation currency translation	-	-	-	(3 196)	(2 401)	(2469)	(31)	**(8 098)**
Balance as of December 31, 2008	**3**	**7 995**	**-**	**154 528**	**(830)**	**17 088**	**174**	**178 958**

These consolidated financial statements shall be considered subject to notes on pages 12-79 constituting an integral part hereof. Statement of management's responsibility for preparation and approval of the consolidated financial statements is given on page.5. Independent Auditors' Report is presented on page.6.

1 General

(a) Description of Company's activities

PAVA JSC (hereinafter the "Company/Group") is an open-end joint-stock company organized under the Laws of the Russian Federation.
The Company was established in 1999 as a private entity named APK Khleb Altaya JSC (hereinafter the "Company"). At the annual general meeting of shareholders held June 29, 2005, the Company's name was changed to PAVA JSC. The Company is listed in the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX).

Company's registered office: **68a Molodezhnaya St., Barnaul, Altai Territory, 656031, Russia.**

Official web-site with information on the Company: **www.apkhleb.ru**.

The Company holds the following licenses:
License: ***30-EV -000317 (ЗК)***
Date of issue: (reissue of license No. 30-EV-000317 of 18.08.2004)
Expiry date: ***18.08.2009***
License issuing body: ***the Federal Environmental, Technological, and Nuclear Supervision Office.***
Activities: ***operation of explosive production facilities.***

Presently, PAVA JSC is a parent company of a major Russian grain processing holding. The holding also comprises 5 subsidiaries. The subsidiaries and the Company's share in their capital as of 31 December 2007 and 31 December 2006 are detailed in *Note 4*.

The Company's production is based on processing local wheat growing at the Company's production facilities location: in Altai and Krasnoyarsk Territories. Flour, crushed grain products, mixed feed are produced by three milling plants having their own grain elevators and railway lines. Milling plant production lines are equipped with domestic hardware manufactured under Buhler (Switzerland) license. Two milling plants are located in Altai Territory: in regional communities of Mikhailovskoe and Rebrikha. The third milling plant is located in Krasnoyarsk Territory (Achinsk).
In order to continuously supply high-quality production stock and reduce the risk of raw stock price variation, the Company develops its own plant cultivating sector, growing wheat (80% of area), peas, barley, oats, sunflower, rye.
The Company's products are supplied to over 68 Russian regions. More details related to the Company's business sector are given in Note 33.

In 2008, the average number of employees made 1724 (1820 in 2007)

1 General (continued)

(b) Operating environment

The Russian Federation continues to demonstrate some features of emerging market. These features include, but are not limited to, existence of currency which is not freely converted in the majority of countries other than the Russian Federation, limited exchange controls and relatively high inflation. The Russian tax, foreign currency and customs laws and regulations are subject to different interpretations and amendments, which may be introduced rather often

The future of the Russian economy depends, to a considerable extent, on the effectiveness of the government's economic, financial and money and credit reforms, as well as development of tax, legal, power and political systems.

(c) Business environment in the Russian Federation

Uncertainty and instability in the world financial, exchange and product markets, caused by the world financial crisis, may have a negative influence on performance of all operating segments of the Group. Economic recession which is observed in most economic regions way make the Group reduce the production volume, lower expenses and manage the increased risk factor. As a result of potential decrease of demand for agricultural production the Group may reduce its production volume in the coming year. Combination of these factors may result in the idle time of the Group's equipment.

As mentioned above, the Russian Federation is undergoing political and economic changes, which have impacted or are expected to further impact the companies doing their business in Russia. Hence, the business in the Russian Federation is connected with risks, which are not typical for other market economies.

The accompanying consolidated financial statements reflect the management's judgments and estimates as to possible influence of economic situation on the Group's activity and its financial position. The further progress of the situation can depart from the judgments and estimates made by the management.

The detailed description of operational, financial, legal and other risks and their possible impact on economic and financial activity of the Group are represented in *Notes 42-45*.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements for the year ended 31 December 2008 have been prepared by the Group in accordance with *International Financial Reporting Standards* ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by the *International Accounting Standards Board ("IASB"), including International Accounting Standards* ("IAS") and interpretations published by the *International Financial*

2 Basis of preparation (continued)

Reporting Standards Interpretation Committee ("IFRIC"). These consolidated financial statements shall be reviewed in conjunction with the consolidated financial statements for the year ended 31 December 2007.
Compliance with the new and amended standards and interpretations issued by IASB and IFRIC as at the date of approval of these consolidated financial statements of the Group and required to be adopted with regard to final consolidated financial statements for the years beginning on or after 1 January 2008, is disclosed in *Note 2(h)*.

(b) Reclassification

In Russia, the accounting policies and procedures differ considerably from generally accepted policies and procedures as stipulated in appropriate IFRS. In this connection, corrections were made to the consolidated financial statements, prepared on the basis of reporting forms of the Group's companies having the Russian jurisdiction (such reporting forms were compiled in conformity with the Russian standards) to comply with IFRS requirements.

Such corrections to the financial statements included reclassification of certain assets and liabilities, income and expenditure as to appropriate items of the balance sheet and income statement to disclose the economic nature of operations

(c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except as follows:

- ❖ Assets and liabilities of acquired subsidiaries have been measured at fair value in accordance with *IFRS 3 - Business Combinations*;
- ❖ Financial instruments have been measured based on current market quotations in accordance with *IAS 39 – Financial Instruments: Recognition and Measurement*;
- ❖ Ground areas have been measured by an independent appraiser at fair value as of 31.12.2008.

(d) Adjustments for Inflation

Before January 1, 2003, adjustments and reclassifications made to the Russian accounting data to comply with IFRS requirements included adjustment of balances and operations to record the change of current purchasing power of the Russian rouble according to *IAS 29 - Financial Reporting in Hyperinflationary Economies*. According to *IAS 29*, financial statements, prepared in national currency of hyperinflation economy, must be adjusted for current purchasing power of the national currency as at the balance sheet date. Since the economic situation in the Russian Federation indicates that there is no hyperinflation, as from January 1, 2003, the Group has abandoned the accounting procedure as stipulated by *IAS 29*.

2 Basis of preparation (continued)

(e) Functional and reporting currency

The national currency of the Russian Federation is the Russian rouble (*RUR*), which is functional currency of the Group as it reflects economic nature of operations and state of affairs in the Group.

The consolidated financial statements are presented in the US dollars (*USD*), as to the Group's management's opinion, using this currency for reporting is more convenient for external foreign users of the financial statements and it provides its comparability with financial statements of other companies in the sector of economy in which the Group operates. Values in US dollars are rounded to the nearest thousand.

Translation from roubles (functional currency of the Group) into US dollars (reporting currency) is performed as follows:

- ❖ All assets and liabilities (both monetary and non-monetary), and also all items, included in the shareholder's equity, except profit for the reporting period, are converted at the rate of exchange as at balance sheet date (for each balance sheet issued);
- ❖ All items of income statements are converted at the average exchange rate for reporting periods; and
- ❖ All exchange rate differences resulting from conversion are recorded in shareholder's equity.

The RF Central Bank official RUR/USD exchange rate as of 31 December 2008 was 29,3804 (as of 31 December 2007 – 24,5462), the average RUR/USD rate in 2007 was 24,8623.

The Russian rouble is not freely convertible currency outside the Russian Federation. Hence, the presentation of rouble assets and liabilities in US dollars for purpose of these consolidated financial statements does not mean that the Group can or intends to realize in future its assets or discharge its liabilities in dollar amounts as reported in the financial statements.

(f) Going concern basis

The consolidated financial statements have been prepared on a going concern basis providing for the disposal of assets and discharge of liabilities in the course of common business activity. The financial statements do not incorporate any adjustments which would be required if the Group could not further continue carrying out its financial and business activity in accordance with the going concern principle.

2 Basis of preparation (continued)

(g) Significant accounting judgments, estimates and assumptions

In preparation of the consolidated financial statements under IFRS, the Group's management made a number of assumptions and estimates related to reporting assets and liabilities and disclosing contingent assets and liabilities. Estimates and judgments are under constant consideration; they are based on management's individual experience, previous experience, current and expected economic conditions and other factors. The real results may differ from those estimates. In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations. The judgements which may have the most significant impact on the amounts recognized in the financial statements, and the estimates which may result in significant adjustments to be made to the amounts of assets and liabilities during the following financial year, include as follows:

Useful life of property, plant and equipment
The fair value of property, plant and equipment of the Group has been measured by independent appraisers in accordance with International Valuation Standards. Moreover, the management estimate the residuary useful life of property, plant and equipment in accordance with the current technical state of assets and the accounting period, during which these assets will bring economic benefit to the Group. The estimates related to replacement cost, depreciated replacement cost and the residuary useful life impact the carrying amount and depreciation of property, plant and equipment. The real results may differ from those estimates.

Allowance for doubtful trade and other receivables

At the end of the reporting or interim period the assessment of doubtful receivables is conducted on the basis of the analysis of all the outstanding amounts. Bad debts are written-off in those periods in which they were revealed.

Economic obsolescence of assets
The Group's management considers as at every reporting date if there are factors indicating that the replacement cost of assets decreased as compared to the book value. The replacement cost of assets is the larger of the following quantities: their fair value less sales costs or value in use. In case of identification of such decreasing, the book value of assets will decrease to replacement cost. The decreasing amount is included in the consolidated income statement in the period, when this decreasing is identified. Should the conditions change and the management decide that the cost of the assets, other than goodwill, has increased the provision for economic impairment will be recovered in full or in part.

Contingent tax liabilities
The Russian tax legislation permits different interpretations and is subject to frequent changes. When, in the opinion of the Group's management, maintenance of the Group's position from the viewpoint of tax legal and regulatory requirements is rather doubtful, appropriate liabilities are recognized in financial statements under IFRS.

2 Basis of preparation (continued)

Contingent assets and liabilities

It is assumed due to the nature of contingent assets and liabilities that they will be realized in case of the presence or absence of one or more future events. Measurement of such contingent assets and liabilities is associated with the application, to a significant extent, of an individual judgement and estimates of results of future events.

(h) New accounting standards

In 2008, the Company adopted all applicable *International Financial Reporting Standards (IFRS)* and amendments and interpretations, which became effective as from 1 January 2008.

Interpretations effective in 2008

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount the surplus that can be recognised as an asset. It also explains how the pension asset liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the group's financial statements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

Standards and amendments early adopted by the group

IFRS 8, 'Operating segments', was early adopted in 2008. IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the group's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes'.

2 Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The group will apply IAS 23 (Amendment) retrospectively from 1 January 2009 but is currently not applicable to the group as there are no qualifying assets.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the group's financial statements.

2 Basis of preparation (continued)

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The group will apply the IAS 32 and IAS 1(Amendment) from 1 January 2009. It is not expected to have any impact on the group's financial statements.

- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The group will apply IFRS 1 (Amendment) from 1 January 2009, as all subsidiaries of the group will transition to IFRS. The amendment will not have any impact on the group's financial statements.

- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

2 Basis of preparation (continued)

Interpretations and amendments to existing standards those are not yet effective and not relevant for the group's operations
The following interpretations and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the group's operations:

- IFRIC 13, 'Customer loyalty programmes' (effective from1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the group's operations because none of the group's companies operate any loyalty programmes.

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.

3 Summary of significant accounting policies

Significant accounting policies of the Group applied in preparation of the consolidated financial statements are described below. The accounting policies have been applied consistently.

(a) Significant accounting estimates, judgments and assumptions. Basis of consolidation

Subsidiaries
Subsidiaries mean entities controlled by the Company and its other subsidiaries (the "Group"). The control exists when the Group can manage, directly or indirectly, entity's financial and business policy in order to obtain economic benefits from its activities. Subsidiaries financial statements are included in the Group's consolidated financial statements during the period from the date of establishment to the date of termination of such control.

Acquired subsidiaries are carried based on the purchase method. Purchase cost is determined as fair value of assets assigned, share-based financial instruments issued, and assumed or possible liabilities as at the date of transaction, plus acquisition costs. The date of acquisition is the date of transaction.

(b) Goodwill and minority interests

Goodwill means the excess of purchase cost over the fair value of the portion of net assets, liabilities and contingent liabilities of acquired subsidiary as at the date of acquisition. Goodwill is measured for possible impairment at least on an annual basis, and also if any signs of

3 Summary of significant accounting policies (continued)

impairment are in place. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units.
If the buyer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities is in excess over business combination costs it is recognized income generated from subsidiary acquisition in income statement.

Minority interests mean a portion of profit or loss and net assets of a subsidiary, related to the interest in the share capital not owned, directly or indirectly through subsidiaries, by the parent company. Minority interest in the acquiree amounts to minority interest in net fair value of its assets.

Associates
Associates are companies on which the Group has a significant influence, but does not control their financial and operating activity. The Group's share in total profits and losses of the associates is proportionately consolidated from the date on which such influence is established to the date on which the influence ceases. If the Group's losses exceed the carrying value of investments to the associate, the carrying value is reduced to nil, and no losses other than Group's liabilities to the associate are further reported.

Transactions excluded from consolidation
Balances and turnovers related to intercompany settlements and transactions, as well as unrealized profit resulting from such transactions are not included by the Group in the consolidated financial statements. The Group also does not report the portion of unrealized profit from transactions with associates equal to the Group's share in those associates.
The portion of unrealized profit from transactions with associates equal to financial investments made by the Group to those associates is also excluded. Unrealized losses are excluded in a way similar to that used for unrealized profit, unless there is an evidence of impairment of financial investments to associates.

(c) Foreign currency

Transactions in foreign currencies are translated to Russian rubles at the rate of exchange on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to rubles at the rate on the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies that are carried at historical cost are translated to rubles at the rate on the date of operation. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are translated to rubles at the rate on the date on which their fair value was measured. Exchange differences resulting from translation are reported in income statement.

3 Summary of significant accounting policies (continued)

(d) Property, plant and equipment

Owned assets

Property, plant and equipment are stated at actual or probable cost of purchase or non-contracted construction, less accumulated depreciation and impairment losses. Cost of property, plant and equipment constructed on a non-contractual basis includes direct material and labor costs and related overheads. If property, plant and equipment item consists of several components having different useful lives, such components are carried as separate property, plant and equipment items.

Cost of property, plant and equipment as at the date of transition to IFRS was determined based on their fair value revaluated as at the above date by an independent appraiser duly qualified and experienced in valuation of similar items.

Property, plant and equipment are further carried by the Group based on revaluation model. The Group's management believes that it will result in more fair presentation of the Group's financial position and its business performance. Revaluation of property, plant and equipment must be performed on a regular basis. Revaluation frequency depends on variation in property, plant and equipment fair value.

Any property, plant and equipment revaluation surplus is credited to the equity section, except to the extent it reverses a revaluation decrease of the same asset previously recognized in income statement. In such a case, the reversing is also recognized in income statement. Property, plant and equipment revaluation deficit is recognized in income statement, except to the extent it reverses a revaluation increase of the same asset previously recognized in the equity section. In this case, the reversing is also recognized in the equity section.

Any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Upon derecognition or disposal of the asset, the revaluation increase relating to the particular asset and included in equity is transferred to retained earnings.

Upon disposal of the asset, a transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation amount based on the revalued carrying amount of the asset and depreciation amount based on the asset historical cost.

Deferred tax liabilities (assets) relating to property, plant and equipment revaluation are recognized by the Group in equity.

3 Summary of significant accounting policies (continued)

If the item of property, plant and equipment comprises several components having different useful lives, such components are carried as separate items of property, plant and equipment.

Profits and losses arising on disposal of property, plant and equipment are recognized in the income statement when they arise.

Leased assets
The lease providing for assignment to the Group of all risks and benefits resulting from the ownership is classified as financial leasing. Property, plant and equipment acquired under financial leasing are stated at the lower of the fair value and discounted value of minimal rentals on the effective date of the lease agreement, less accumulated depreciation and impairment losses.

Rentals under financial leasing are calculated based on effective interest method and are allocated to lease financing costs, included in interest paid, and redemption of the debt principal, reducing lease liabilities with respect to a lessor.

Subsequent expenses
Expenses related to replacement of fixed assets item component, carried separately, are capitalized at the time of write-off of disposed component cost. Other subsequent expenses are capitalized if only they result in increased future economic benefit from using such fixed assets item. All other expenses are allocated to the financial result of the period when they were incurred.

Depreciation
Depreciation is calculated for the probable useful life of certain items of property, plant and equipment based on a straight-line method and is allocated to the financial result. Leased property, plant and equipment are amortized during the shorter of useful life or leasing period.

Depreciation begins when the asset becomes available for use, i.e. when location and condition of the asset provide for its using as planned by the management, and as to the assets constructed on a non-contractual basis – from the date of completion of construction and preparation to further use. Amortization is ceased at derecognition of the asset. No depreciation of land is provided for.

Useful lives of different assets are shown below:

▪ Buildings and facilities	20 - 100 years
▪ Plant and equipment	5 - 30 years
▪ Transport	5 – 10 years
▪ Other	2 - 5 years

3 Summary of significant accounting policies (continued)

Capital construction in progress

Capital construction in progress includes all expenses related to capital investments to non-current assets, including capital construction advances and advances for PP&E purchase.

The cost of capital construction in progress also includes financing expenses incurred during the period when the item was acquired and erected, if borrowings are used for financing. Those assets are amortized beginning from the month following the month of their commissioning and is calculated based on the method used for similar property, plant and equipment. The carrying value of construction in progress items is reviewed on a regular basis in order to assess whether it is fair and whether appropriate provision for impairment is required.

(e) Intangible assets

Intangible assets acquired by the Group and having a finite useful life are stated at purchase cost less accumulated depreciation and impairment losses. Expenses related to goodwill and trademarks are written off accordingly when they are incurred. Intangible assets are amortized over the useful economic life based on a straight-line method with allocation of amortization to the financial result.

The Group recognizes intangible assets resulting from research and development (or research and development in progress – internal projects), when it can only demonstrate all of the following features:

- Technical feasibility of completing the intangible asset, so that it will be available for use or sale;
- Intention to complete and ability to use or sell the intangible asset;
- Capability to use or trade the intangible asset
- How the intangible asset will generate future economic benefits;
- Availability of sufficient technical, financial, and other resources required to complete the asset and use or sell the intangible asset;
- Capability to measure reliably the expenditures during the development.

Useful lives of different intangible assets are shown below:

- Software 1 - 20 years
- Licenses, permits 1 - 5 years

(f) Financial investments

Financial investments are included in (excluded from) accounting registers of the Group, when the Group acquires (loses) control over rights inherent to the appropriate asset. Except for the cases mentioned below, financial investments are accounted for as follows:

3 Summary of significant accounting policies (continued)

- Securities held to maturity, including promissory notes, are initially stated at purchase cost. Then they are accounted for at amortized cost with reflecting the difference between the historical cost and the cost of redemption in income statement over the whole period to maturity, with adjustment made for an actual interest rate (discount).
- Other investments of the Group are classified as those available for sale and are carried at fair value, with profits or losses charged to the equity.

The fair value of securities for resale is the seller's price as at the balance sheet date. Investments in unquoted securities, whose fair value cannot be determined by any other way, are accounted for at historical cost net of losses on impairment.

(g) Derivative financial instruments

Initially, derivative financial instruments are accounted for at primary cost. After initial recognition, the derivative financial instruments are stated at fair value, and the subsequent profits and losses from their realization are allocated to financial results.

(i) Inventories

Inventories are carried at lower of the purchase cost and net possible realization value. Net possible realization value means possible realization value in the course of ordinary business, net of possible for the completion of works and realization.

Inventories are carried at average cost and include stock purchase costs, delivery and bringing to present condition.

In production of inventories, appropriate part of production overheads, calculated based on key personnel direct payroll expenses, is included in the finished product cost and cost of work in progress.

(j) Trade receivables

At the end of the reporting or interim period the assessment of doubtful receivables is conducted on the basis of the analysis of all the outstanding amounts. Bad debts are written-off in those periods in which they were revealed.

Debts of buyers and customers and other receivables are adjusted to the amount of provision for receivables value reduction. Provision for value reduction is made when there is an objective confirmation of impossibility of receivables receipt in accordance with initial terms of their repayment.

3 Summary of significant accounting policies (continued)

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on bank settlement accounts, deposits at short notice and bank promissory notes with the primary maturity of maximum 90 days. The data on bank overdrafts payable on demand and being the inherent part of the Group's cash flow management process are included as cash and cash equivalents component in the Cash Flow Statement.

(l) Impairment of assets

The book value of the Group's assets, other than inventories and deferred taxes, is revised as at every balance sheet date to identify their impairment. If any impairment is identified, the assets book value will decrease to recoverable amount. The impairment of asset is recognized if book value of this asset exceeds the recoverable amount. All impairment losses are allocated to financial result.

Calculation of recoverable amount

Recoverable amount of securities held to maturity, and that of loans and trade and other receivables of the Group is calculated as present value of future cash flows discounted at actual current interest rate applicable to the asset. Current trade and other receivables are not discounted.

Recoverable amount of other assets is determined as the higher of fair value less costs to sell and asset value in use. To determine asset value in use, the anticipated future cash flows are discounted at before-tax discount rate which reflects the current market value of cash subject to change in the course of time and risks related to this asset.

For the assets, which do not generate cash flows, independent from cash flows generated by other assets, recoverable amount is determined for the whole group of cash generating assets to which such asset belongs.

Reversing asset impairment losses

Loss on impairment of securities held to maturity, loans or trade and other receivables shall be reversed, if after reporting the loss the event occurred resulting in increase of recoverable amount. Loss from impairment of other assets shall be reversed if the values used to determine recoverable amount have changed. Such amount of loss from impairment is only reversed so that the book value of asset does not exceed the amount, which would be determined (net of depreciation or amortization) if loss from impairment was not recognized.

3 Summary of significant accounting policies (continued)

(m) Repurchase of treasury shares

If the shares prior accounted for in the share capital are repurchased, paid–out amount, including transaction direct expenses, is accounted for as changes in equity.

(n) Loans and borrowings

Loans and borrowings are initially carried at par value. Then loans and borrowings are reported at amortized cost with the difference between historical cost and cost of redemption recorded in the Income Statement over the effective period of loan or borrowing, subject to actual interest rate.

(o) Employee remuneration

The Group effects payments to the Russian Pension Fund to the Group employees benefit in compliance with RF legislation on pension security. The above amounts are written-off as soon as payment is processed. The Group has no other special retirement benefit plans.

(p) Provisions

Provision is recorded in Balance Sheet if the Group's liability appears de jure or de facto as a result of a certain past event, and there is a probability that some cash outflow will be required to meet the liabilities. If the influence of discounting is material, the amounts of provisions will be determined by discounting of expected future cash flows at before tax discount rate which reflects the current market value of temporary cost of cash and risks, as appropriate, related to this liability.

Restructuring
Restructuring provision is recognized when the official plan of restructuring is approved by the Group, and related work has been commenced, or official notification on such restructuring has been made. The provision for future operating expenses is not made.

Provisions for leaves
The Group makes provision for future employee leave payments.
The provision amount is measured based on anticipated annual expenses for employee leaves, including single social tax to be imposed. The provision is made subject to all planned leaves in the reported year, including leaves for the previous years, provided those leaves were not covered by the carry forward provision.

(q) Trade and other payables

In initial recognition, trade and other payables are reported at fair value and subsequently accounted for at amortized cost based on effective interest rate method.

3 Summary of significant accounting policies (continued)

(r) Income tax

Income tax for the year includes current and deferred part. Income tax is reported in the Income Statement in full, with the exception of amounts, related to the operations recorded on equity's accounts, with deferred tax on such operations being included in equity. The expenses related to payment of current part of income tax are formed subject to expected amount of tax payable, calculated on the basis of taxable profit for year, using effective rates or rates as at the balance sheet date, and adjustments to tax amount for previous years payable.

Deferred tax is carried based on the balance sheet method of reporting assets and liabilities and is calculated with respect to time differences arising between the Balance Sheet data and similar data used for tax purposes.

The time differences are not taken into consideration in calculation of deferred taxes for the following items:

- initial recognition of goodwill;
- initial reporting of assets and liabilities which do not influence profit either for financial accounting or tax purposes;
- financial investments in subsidiaries where parent company can control recovery of time difference and probability exists that time difference will be not realized in foreseeable future.
- The amount of deferred tax is determined according to the method which the Group is supposed to apply to realize or repay the book value of its assets or liabilities based on the tax rates, existing or declared as at the balance sheet date.
- Deferred tax asset is reported to the extent that probability exists that taxable profit will be gained in future, sufficient for repayment of this asset. Deferred tax asset is subject to decreasing to the extent that there is low probability that related tax deductions can be realized.
- In the consolidated financial statements, the current tax asset of one company in the Group is set off against current tax liability of other company in the Group if only these companies have legal basis for processing or receiving single net payment, and the companies intend to process or receive such net payment or reimburse an asset and disburse a liability.

(s) Sales

Proceeds from sale of goods are reported in income statements as at the date of transfer to the buyer of all material risks and benefits arising out of ownership.

3 Summary of significant accounting policies (continued)

(t) Finance revenue and finance costs

Finance revenue and finance costs include interest expenses on loans and borrowings, accumulated interests on provisions, interest-bearing gains on financial investments, dividends received, positive and negative foreign exchange differences, income and losses from revaluation and disposal of investments available for resale.

Borrowing costs are capitalized if they relate to acquisition, construction, or production of a qualified asset, provided that there is a strong probability of future economic benefits and the costs can be measured reliably.

If the borrowings were specifically obtained by the Group for acquisition, construction, or production of a certain qualified asset, the amount of costs to be capitalized is determined as actual expenses incurred when obtaining a loan in the reporting period, less any revenues from short-term investment of those borrowed funds prior to investing them to the qualified asset.

If it is difficult to determine the amount of borrowed funds related to acquisition of the qualified asset, the costs amount to be capitalized is determined based on capitalization rate.

Interest-bearing gains are accounted for accordingly as they are accrued, subject to effective asset yield rate. Gains on dividends received from investments in the associates are carried as decrease in investments in the associates. Gains on dividends received from financial investments in other companies are stated as at the date on which the dividends were declared.

(u) Other expenses

Operating lease
Operating lease expenses are calculated on a straight-line basis and reported in income statement over the whole period of lease. The amount of related remunerations received under lease contracts is reported in income statements as an integral part of total rental.

Social expenses
When the Group incurs expenses under social programs of public benefit for society in general rather than for Group's employees only, such expenses are stated in the income statement when they are incurred.

(v) Dividends

Dividends and related taxes are reported as liabilities in the period when they are declared by the general stockholders meeting and are payable in accordance with legal and regulatory requirements. The amount of retained earnings, which, in accordance with applicable laws and

(All amounts in tables below are denominated in thousand of US dollars and Russian rubles)

3 Summary of significant accounting policies (continued)

regulations, may be distributed among shareholders, is determined based on financial statements of separate companies of the Group. Those amounts may differ significantly from the amounts, calculated under IFRS.

4 Subsidiaries

Presented below is the list of subsidiaries with indication of Company share in their issued capital as at 31 December 2008 and 31 December 2007, country of incorporation, and trend of activity.

	Description / trend of activity	Country	Ownership or participation interest as of 31 December 2008	Ownership or participation interest as of 31 December 2007
Zauralsky Kreker JSC	Food production (cracker, sugar cookies, spice cakes)	Kurgan Region, Russia	100,00%	100,00%
PAVA ROS LLC	General wholesale trade	Altai Territory, Russia	0,00%	51,00%
PAVA-Export LLC	Wheat wholesale trade	Russia	100,00%	100,00%
"Greinvest" OJSC	Production of ethyl alcohol from fermented materials	Russia	100,00%	-
"Global Agro" OJSC	Commercial activity consulting	Russia	100,00%	-
Romanovskoe ZPP JSC	Grain storage and primary processing	Altai Territory, Russia	100,00%	100,00%
Selkhozholding LLC	Crop growing and wholesale trade	Altai Territory, Russia	100,00%	100,00%
"Russian agricultural division" OJSC	Cultivation, storage, drying and wholesale of grain products	Russia	100%	-
"Korporatsiya "Transagro" OJSC	Other wholesale	Russia	100%	-
"Agrofirma "Niva" LLC	Cultivation of grain and pulse crops	Russia	100%	-
"Allak" LLC	Crop production	Russia	100%	-
"Pankrushinskoye HPP" LLC	Procurement organization	Russia	100%	-
"Seliverstovo" LLC	Crop production	Russia	100%	-
"Bulatovo" LLC	Crop production	Russia	100%	-
"Bolsheluyskoye" LLC	Crop production	Russia	100%	-
"Kansky elevator" LLC	Crop production	Russia	100%	-
"Irbeyskoye HPP" LLC	Crop production	Russia	100%	-
"Prychulymskoye" OJSC	Crop production	Russia	100%	-
"Irbeyskoye HPP" OJSC	Grain wholesale	Russia	84,86%	-

(All amounts in tables below are denominated in thousand of US dollars and Russian rubles)

4 Subsidiaries (continued)

	Description / trend of activity	Country	Ownership or participation interest as of 31 December 2008	Ownership or participation interest as of 31 December 2007
"Novokoshkulskoye" OJSC	Crop production	Russia	100%	-
"Tatyanovskoye" OJSC	Crop production	Russia	100%	-
"Ilanskoye" OJSC	Crop production	Russia	100%	-
"Sayanskoye" OJSC	Crop production	Russia	100%	-
"Vladimirskoye" OJSC	Crop production	Russia	100%	-

For the year ended 31 December 2008 the Group has suffered the following changes:
In September-October the Company acquired 100% interest in the authorized capital of the following companies: "Pankrushihinskoye HPP" LLC, "Korporatsiya "Transagro" OJSC, "Allak" LLC, "Bulatovo" LLC, "Agrofirma NIVA" LLC, "Bolsheluyskoye" LLC.

In September 2008 the Group acquired 46,86% interest in the authorized capital of "Irbeyskoye HPP" OJSC (crop production). In December the Group acquired other 38% of the authorized capital, thus, as of December 31, 2008 84,86% of "Irbeyskoye HPP" OJSC authorized capital was owned by the Group.

In September – October of 2008 the Group established the following companies: "RAD" OJSC, "Seliverstovo" LLC, "Kansky elevator" LLC, "Irbeyskoye HPP" LLC, "Prichulymskoye" OJSC, "Novokoshkulskoye" OJSC, "Tatyanovskoye" OJSC, "Ilanskoye" OJSC, "Sayanskoye" OJSC, "Vladimirskoye" OJSC, "Greinvest" OJSC, "Global-Agro" OJSC.

These acquisitions impacted the Group's financial results for 2008 presented in the table bellow.

4 Subsidiaries (continued)

	"Pankrushihinskoye HPP" LLC	"Korporatsiya "Transagro" OJSC	"Allak" LLC	"Bulatovo" LLC	"Irbeyskoye HPP" OJSC	"Agrofirma "Niva" LLC	"Bolsheluyskoye" LLC	Total:
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Cost of acquired share in respect of fair value of net identified assets	69 607	46 037	38 689	22	29 158	31 369	13	**214 892**
Cost of financial investments	50 000	97 562	8 000	10	19 775	3 997	10	**172 354**
Excess of share in fair value of net identified assets over purchase price	19 607	-	30 689	-	11 283	27 372	3	**88 951**
Recording of revenue from acquisition of interest in Income Statements	19 607	-	30 689	-	11 283	27 372	3	**88 951**
Goodwill	-	51 525	-	32	1 901	-	-	**53 458**

4 Subsidiaries (continued)

	"Pankrushihinskoye HPP" LLC	"Korporatsiya "Transagro" OJSC	"Allak" LLC	"Bulatovo" LLC	"Irbeyskoye HPP" OJSC	"Agrofirma "Niva" LLC	"Bolsheluyskoye" LLC	Exchange difference	Total:
	'000 USD	'000 USD	'000 USD	'000 USD	'000 USD	'000 USD	'000 USD		
Cost of acquired share in respect of fair value of net identified assets	2 369	1 517	1 317	1	992	1 068	-	-	**7 314**
Cost of financial investments	1 702	3 321	272	-	673	136	-	-	**6 105**
Excess of share in fair value of net identified assets over purchase price	667	-	1 045	-	384	932	-	550	**3 578**
Recording of revenue from acquisition of interest in Income Statements	789	-	1 234	-	454	1 101	-	-	**3 578**
Goodwill	-	1 754	-	1	65	**-**	**-**	**-**	**1 820**

5 Net sales

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Proceeds					
Crop processing and wholesale trade		144 078	65 337	3 582 106	1 671 122
Food wholesale trade		13 465	48 783	334 764	1 247 730
Crop growing and wholesale trade		999	2 466	24 845	63 063
Pastry production		1 796	1 406	44 648	35 960
Services: grain storage, vehicles, handling operations		555	2 037	13 808	52 108
Total:		**160 893**	**120 029**	**4 000 171**	**3 069 983**

6 Cost of sold goods, work and services

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 20067 '000 RUR
Cost of sold goods, work and services					
Goods for resale		41 840	48 953	1 040 248	1 252 062
Raw materials		72 013	32 192	1 790 401	823 386
Variation in finished product balances		-	2 682	-	68 605
Labor costs		2 375	1 381	59 055	35 335
Social security		531	325	13 201	8 323
P,P & E depreciation costs		2 491	586	61 924	14 977
Electricity, heating, water supply		2 015	1 560	50 107	39 891
Maintenance costs		45	6	1 124	145
Other production expenses		2 766	187	68 755	4 781
Total:		**124 076**	**87 872**	**3 084 815**	**2 247 505**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7 General, administrative and commercial expenses

General, administrative and commercial expenses include as follows:

	Notes	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
General and administrative expenses					
Transportation		11 854	10 981	294 716	280 858
Wages and salaries, including UST		6 068	6 220	150 873	159 088
Customs duties		2 589	400	64 361	10 241
Impairment of assets		1 536	1 061	38 195	27 133
Material Costs		1 353	733	33 627	18 746
Depreciation – PP&E		1 001	1 091	24 893	27 913
Information service & IT		898	430	22 316	11 003
Operating lease		819	1 316	20 355	33 661
Taxes		598	366	14 856	9 357
Subsistence		582	253	14 479	6 463
Packing expenses		536	444	13 319	11 360
Accounting and audit		475	2	11 820	57
Management expenses		453	144	11 273	3 676
Advertising and marketing		429	68	10 660	1 732
Maintenance works		377	692	9 378	17 687
Electricity, heating, water supply		374	299	9 293	7 652
Security		369	266	9 169	6 797
Certification		369	291	9 167	7 450
Electricity and heating		357	238	8 868	6 096
Commission compensation, middlemen payment		350	74	8 714	1 897
Penalties and fines under economical agreements		309	277	7 676	7 080
Provision for bad debts		180	1 955	4 477	49 999
Other expenses		1 622	1 086	40 321	27 783
Total:		**33 123**	**28 388**	**823 514**	**726 077**

8 Other operating income

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Other income					
Profit on sale of PP&E		-	219	-	5 604
Profit on sale of inventories excess		862	341	21 431	8 730
Profit/Loss on disposal of investments		1 269	542	31 545	13 861
P, P & E value adjustment subject to prior impairment in 2005 (machines and equipment)		-	2 347	-	60 033
Recovery of provision for tax liabilities		-	185	-	4 742
Other operating income		309	1	7 671	9
Total:		**2 440**	**3 635**	**60 647**	**92 979**

9 Other operating expenses

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Other expenses					
Loss from disposal of P, P & E		382	-	9 501	-
Foreign currency exchange loss		2 980	41	74 086	1 060
Reversing prior written off trade and other payables		-	118	-	3 022
Other expenses		258	1	6 422	15
Total:		**3 620**	**160**	**90 009**	**4 097**

10 Finance revenue

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Finance revenue					
Interest-bearing income		185	238	4 588	6 096
Total:		**185**	**238**	**4 588**	**6 096**

11 Finance costs

	Notes	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
Finance costs					
Interest expenses		5 423	4 277	134 822	109 403
Total:		**5 423**	**4 277**	**134 822**	**109 403**

12 Income tax

Income tax charged as at the balance sheet date includes as follows:

	Notes	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
Income tax					
Income tax – current		(69)	441	(1 718)	11 291
Income tax – deferred		130	(1 685)	3 240	(43 093)
Total:		**61**	**(1 244)**	**1 522**	**(31 802)**

Comparison of net income tax expense and the amount of tax, calculated at effective in Russian federation 24% rate, to income before tax is presented bellow. In 2008 the Government of the Russian Federation made alterations to the effective Tax legislation and lowered income tax rate from 24% to 20%.This amendment comes into effect on January 1, 2009.

	Notes	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
Profit (loss) before tax		854	3 260	21 197	83 381
Theoretical tax contribution at a 24% rate		205	782	5 087	20 011
Permanent tax differences		232	(2 026)	5 762	(51 813)
Effect of income tax rate change		(34)		(847)	
Repayment of income tax for the year		**61**	**(1 244)**	**1 522**	**(31 802)**

12 Income tax (continued)

Deferred tax assets and liabilities refer to the following temporary difference items:

	As of 31.12.2008	Timing difference variations over the year	Acquisition of subsidiaries	As at 31.12.2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Tax impact of timing differences, increasing taxable base				
Property, plant and equipment	1 158 058	899 307	55 426	203 325
Long-term loans and borrowings	33	33	-	-
Long-term investments	-	(1 187)	-	1 187
Biological assets	484	(97)	581	-
Other Non-current assets	-	(11 945)	11 945	-
Other receivables	1 820	1 820	-	-
Long-term bonds payable	-	(1 054)	-	1 054
Other non-current liabilities	4 539	4 278	-	261
Trade payables	-	(8 100)	-	8 100
Current loans and borrowings payable	-	(22)	-	22
Total amount of deferred tax liability	**1 164 934**	**883 033**	**67 952**	**213 948**
Tax impact of timing differences, decreasing taxable base				
Property, plant and equipment	-	(10)	10	-
Construction-in-Progress	-	(561)	471	90
Long-term loans and borrowings	-	(48)	-	48
Long-term investments	15 314	(19 424)	18 377	16 361
Other Non-current assets	4 699	4 699	-	-
Inventories	3 884	(29 923)	260	33 547
Receivables	10 882	(19 142)	2 504	27 520
Prepaid expenses	731	(1 694)	-	2 425
Short-term borrowings and loans	15	(3)	-	18
Other current assets	963	(2 142)	-	3 105
Retained Earnings	-	(2 808)	-	2 808
Other non-current liabilities	-	(11 943)	11 943	-
Other current liabilities	-	(1 076)	-	1 076
Provisions for liabilities and charges	1 383	773	233	377
Total amount of deferred tax asset	**37 871**	**(83 302)**	**33 798**	**87 375**
Presentation currency translation	-	-	-	-
Net variation of timing differences		**966 335**		
including Income statement		3 240		
including consolidated Statement of changes in equity		(969 575)		

12 Income tax (continued)

	As of 31.12.2008 '000 USD	Timing difference variations over the year '000 USD	Acquisition of subsidiaries '000 USD	As at 31.12.2007 '000 USD
Tax impact of timing differences, increasing taxable base				
Property, plant and equipment	39 416	28 937	2 195	8 283
Long-term loans and borrowings	1	1	-	-
Long-term investments	-	(46)	-	46
Biological assets	16	(7)	23	-
Other Non-current assets	-	(473)	473	-
Other receivables	62	62	-	-
Long-term bonds payable	-	(45)	-	45
Other non-current liabilities	154	144	-	11
Trade payables	-	(330)	-	330
Current loans and borrowings payable	-	(1)	-	1
Total amount of deferred tax liability	**39 650**	**28 242**	**2 692**	**8 716**
Tax impact of timing differences, decreasing taxable base				
Property, plant and equipment	-	-	-	-
Construction-in-Progress	-	(22)	19	4
Long-term loans and borrowings	-	(2)	-	2
Long-term investments	521	(873)	728	667
Other Non-current assets	160	160	-	-
Inventories	132	(1 245)	10	1 367
Receivables	370	(850)	99	1 121
Prepaid expenses	25	(74)	-	99
Short-term borrowings and loans	1	-	-	1
Other current assets	33	(94)	-	126
Retained Earnings	-	(114)	-	114
Other non-current liabilities	-	(473)	473	-
Other current liabilities	-	(44)	-	44
Provisions for liabilities and charges	47	22	9	15
Total amount of deferred tax asset	**1 289**	**(3 609)**	**1 338**	**3 560**
Presentation currency translation	-	7 016	-	-
Net variation of timing differences		**38 867**		
including Income statement		130		
including consolidated Statement of changes in equity		(38 998)		

13 Earnings per share

Earnings per share are calculated through division of profits due to owners of ordinary shares by average weighted number of outstanding ordinary shares over the period. The Company does not have convertible bonds and share options which can be converted in future to ordinary shares.

In 2008, the average weighted number of shares made 88,421,053 (in 2007 – 88,421,053 акций).

Earnings per share (basic and diluted) for the year ended 31 December 2008 made USD 0.010 per share (RUR 0.25 per share).

Earnings per share (basic and diluted) for the year ended 31 December 2007 made USD 0.05 per share (RUR 1.30 per share).

14 Intangible assets

	Note	Licenses	Right to land lease	Software	Goodwill	Total
		'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Cost as of January 1, 2008		**61**	**-**	**56**	**-**	**117**
Acquisition of intangible assets		-	-	810	-	**810**
Acquisition of subsidiaries - intangible assets cost		-	374	234	53 458	**54 066**
Disposal of subsidiaries - intangible assets cost		(29)	-	(56)	-	**(85)**
Disposal of intangible assets		(32)	-	-	-	**(32)**
Cost as at December 31, 2008		**-**	**374**	**1 044**	**53 458**	**54 876**
Depreciation as of January 1, 2008		**22**	**-**	**8**	**-**	**30**
Accumulated depreciation		-	-	318	-	**318**
Disposal of subsidiaries – intangible assets depreciation		(3)	-	(8)	-	**(11)**
Disposal of intangible assets		(19)	-	-	-	**(19)**
Depreciation as of December 31, 2008		**-**	**-**	**318**	**-**	**318**
Residual value as of January 1, 2008		**39**	**-**	**48**	**-**	**87**
Residual value as of December 31, 2008		**-**	**374**	**726**	**53 458**	**54 558**

14 Intangible assets (continued)

	Note	Licenses	Right to land lease	Software	Goodwill	Total
		'000 USD	'000 USD	'000 USD	'000 USD	'000 USD
Cost as of January 1, 2008		**2**		**2**		**4**
Acquisition of intangible assets		-	-	33	-	**33**
Acquisition of subsidiaries - intangible assets cost		-	15	9	2 150	**2 175**
Disposal of subsidiaries - intangible assets cost		(1)	-	(2)	-	**(3)**
Disposal of intangible assets		(1)	-	-	-	**(1)**
Presentation currency translation			(2)	(6)	(331)	**(339)**
Cost as at December 31, 2008		**-**	**13**	**36**	**1 820**	**1 868**
Depreciation as of January 1, 2008		**1**	**-**	**-**	**-**	**1**
Accumulated depreciation		-	-	13	-	**13**
Disposal of subsidiaries – intangible assets depreciation		(1)	-	-	-	**(1)**
Disposal of intangible assets		-	-	(2)	-	**(2)**
Depreciation as of December 31, 2008		**-**	**-**	**11**	**-**	**11**
Residual value as of January 1, 2008		**1**	**-**	**2**	**-**	**4**
Residual value as of December 31, 2008		**-**	**13**	**25**	**1 820**	**1 857**

15 Property, plant and equipment

	Land	Buildings	Machinery and equipment	Transport	Other property, plant and equipment	Construction-in-Progress	Total
	‘000 RUR	‘000 RUR	‘000 RUR	‘000 RUR	‘000 RUR	‘000 RUR	‘000 RUR
Cost as of January 1, 2007	**2 268**	**361 450**	**311 033**	**-**	**3 891**	**4 893**	**6 83 535**
Proceeds	210	1 335	49 242	-	278	12 492	**63 557**
Disposals	-	(4)	(5 526)	-	(23)	-	**(5 553)**
Written-off initial cost of fully written-off assets	-	(25 259)	(132 522)	-	(701)	-	**(158 482)**
PP&E and land revaluation	4 255	598 757	66 954	-	(2 928)	-	**667 008**
Cost as at December 31, 2007	**6 703**	**936 279**	**289 181**	**-**	**517**	**17 385**	**1 250 065**
Reclassification	-	(1 137)	(86 266)	71 464	15 941	-	**-**
Proceeds	720 309	25 666	38 360	58 812	3 746	8 689	**855 582**
Disposals	(6 216)	(137 638)	(28 062)	(12 799)	(2 482)	-	**(187 197)**
PP&E and land revaluation	5 037 028	43 843	103	13 702	2 462	-	**5 097 138**
Improvement, modernization	-	1 789	2 254	231	713	-	**4 987**
Acquisition of subsidiaries	46	204 828	38 038	33 040	1 455	-	**277 407**
Cost as at December 31, 2008	**5 757 870**	**1 073 630**	**253 608**	**164 450**	**24 350**	**26 074**	**7 297 982**
Depreciation as of January 1, 2007	**-**	**18 855**	**96 748**	**-**	**472**	-	**116 105**
Depreciation	-	6 374	37 804	-	236	-	**44 414**
Depreciation of disposed PP&E	-	-	(2 030)	-	(7)	-	**(2 037)**
Writing-off of accumulated depreciation of revalued PP&E	-	(25 259)	(132 522)	-	(701)	-	**(158 482)**
Depreciation as of December 31, 2007	**-**	**-**	**-**	**-**	**-**	-	**-**
Depreciation	-	38 884	25 530	19 763	3 202	-	**87 379**
Depreciation of disposed PP&E	-	(10 531)	(7 318)	(1 753)	(703)	-	**(20 305)**
PP&E and land revaluation	-	(3 911)	(2 268)	(7 291)	(223)	-	**(13 693)**
Depreciation as of December 31, 2008	**-**	**24 442**	**15 944**	**10 719**	**2 276**	-	**53 381**
Residual value as of January 1, 2007	**6 703**	**936 279**	**289 181**	**-**	**517**	**17 385**	**1 250 065**
Residual value as of December 31, 2007	**5 757 870**	**1 049 188**	**237 664**	**153 731**	**20 074**	**26 074**	**7 244 601**

Information on pledged property, plant and equipment as at 31 December 2008 is detailed in *Note 28, 31*.

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15 Property, plant and equipment (continued)

	Land	Buildings	Machinery and equipment	Transport	Other property, plant and equipment	Construction-in-Progress	Total
	‘000 USD	‘000 USD	‘000 USD	‘000 USD	‘000 USD	‘000 USD	‘000 USD
Cost as of January 1, 2007	**86**	**13 727**	**11 812**	**-**	**148**	**186**	**25 959**
Proceeds	8	52	1 925	-	11	488	**2 484**
Disposals	-	-	(216)	-	(1)	-	**(217)**
Written-off initial cost of fully written-off assets	-	(988)	(5 181)	-	(27)	-	**(6 169)**
PP&E and land revaluation	172	24 393	2 728	-	(119)	-	**27 174**
Currency translation effect	7	960	713	-	9	34	**1 723**
Cost as at December 31, 2007	**273**	**38 144**	**11 781**	**-**	**21**	**708**	**50 927**
Reclassification	-	(46)	(3 514)	2 911	649	-	**-**
Proceeds	28 972	1 032	1 543	2 366	151	349	**34 413**
Disposals	(250)	(5 536)	(1 129)	(515)	(100)	-	**(7 530)**
PP&E and land revaluation	171 442	1 492	4	466	84	-	**173 488**
Improvement, modernization	-	72	91	9	29	-	**201**
Acquisition of subsidiaries	2	8 113	1 507	1 309	58	-	**10 989**
Currency translation effect	(4 462)	(6 729)	(1 651)	(948)	(131)	(170)	**(14 092)**
Cost as at December 31, 2008	**195 977**	**36 542**	**8 632**	**5 597**	**761**	**887**	**248 396**
Depreciation as of January 1, 2007	**-**	**718**	**3 674**	**-**	**18**	-	**4 410**
Depreciation	-	249	1 478	-	9	-	**1 736**
Depreciation of disposed PP&E	-	-	(79)	-	-	-	**(79)**
Writing-off of accumulated depreciation of revalued PP&E	-	(988)	(5 181)	-	(27)	-	**6 169**
Currency translation effect	**-**	21	108	-	-	-	**129**
Depreciation as of December 31, 2007	**-**	**-**	**-**	**-**	**-**	-	**-**
Depreciation	-	1 564	1 027	795	129	-	**3 515**
Depreciation of disposed PP&E	-	983	641	431	92	-	**2 147**
PP&E and land revaluation	-	(424)	(294)	(71)	(28)	-	**(817)**
Currency translation effect	**-**	(1 291)	(831)	(790)	(116)	-	**(3 028)**
Depreciation as of December 31, 2008	**-**	**832**	**543**	**365**	**77**	-	**1 817**
Residual value as of January 1, 2007	**273**	**38 144**	**11 781**	**-**	**21**	**708**	**50 927**
Residual value as of December 31, 2007	**195 977**	**35 710**	**8 089**	**5 232**	**684**	**887**	**246 579**

Information on pledged property, plant and equipment as at 31 December 2008 is detailed in *Notes 28,31.*

16 Construction in progress

At the year end, construction in progress included equipment in the amount of USD 708 thousand (RUR 26,074 thousand), which had not been commissioned as at 31.12.2008.
The above construction in progress items will be commissioned in near future – in 2009.
The following items of construction in progress have been stated as at the yearend:

	Note	as of December 31, 2007 '000 USD	as of December 31, 2007 '000 RUR
Construction-in-Progress Objects			
Auto grain damper IDM 30		47	1 384
Rotary valve 220 type		35	1 030
Compressor GA45+AFF-8 A		32	949
Forklift loader		10	298
Receiving store		57	1 670
Grain-dryer building А1-ДСП-50 (Rebrikha)		108	3 182
Grain-dryer А1-ДСП-50 (Rebrikha)		437	12 830
Rubtsovsk grain receiving and shipping centre		7	213
Fforage mixture production installation		18	534
Cubing and pelleting workshop		60	1 751
Semolina delivery line		7	197
Other		69	2 035
Total:		**887**	**26 074**

The above construction in progress items will be commissioned in near future and are erection or reconstruction as at the balance sheet date (31 December 2008).

17 Biological assets

Biological assets recorded at fair value as of December 31, 2008 are presented below:

	Note	Horses	Cattle (cows, bulls)	Sheep, lambs	Total
		'000 RUR	'000 RUR	'000 RUR	'000 RUR
Fair value as of 31.12.2007		**-**	**-**	**-**	**-**
Acquisition of subsidiaries		180	2 969	113	**3 262**
Fir value variations		-	262	289	**551**
Fair value as of 31.12.2008		**180**	**3 231**	**402**	**3 813**

17 Biological assets (continued)

	Note	Horses	Cattle (cows, bulls)	Sheep, lambs	Total
		'000 USD	'000 USD	'000 USD	'000 USD
Fair value as of 31.12.2007		**-**	**-**	**-**	**-**
Acquisition of subsidiaries		7	119	5	**3 262**
Fir value variations		-	11	12	**551**
Currency translation effect		(1)	(20)	(2)	**(24)**
Fair value as of 31.12.2008		**6**	**110**	**14**	**130**

18 Non-current investments

Group's investments to the equity of associated, related and third parties are presented in table below:

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Non-current investments					
Non-current investments in shares and equity – related parties	**36**	195	342	5 720	8 394
Non-current investments in shares and equity – third parties		-	-	1	-
Total:		**195**	**342**	**5 721**	**8 394**

19 Non-current and current loans (receivable)

Non-current and current loans issued to the related and third parties, as at the end of the reporting year and the previous year, are shown in table below:

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Non-current loans					
Non-current loans - related parties	**36**	187	78	5 487	1 919
Non-current loans – third parties		253	16	7 423	389
		439	**94**	**12 910**	**2 308**
Current loans					
Current loans - related parties	**36**	3 631	3 037	106 664	74 551
Current loans – third parties		244	470	7 163	11 529
Current loans – third parties – provision for bad debts		(3)	(3)	(76)	(76)
Total:		**3 872**	**3 504**	**113 751**	**86 004**

Non-current loans are unsecured and interest-free. Result of non-current loan discounting is not material for these consolidated financial statements.
Current loans are unsecured.

In the opinion of the Group management, the present value of loans matches their fair value.

20 Non-current assets held for sale

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Non-current assets held for sale					
Non-current assets held for sale		-	1	-	20
		-	**1**	**-**	**20**

21 Other non-current assets

Other non-current assets include as follows:

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Other non-current assets					
Non-current prepaid expenses - related parties	**36**	2 046	130	60 100	3 195
Other non-current trade and other receivables - related parties	**36**	1 858	57	54 592	1 399
Other long-term receivables – third parties		6		181	
Total:		**3 911**	**187**	**114 873**	**4 594**

Discounted debt of related parties under the contract of purchase and sale of interest in "Invest-Tranzit" LLC dated 29.08.2008 is included in other long-term receivables in the amount of 49 762 thousand rubles. Total amount of the debt under the contract accounts for 72 800 thousand rubles, credit period according to the payment schedule is 7 years, effective interest rate is 10,5%.

22 Inventories

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Inventories					
Raw materials		5 216	6 657	153 219	163 420
Packing		963	1 227	28 290	30 120
Implements & household equipments		257	346	7 553	8 491
Production in process		1 484	161	43 589	3 951
Finished products and goods for resale		4 058	5 335	119 218	130 942
Inventories – provision for slow-moving raw material		(383)	(775)	(11 257)	(19 023)
Total:		**11 593**	**12 951**	**340 612**	**317 901**

23 Trade and other receivables

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Trade receivables					
Trade receivables - related parties	**36**	665	3 095	19 537	75 974
Trade receivables – third parties		8 410	11 112	247 083	272 731
Trade receivables – related parties - bad debt reserve	**36**	(278)	-	(8 168)	-
Trade receivables – third parties – provision for bad debts		(1 615)	(2 661)	(47 440)	(65 306)
Prepayments to suppliers					
Prepayments to suppliers - related parties	**36**	213	815	6 265	20 012
Prepayments to suppliers – third parties		9 191	6 527	270 042	160 221
Prepayments to suppliers – third parties - provision for bad debts		(6)	(919)	(165)	(22 552)
Other receivables					
Other current receivables - related parties	**36**	1 246	3 391	36 599	83 242
Other current receivables – third parties		13 246	6 563	389 163	161 072
Other current receivables – third parties - provision for bad debts		(203)	(1 436)	(5 951)	(35 260)
Total:		**30 869**	**26 487**	**906 965**	**650 134**

24 Deferred expenses

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Deferred expenses					
Prepaid insurance		61	11	1 796	279
Other deferred and prepaid expenses		-	1	-	21
Total:		**61**	**12**	**1 796**	**300**

25 Other current assets

Other current assets include as follows:

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Other current assets					
Recoverable current taxes		45	153	1 328	3 762
Income tax recoverable		6	-	184	-
Recoverable VAT		1 532	2 864	45 010	70 302
Current part of long-term receivables - related parties	**36**	132	-	3 881	-
Current portion of non-current trade and other receivables – third parties		3	2	101	50
Interest receivable - related parties	**36**	447	205	13 145	5 033
Interest receivable - third parties		24	17	708	418
Прочие оборотные активы		1	-	23	-
Total:		**2 191**	**3 241**	**64 380**	**79 565**

26 Cash and cash equivalents

Cash balances as at the yearend are presented in table below:

	Notes	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Cash and cash equivalents					
Cash on hand		13	40	384	971
Cash in banks		785	888	23 074	21 801
Total:		**798**	**928**	**23 458**	**22 772**

There were no restrictions as to the use of cash by the Group as of 31 December 2008. The data on cash flow for the reporting period ended 31.12.2008 (*straight-line method applied*), classified by operating, investment and financial activity are represented in the Consolidated Cash Flow Statement Comparables for 2007 were also presented in the same format.

27 Issued capital

(a) Equity capital

Issued capital of the Company as at 31.12.2008 is RUR 89,421.05.

27 Issued capital (continued)

Issued capital of the Company includes 88,421,053 ordinary registered shares of par value RUR 0.001 and 1,000,000 preference registered shares (A type) of par value RUR 0.001.
100% of issued capital and share premium are paid by the Company.

The total par value of ordinary shares: RUR 88,421.05.
Percentage of ordinary registered shares in the issued capital: 98.88%
The total par value of preference shares: RUR 1000.
Percentage of preference registered shares in issued capital: 1.12%

Preference shares cannot be converted to ordinary shares or repurchased, however, dividends are paid on those shares amounting to 10% of the net profit calculated under the Russian standards on accounting. The dividends are calculated on a quarterly basis as divided to equal portions. In case of dissolution, holders of preference shares are the first to be granted declared outstanding dividends and par value of the preference shares ("liquidation value"). Then all shareholders (both holding ordinary and preference shares) are equally admitted to distribution of outstanding assets.

(b) General meeting of shareholders

The general meeting of shareholders is the Company's superior body of administration. The Company conducts the General Meeting of the shareholders annually.

The authority of the General Meeting of Shareholders covers the following matters, which are beyond the authority of the Board of Directors, General Director or the Management of the Company:

- ❖ Changes and amendments to the Charter or approval of amended version of the company's Charter;
- ❖ Reorganization of the Company;
- ❖ Liquidation of the Company, appointment of a liquidation committee and approval of an interim final liquidation balance sheet;
- ❖ Election of the Board of Directors and determination of quantitative composition of the Board of Directors;
- ❖ Determination of quantity, denomination, category (type) of authorized stock and rights such shares provide;
- ❖ Increasing the Company's authorized capital by increasing the par value of shares;
- ❖ Decreasing of authorized capital by decreasing of the par value of shares, acquisition of part of the shares by the company to decrease their total amount and also by the redemption of the shares acquired or bought out by the company.
- ❖ Election of the Inspector of the Company and early termination of his powers;
- ❖ Approval of the Company's auditor;
- ❖ Approval of annual reports, annual financial statements, including the Company's income statements, and allocation of profits, including payment (declaration) of dividends, and the Company's losses for the financial year;

27 Issued capital (continued)

- Determination of procedure of the General Meeting of Shareholders;
- Election of the Check-Up Committee and early termination of powers of its members;
- Splitting and consolidation of shares;
- Making decisions on approval of transactions being of interest in cases provided by the Charter;
- Making decisions on approval of major transactions in cases provided by the Charter;

(c) Dividends

Once a year, the Company is entitled to make decision on (declare) payment of dividends on outstanding shares. The Company is entitled to pay the declared dividends. Dividends are paid in cash or other property of the Company. Dividends are paid from the net income of the Company for the current year, calculated in compliance with the Russian accounting principles. Dividends on the privileged shares can be paid from the specially created funds of the Company. The decision of payment of annual dividends, the amount and type of payment is made by the General Meeting of Shareholders. The annual dividend cannot be more than the interim dividends. The Company is not allowed to make a decision of payment of dividends in the cases, stated by the federal law "On Joint-Stock Companies".

The date of annual dividends payment is not later than 60 days from the moment of the payment decision (dividends declaration).
As of the reported date the dividends for the year 2008 were not declared and paid.

(d) Bought out treasury shares

Treasury shares, bought out from shareholders, are reflected as decrease of the share capital in the amount of the sum paid, including expenses, directly attributable to the operation.

As of 31 December 2008 and 2007 the Company did not have ordinary shares, bought out from shareholders, in ownership.

(e) List of shareholders

The list of main shareholders of "PAVA" JSC and their interest share in the authorized capital as of 31 December 2008 is represented below:

Igoshin Pavel Serafimovich
Ownership interest: 45%

Igoshin Andrey Pavlovich
Ownership interest: 44,4%

Other shareholders: 10,6%

28 Long-term loans and credits payable (long-term bonds payable)

(a) Long-term loans and borrowings payable as of 31 December 2008

As at 31.12.2008 the Group obtained long-term borrowings and loans from the following companies and banks:

	Currency	Credit balance As of December 31, 2008		Interest rate	Issue date	Maturity date	Pledge type	Pledger	Pledge cost
		'000 USD	'000 RUR	%					'000 USD
Long-term loans and borrowings payable – third parties									
Long-term loans									
Bond loan	*RUR*	*12 802*	*376 126*	*12,5%*	*16.11.2006*	*16.11.2011*	*guarantee*	*"Kompaniya "Agropromresursy" OJSC*	*37 978*
Amsterdam Commercial Bank	*USD*	*7 020*	*206 251*	*9,80%*	*26.06.2008*	*11.04.2011*	*Property, plant and equipment*	*"Pava" OJSC*	*9 443*
"Rosselkhozbank" OJSC	*RUR*	*1 665*	*48 930*	*16,00%*	*19.06.2008*	*19.04.2013*	*Property, plant and equipment*	*"Selkhozholding" LLC*	*1 366*
"RSB" OJSC	*RUR*	*29*	*859*	*17,00%*	*14.08.2006*	*10.08.2011*	*Property, plant and equipment*	*"Agrofirma "Niva" LLC*	*134*
Sberbank branch № 153	*RUR*	*20*	*575*	*13,25%*	*29.04.2008*	*25.03.2011*	*Property, plant and equipment*	*"Agrofirma "Niva" LLC*	*298*
Perova O.N.	*RUR*	*5*	*133*	*17,00%*	*19.01.2007*	*17.01.2012*	*Without security*	-	-
Suvalova T.I.	*RUR*	*4*	*132*	*17,00%*	*19.01.2007*	*17.01.2012*	*Without security*	-	-
Other	*RUR*	-	*4*						-
Total:		**21 545**	**633 010**						**49 219**

(All amounts in tables below are denominated in thousand of US dollars and Russian rubles)

28 Long-term loans and credits payable (long-term bonds payable)

(b) Long-term loans and credits payable as of 31 December 2007

As for 31.12.2007 the Group obtained credits and loans from the following companies and banks:

	Currency	Credit balance As of 31 December 2007		Interest Rate	Issue Date	Redemption Date	Type of credit	Pledger	Value of Collateral
		‘000 USD	‘000 RUR	%					‘000 USD
Long-term credits and loans – third parties									
Long-term loans									
Bonded debt	*RUR*	*22 175*	*544 315*	*12,5%*	*16.11.2006*	*16.11.2011*	*Guarantee*	*OJSC «Companya «Agropromresursy»*	*37 978*
Total:		**22 175**	**544 315**						

In October 2006 “PAVA” JSC conducted the emission of interested nonconvertible bonds in the amount of 1 mln pieces, 1 thousand rubles/38 US dollars each with the total amount of 1000 000 thousand rubles/37 978 thousand of US dollars. The redemption date is 1800 day from the date of allocation.
State registration number of the securities issue: 4-02-10682-F. Part of bonds was acquired by a company of the group. For the purposes of preparation of consolidated financial statements intragroup balances were excluded.
As a security for obligation loan OJSC “Companya ”Agropromresursy” has given the purchasers of the bonds the guarantees in the amount of par value of bonds (1 000 000 thousand rubles or at the rate as of the reporting date - 37 978 thousand US dollars) and the aggregate coupon yield.

28 Long-term loans and credits payable (continued)

(c) Long-term loans and credits according to the redemption date

Long-term loans and credits according to the redemption date are represented in the table below:

	Note	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
Long-term loan and credits according to the redemption date					
Before December 31, 2011		*19 871*	*22 175*	*583 811*	*544 315*
Before December 31, 2012		*9*	*-*	*269*	*-*
Before December 31, 2013		*1 665*	*-*	*48 930*	*-*
Total:		**21 545**	**22 175**	**633 010**	**544 315**

29 Other long-term liabilities

Other long-term liabilities include:

	Note	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
Other long-term liabilities					
Long-term financial lease liabilities (after one year, but not before five years) – third parties		254	299	7 468	7 343
Other long-term payables –related parties		1 590	-	46 729	-
Total:		**1 845**	**299**	**54 197**	**7 343**

The Group's discounted debt to "Pava" GC JSC for purchase of interest in "Invest-Transit" LLC is recorded as part of long-term liabilities in the amount of 46 729 thousand rubles. The total amount of debt under the contract is 72 600 thousand rubles. The due date according to payment schedule is 13 years. Effective interest rate is 5,8%.

30 Accounts Payable

	Note	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
Accounts payable					
Trade accounts payable – related parties	**36**	402	1 552	11 824	38 100
Trade accounts payable – third parties		10 800	9 549	317 307	234 407
Advances received – third parties		3 139	1 325	92 249	32 516
Other current accounts payable – related parties	**36**	29 547	171	868 110	4 187
Other current accounts payable – third parties		929	1 034	27 306	25 362
Total:		**44 817**	**13 631**	**1 316 796**	**334 572**

31 Short-term borrowings payable

As of 31.12.2008 the Group has acquired short-term borrowings from the following banks and related parties:

(a) Short-term borrowings as of December 31, 2008

	Currency	Credit balance As of December 31, 2008		Interest rate	Issue date	Maturity date	Pledge type	Pledger	Pledge cost
		'000 USD	'000 RUR	%					'000 USD
Short-term loans and borrowings payable – related parties		***36***	***1 032***						
Mikhaylovsky Agrokhimsnab CJSC	*RUR*	*35*	*1 017*	0,00%	26.11.2004	31.12.2008	Without security	-	-
Other	*RUR*	*1*	*16*						
Short-term loans and borrowings payable – third parties		***14 619***	***429 486***						
Rubtsovsk Sberbank branch № 270	*RUR*	*8 508*	*249 973*	*14,00%*	*23.09.2008*	*21.09.2009*	*Property, plant and equipment*	*"Greinvest" OJSC*	*9 008*
"Bank of Moscow" JSCB (OJSC) Novosibirsk branch	*RUR*	*3 108*	*91 320*	*10,50% - 17,00%*	*11.11.2008*	*03.03.2010*	*Property, plant and equipment*	*"Pava" OJSC*	*3 712*
JSC VTB Barnaul branch	*RUR*	*1 340*	*39 366*	*11,50% - 15,00%*	*15.08.2008*	*10.09.2009*	*Without security*	-	-
OJSC VTB Bank	*RUR*	*681*	*20 000*	*16,00%*	*30.06.2008*	*30.06.2009*	*Guarantee*	*"Pava" OJSC*	-
CB "BNP Pariba VostoK"LLC	*USD*	*666*	*19 574*	*5,13%*	*30.04.2008*	*24.04.2009*	*Property, plant and equipment*	*"Pava" OJSC*	*3 057*
SPKK Perspektiva	*RUR*	*157*	*4 603*	*11,00%*	*04.07.2008*	*31.12.2008*	*Without security*	-	-
Sberbank branch № 153	*RUR*	*91*	*2 668*	*13,50%*	*29.02.2008*	*25.02.2009*	*Without security*	-	-
Sberbank branch № 176	*RUR*	*34*	*1000*	*13,50%*	*23.04.2008*	*24.04.2009*	*Property, plant and equipment*	"Allak" LLC	*68*
Other	*RUR*	*33*	*982*						
Total:		**14 654**	**430 518**						**15 845**

31 Short-term borrowings payable (continued)

(b) Short-term borrowings as of December 31, 2007

	Currency	Credit balance As of 31 December 2007 '000 USD	Credit balance As of 31 December 2007 '000 RUR	Interest Rate %	Issue Date	Redemption Date	Type of Credit	Pledger	Pledge cost '000 USD
Short-term borrowings payable – third parties									
OJSC «Bank VTB»	*RUR*	*6*	*140*	*10,25%*	*17.08.2007*	*14.08.2008*	*Guarantee*	*JSC «PAVA»*	*2 037*
CJSC «Gazprombank»	*RUR*	*119*	*2 927*	*7,50%; from 15.10.2007- 10,00%*	*01.08.2007*	*30.07.2008*	*Without pledge*	*Group*	
CJS «Raiffaizenbank»	*USD*	*6 541*	*160 546*	*roubles: mosprime+4,50%, dollars: Libor+5,00 %*	*21.04.2006*	*20.04.2008*	*Property and equipment*	*Group*	*14 747*
Novosibisk branch OJSC «Bank Moskvy»	*RUR*	*4 807*	*118 000*	*10,00%*	*14.09.2007*	*14.09.2007*	*Property and equipment*	*Group*	*5 832*
OJSC «Rosselkhozbank»		*285*	*7 000*	*15,00%*	*18.07.2007*	*17.07.2008*	*buildings*	*Group*	*400*
SPPK «Perspektiva»		*31*	*761*	*18,00%*	*03.09.2007*	*28.12.2007*	*-*		
LLC Trade House «Agropodderzhka»	*RUR*	*5*	*131*	*4,00%*	*30.07.2005*	*28.12.2007*	*-*		
Total:		**11 794**	**289 505**						**23 016**

32 Other short-term liabilities

Other short-term liabilities include:

	Note	As of 31 December2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December2008 '000 RUR	As of 31 December 2007 '000 RUR
Other short-term liabilities					
Salary and wages payable		330	333	9 713	8 170
Current part of long-term financial lease liabilities – third parties		127	123	3 759	3 031
Accumulated interests payable –third parties		588	420	17 276	10 314
Accumulated dividends payable – third parties		-	101	-	2 476
Other expenses payable – third parties		-	2	-	40
Vacation reserve		-	247	-	6 052
Total:		**1 047**	**1 226**	**30 748**	**30 083**

33 Provisions for liabilities and charges

	Прим.	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Provisions for liabilities and charges					
Provisions for vacations		234	-	6 889	-
Total:		**234**	**-**	**6 889**	**-**

34 Taxes and social security payable

Taxes and social security payable include:

	Note	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Taxes and social security payable					
VAT payable		749	-	22 014	-
Income tax payable		61	212	1 778	5 204
Social tax payable		91	174	2 666	4 277
Property tax payable		65	89	1 909	2 188
Natural person income tax payable		52	141	1 521	3 468
Other taxes payable		17	15	482	342
Total:		**1 034**	**631**	**30 370**	**15 479**

35 Segment analysis

Information concerning operational segments of the Group's activity is represented in tables below.

(a) Operational segments for the year 2008

	Processing and wholesale of crop products	Cultivation and wholesale of crop products	Services of grain storage, motor transport services, loading and unloading services and other	Pastry production	Food wholesale	Other	Total
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Segment revenue							
including sales revenue net of VAT to the group's companies	355 347	48 012	12 793	-	-	2 113	**418 465**
Profit except intra-group turnover	3 582 106	24 845	13 808	44 648	334 764	2 113	**4 000 171**
Total segment revenue	**3 937 453**	**73 057**	**26 601**	**44 648**	**334 764**	**-**	**4 418 636**
Cost of segments							
including cost of intra-group transactions	(345 995)	(43 406)	(11 249)	-	(306)		**(400 956)**
Cost except intra-group turnover	(2 713 151)	(27 282)	(12 815)	(44 433)	(287 440)	-	**(3 084 815)**
Total segment cost	**(3 059 146)**	**(70 688)**	**(24 064)**	**(44 433)**	**(287 440)**		**(3 485 771)**
General, administrative and commercial expenses	(709 891)	(46 247)	(21 973)	(16 584)	(28 280)	-	**(823 514)**
Other operating income	48 988	10 503	1 157	-	-	-	**60 647**
Other operating expense	(80 722)	(2 545)	(2 001)	(37)	-	(4 705)	**(90 009)**
Excess of Group's share in fair value of net identifiable assets over purchase cost	9 805	58 062	21 086	-	-	-	**88 951**
Operating profit	**137 135**	**17 336**	**(739)**	**(16 406)**	**18 810**	**(4 705)**	**151 431**
Finance income	4 577	7	5	-	-	-	**4 588**
Finance expenses	(130 267)	(4 555)	-	-	-	-	**(134 822)**
Income tax expenses	42 881	16 430	6 341	8 840	(35 471)	(37 498)	**1 522**
Net Profit on continuing operations over the period	**54 325**	**29 218**	**5 606**	**(7 566)**	**(16 661)**	**(42 203)**	**22 719**
Depreciation	(48 035)	(24 829)	(6 450)	(7 503)	-		**(86 816)**
Expenses/(decrease of expenses) for formation of provision for doubtful receivables	(506)	1 634	3 349	**-**	**-**	**-**	**4 477**

(a) *Operating segments for 2008 (continued)*

	Processing and wholesale of crop products '000 USD	Cultivation and wholesale of crop products '000 USD	Services of grain storage, motor transport services, loading and unloading services and other '000 USD	Pastry production '000 USD	Food wholesale '000 USD	Other '000 USD	Total '000 USD
Segment revenue							
including sales revenue net of VAT to the group's companies	14 293	1 939	515	-	-	85	**16 831**
Profit except intra-group turnover	144 078	999	555	1 796	13 465	-	**160 893**
Total segment revenue	**158 370**	**2 938**	**1 070**	**1 796**	**13 465**	**85**	**177 724**
Cost of segments							
including cost of intra-group transactions	(13 916)	(1 746)	(452)	-	(12)		**(16 127)**
Cost except intra-group turnover	(109 127)	(1 097)	(515)	(1 787)	(11 549)	-	**(124 076)**
Total segment cost	**(123 044)**	**(2 843)**	**(968)**	**(1 787)**	**(11 561)**		**(140 203)**
General, administrative and commercial expenses	(28 553)	(1 860)	(884)	(667)	(1 159)	-	**(33 123)**
Other operating income	1 970	422	48	-	-	-	**2 440**
Other operating expense	(3 247)	(102)	(81)	(1)	-	(189)	**(3 620)**
Excess of Group's share in fair value of net identifiable assets over purchase cost	394	2 335	848	-	-	-	**3 578**
Operating profit	**5 516**	**697**	**(29)**	**(660)**	**757**	**(189)**	**6 092**
Finance income	185	-	-	-	-	-	**185**
Finance expenses	(5 240)	(183)	-	-	-	-	**(5 423)**
Income tax expenses	1 725	661	255	356	(1 427)	(1 508)	**61**
Net Profit on continuing operations over the period	**2 185**	**1 175**	**226**	**(304)**	**(670)**	**(1 697)**	**915**
Depreciation	(1 932)	(999)	(259)	(302)	-		**(3 492)**
Expenses/(decrease of expenses) for formation of provision for doubtful receivables	(20)	66	135	**-**	**-**	**-**	**180**

(b) Operating segments for 2008 (continued)

	Processing and wholesale of crop products	Cultivation and wholesale of crop products	Services of grain storage, motor transport services, loading and unloading services and other	Pastry production	Food wholesale	Other	Total
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Assets	**2 684 660**	**6 313 991**	**394 145**	**-**	**22 743**	**289 074**	**9 704 612**
Attributable to PP&E	742 739	6 079 900	110 469	-	-	285 419	**7 218 527**
Intra-group assets	**469 777**	**61 808**	**245 266**	-	**-**	**2 493**	**779 304**
Assets except intra-group assets	**2 214 883**	**6 252 183**	**148 919**	**-**	**22 743**	**286 581**	**8 925 309**
Liabilities	**1 740 547**	**2 070 144**	**290 609**	**-**	**19 482**	**425**	**4 121 206**
Intra-group liabilities	78 985	236 627	119 933	**-**	17 836	364	**453 744**
Liabilities except intra-group liabilities	**1 661 562**	**1 833 517**	**170 676**	**-**	**1 646**	**61**	**3 667 462**

35 Segment analysis

(b) Operating segments for 2008 (continued)

	Processing and wholesale of crop products	Cultivation and wholesale of crop products	Services of grain storage, motor transport services, loading and unloading services and other	Pastry production	Food wholesale	Other	Total
	'000 USD	'000 USD	'000 USD	'000 USD	'000 USD	'000 USD	'000 USD
Assets	**91 376**	**214 905**	**13 415**	**-**	**774**	**9 839**	**330 309**
Attributable to PP&E	25 280	206 937	3 760	-	-	9 715	**245 892**
Intra-group assets	**15 989**	**2 104**	**8 347**	-	**-**	**85**	**26 525**
Assets except intra-group assets	**75 386**	**212 801**	**5 069**	**-**	**774**	**9 754**	**303 784**
Liabilities	**59 242**	**70 460**	**9 891**	**-**	**663**	**14**	**140 271**
Intra-group liabilities	2 688	8 054	4 082	-	607	12	**15 444**
Liabilities except intra-group liabilities	**56 553**	**62 406**	**5 809**	**-**	**56**	**2**	**124 827**

35 Segment analysis

(c) Operational segments for the year 2007

	Recycling and sale of plant growing products	Food wholesale	Plant growing products wholesale and growing	Confectionery production	Grain storage, auto park, handling services	Total
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Segment Income						
Including sales income net of VAT to the Company's enterprises	521 425	145 700	9 552	396	15 651	**692 724**
Income less intragroup turnover	1 671 122	1 247 730	63 063	35 960	52 108	**3 069 983**
Total segment income	**2 192 547**	**1 393 430**	**72 615**	**36 356**	**67 759**	**3 762 707**
Segments Cost						
Including cost of intragrop operations	(520 391)	(162 764)	(5 670)	(3 996)	(2 108)	(694 929)
Cost less intragroup turnover	(1 054 504)	(1 127 004)	(23 617)	(26 759)	(15 621)	(2 247 505)
Total segment cost	**(1 574 895)**	**(1 289 768)**	**(29 287)**	**(30 755)**	**(17 729)**	**(2 942 434)**
Financial result according to segments (less intragroup turnover)	**616 618**	**120 726**	**39 446**	**9 201**	**36 487**	**822 478**

35 Segment analysis (continued)

(c) Operational segments for the year 2007 (continued)

	Recycling and sale of plant growing products	Food wholesale	Plant growing products wholesale and growing	Confectionery production	Grain storage, auto park, handling services	Total
	‘000 USD	‘000 USD	‘000 USD	‘000 USD	‘000 USD	‘000 USD
Segment Income						
Including sales income net of VAT to the Company’s enterprises	20 386	5 697	373	15	612	**27 083**
Income less intragroup turnover	65 337	48 783	2 466	1 406	2 037	**120 029**
Total segment income	**85 723**	**54 480**	**2 839**	**1 421**	**2 649**	**147 112**
Segments Cost						
Including cost of intragrop operations	(20 346)	(6 364)	(222)	(156)	(82)	(27 170)
Cost less intragroup turnover	(41 229)	(44 063)	(923)	(1 046)	(611)	(87 872)
Total segment cost	**(61 574)**	**(50 426)**	**(1 145)**	**(1 202)**	**(693)**	**(115 040)**
Financial result according to segments (less intragroup turnover)	**24 108**	**4 720**	**1 543**	**360**	**1 426**	**32 157**

36 Disclosure of transactions with related parties

The list of main related parties of the Group is in the table below.

	Description / Activity	Country
Owners		
Igoshin P.S.		Russia
Igoshin A.P.		Russia
Companies under common control		
"Altayagrostroy" CJSC	own immovable property lease;	Russia
"Mikhaylovsky Melkombinat" LLC	Intermediary services	Russia
"Chemrovskoye HPP" JSC	Agents' activity on wholesale of universal assortment of food products	Russia
"Group of companies "PAVA" JSC	Commercial activity and management consulting	Russia
"Kompaniya "Agropromresursy" OJSC	Management services	Russia
"Russky agrarny divizion" JSC	Consulting	Russia
"Yermak" LLC	Security business	Russia
"Kondor" LLC	Security business	Russia
"Promenergo" JSC	Production of steam and hot water (heating energy by boilers)	Russia
"Managing company "PAVA-Krasnoyarsk" JSC	Rent of lorry transport	Russia
"Altayagropromstroy" JSC	Business management of construction	Russia
"Agrofirma Energuiya" LLC	Agricultural products manufacture	Russia
"Invest-Tranzit" LLC	Parking	Russia
"Melnikovo" OJSC	Cultivation of grain and pulse crops	Russia
"Berkut" LLC	Security business	Russia
Significant influence		
Krestyannikova T.I.		Russia
Krestyannikov A.I.		Russia
Kalashnikov A.V.		Russia
Ananin A.V.		Russia
Nuzhnova T.P.		Russia
and other		Russia

36 Disclosure of transactions with related parties (continued)

Balance sheet item as of December 31, 2008 and December 31, 2007 formed as a result of related parties transactions are as follows:

	Прим.	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
		'000 USD	'000 USD	'000 RUR	'000 RUR
ASSETS					
Long-term assets					
Long-term investments		195	342	5 720	8 394
Long-term credits and loans		187	78	5 487	1 919
Other long-term assets		1 858	187	54 592	4 594
Total long-term assets		**2 240**	**607**	**65 799**	**14 907**
Short-term assets					
Accounts receivable		1 846	7 301	54 233	179 228
Short-term credits and loans		3 631	3 037	106 664	74 551
Other short-term assets		579	205	17 026	5 033
Total short-term assets		**6 056**	**10 543**	**177 923**	**258 812**
TOTAL ASSETS		**8 296**	**11 150**	**243 722**	**273 219**
EQUITY AND LIABILITIES					
Equity					
Total equity		**-**	**-**	**-**	**-**
Long-term liabilities					
Other long-term payables		1 590	-	46 729	-
Total long-term liabilities		**1 590**	**-**	**46 729**	**-**
Short-term liabilities					
Accounts payable		29 949	1 723	879 934	42 288
Credits and loans payable, short-term part		36	-	1 032	4
Total short-term liabilities		**29 985**	**-**	**880 966**	**42 292**
TOTAL EQUITY AND LIABILITIES		**31 575**	**1 723**	**927 695**	**42 292**

36 Disclosure of transactions with related parties (continued)

Income and expenditure items of Income Statements for 2008 and 2007 on related parties' transactions are presented below:

	Прим.	As of 31 December 2008 '000 USD	As of 31 December 2007 '000 USD	As of 31 December 2008 '000 RUR	As of 31 December 2007 '000 RUR
Net sales of goods, works and services		375	1 226	9 335	30 104
Cost of sales of goods, works and services		(290)	-	(7 199)	-
Gross profit		**85**	**1 226**	**2 136**	**30 104**
General, administrative and selling expenses		-	(979)	-	(24 039)
Other operating income		2	322	71	7 914
Other operating expenses		(39)	(75)	(962)	(1 847)
Revenue from operating activities		**48**	**494**	**1 245**	**12 132**
Profit before financing and taxation		**48**	**494**	**1 245**	**12 132**
Finance income		5	203	138	4 986
Finance expenses		(22)	-	(539)	(4)
Income/loss from related parties transactions before tax		**31**	**697**	**844**	**17 114**

37 Wages and benefits

	Note	As of December 31, 2008 '000 USD	As of December 31, 2007 '000 USD	As of December 31, 2008 '000 RUR	As of December 31, 2007 '000 RUR
Salary		3 272	3 584	81 351	87 985
Payment for overtime work		27	68	671	1 679
Payment for night work		78	-	1 928	-
Payment for work on public holidays		80	60	1 986	1 474
Vacation pay		373	343	9 282	8 427
Compensation of unused annual leave		173	201	4 304	4 936
Region coefficient		554	-	13 770	-
Northern allowance		17	-	411	-
Sick pay		183	137	4 556	3 367
Bonuses		2 187	2 141	54 378	52 547
Material assistance		2 077	109	51 369	2 665
Other payments		386	125	9 609	3 070
Total:		**9 407**	**6 768**	**233 615**	**166 150**

38 Average number of employees

Average number of employees as of the end of the reported period is as follows:

Classification of personnel according to types of activity	Note	As of 31 December 2008 amount	As of 31 December 2007 amount
Basic production personnel			
Auxiliary production personnel		571	693
Service personnel		429	262
Commercial personnel		117	335
IT-personnel		123	115
Accounting & financial personnel		9	12
Administration and management personnel		96	105
General & non-production personnel		164	181
Other personnel		139	112
Total:		80	5
		1 724	**1 820**

39 Directors' Remuneration

Directors' remuneration is paid to key management for their services and is made up of a contractual salary and a performance bonus depending on operating results.

	Note	As of December 31, 2008 '000 USD	As of December 31, 2007 '000 USD	As of December 31, 2008 '000 RUR	As of December 31, 2007 '000 RUR
All types of remuneration that constitutes salary fund, including					
Salary		404	378	10 036	9 281
Bonuses		166	175	4 120	4 297
Annual vacation pay		26	34	634	837
Compensation of unused annual leave		10		255	
Sick pay		3	4	65	102
Other accruals		82	420	2 031	10 314
Total:		**691**	**1 011**	**17 141**	**24 831**

40 Finance lease

As of 2006-2008, the Group has concluded agreements and secured finance lease of industrial machines and equipment (grain combine, tractor, truck, rail motor car, elevator etc)

The main lessors of the Group in the years 2006 and 2007 were the following companies:

- ❖ LLC «Sibsocbank»
- ❖ OOO «Transleasing»
- ❖ OAO «Altayagropromsnab»
- ❖ LLC "SSB-Lizing"
- ❖ LLC "Krayevaya lizingovaya kompaniya"
- ❖ OOO «Daler»

Fair value of leased properties as of December 31, 2008 is 23 007 thousand rubles

Group of assets	As of December 31, 2008 '000 USD	As of December 31, 2007 '000 RUR
Machinery and equipment – cost value	143	4 206
Machinery and equipment – accumulated amortization	(5)	(157)
Machinery and equipment – book value	**138**	**4 049**
Transport – cost value	673	19 761
Transport – accumulated amortization	(27)	(803)
Transport – book value	**646**	**18 958**
Total:	**784**	**23 007**

Weighted average effective interest rate on lease contracts, signed by the Group with the main lessors is 4,71%.

Finance lease liabilities of the Group on lease contracts is represented in other long-term and short-term liabilities in lines *«Finance lease long-term liabilities »* and *«Current part of finance lease liabilities»*.

40 Finance lease (continued)

	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
	Future minimal lease payments	Future minimal lease payments	Future minimal lease payments	Future minimal lease payments
	'000 USD	'000 USD	'000 RUR	'000 RUR
Future minimal lease payments				
maximum one year	144	123	4 233	3 031
from one year to five years	273	299	8 018	7 343
over five years	-	-	-	-
Total future minimal lease payments	**417**	**422**	**12 251**	**10 374**
Less finance expenses	(35)		(1 025)	
Current value	**382**		**11 226**	

Finance lease contracts expenses are represented in line "Financial expenses" of Income Statement.

41 Contingent Liabilities

(a) Contractual liabilities, guarantees issued, warranties

As at December 31, 2008 the Group has liabilities under pledge and guarantee contracts to secure own short-term borrowings and loans, stated in *Note 31,* with residual debt in the amount of 14 654 thousand USD (430 518 thousand rubles). The cost of pledged fixed assets liabilities is 15 845 thousand USD. The Group has also Liabilities under pledge contracts to secure long-term borrowings and loans, stated in *Note 28,* with the residual debt in the amount of 21 545 thousand USD (633 010 thousand rubles). The cost of pledged fixed assets liabilities is 49 219 thousand USD.

(b) Taxation

The Russian tax, currency and custom legal and regulatory requirements are subject to different interpretations and changes, which may occur quite frequently. Interpretations of the above legislation by the Management of the Group in reference to the Group's transactions and activity may raise conflict to interpretations by appropriate regional and federal authorities. Recent events in the Russian Federation suggest that taxation authorities may hold better position in their interpretations of legislation and assessment of partnership liabilities, and possibly transactions and actions, which had not been called in question in the past, may be

41 Contingent Liabilities (continued)

reconsidered. As a result, considerable additional taxes, fines and penalty fees may be charged. Fiscal period remains open for revision by regulating authorities of liabilities of the Group on taxes during three calendar years, which go before the revision year. Under certain circumstances such revisions may cover longer periods.
As of December 31 2008, the Management of the Group is satisfied that their interpretations of existing legislation are appropriate and the Group's treatment of tax, currency and custom legal and regulatory requirements will be accepted. Where the Management's interpretation is presumed to be not accepted, appropriate liabilities were charged in these Consolidated Financial Statements.

(c) Insurance

The Group has insurance policies in respect of its operational assets and vehicles for all cases, subject to obligatory insurance. Additionally the Group willingly insured its property and equipment in order to compensate the expenses, occurred as a result of:

- fire, including fire resulting from illegal actions of the third parties; stroke of lightning, explosion of gas and explosive materials used for both household and industrial purposes;
- natural calamities;
- failures in water supply, heating, sewerage and plumbing, automatic firefighting systems and also as a result of unexpected interruption of operation of the above systems;
- burglary, robbery, brigandage covered by the insurance;
- illegal actions of the third parties (other than theft and terrorist attack);

The Group is subject to political, legal, taxation and regulatory changes and risks not covered by the insurance. No self insurance reserves are included in the Consolidated Financial Statements and significant losses and impairment in relation to property may have significant impact on the activity of the Group.

(d) Environment

Environmental regulations in the Russian Federation undergo development, and the current situation is persistently revised by government regulatory authorities. The Group carries out periodical assessments of its liabilities in compliance with environmental legal and regulatory requirements. As soon as such liabilities are determined, they are recognized immediately. Possible liabilities, which may arise from the changes in existing instructions, civil law or legislation, cannot be assessed, but may be material. In this situation, according to existing legal and regulatory requirements, the Management of the Group is satisfied that they have no material liabilities related to ecological damage.

41 Contingent Liabilities (continued)

(e) Railroad fare expenses

The Group conducts the transportation of raw materials and finished products via railroad transport. An increase in railroad fares and unstable availability of rolling railroad stock on behalf of Ministry of Means of Communication can materially impact the financial result of the Group's activity. In order to smoothen the possible impact the Group actively cooperates with individual transporters, providing their rolling stock lease, that is why the risk of railroad transport absence is low.

(f) Litigation

In 2008 the Group of Companies participated in the series of arbitration proceedings, including proceedings with tax authorities. Information on unsettled disputes as of December 31, 2008 is presented below:

Claimant	Defendant	Amount of claim '000 USD	Amount of claim '000 RUR	Cause
Group	KSPK "Yunona"	11	323	KSPK "Yunona" non-fulfilment of contractual obligations under service contract № 97 dated 24.12.2007.
		11	**323**	

42 Industry-Specific Risks

- ❖ The condition of flour-milling industry companies, being grain recyclers, mainly depends on corn crop. Bad or low quality harvest risk results in unsatisfactory situation of the whole flour-milling industry.
- ❖ In connection with the fact, that the products are supplied to many regions of Russian Federation, an increase in petrol prices, railroad fares and customs quotas may materially increase the costs and negatively effect the financial activity.
- ❖ The activity of the flour-grinding industry companies depends on the situation in the bakery enterprises and the companies, which use flour-grain products as raw materials.
- ❖ Limitedness of purchase power due to bread and bakery products price limits at the moments of price growth. The given situation develops as a rule not simultaneously in all regions. The redistribution of products sale volumes to regions is used in such situation.

43 Country and regional risks

The most part of the products is sold in the territory of Russian Federation. That is why, the main country risks, impacting the Company are the risks of Russian Federation.

- ❖ The political instability can have negative impact on the activity and financial situation and also on the value of shares of the Company. Recently certain stability can be observed in Russian political situation, however, in whole, it is still subject to the different types of fluctuations.

43 Country and regional risks (continued)

- The conflicts between federal and regional authorities and other conflicts can create negative economic conditions, which may have negative impact on the activity and financial situation.
- Russian production infrastructure (energy system, communication system) is in unsatisfactory condition and during more than the last ten years has not been supported by sufficient financing and maintenance. The government is actively developing plans of rail road, electricity and telephone communications reorganization. Any such reorganization may lead to an increase in payments and fares. The depreciation of Russian production infrastructure damages national economics breaks the access to communications, leads to an increase in commercial activity conducting costs in Russia and to failures in its execution, which may have negative impact on the commercial activity of the Company.
- Social instability may lead to extension of support of renewed statism, nationalism and violence, which has had in such a way a significant negative influence on the Group's opportunity to do business.
- The weakness of Russian judicial system and legislation creates uncertain environment for investments and business activity.

44 Financial risks

(a) Credit risks

The highest exposure to credit risks is limited by balance cost of each financial instrument in the Company's balance. The highest credit risk as of the reporting date is presented below:

	31 December 2008 '000 USD	31 December 2008 '000 RUR
Trade receivables	7 182	211 012
Other receivables	16 153	474 583
Interest-bearing loans and borrowings	4 506	132 382
Cash and cash equivalents	798	23 458
	28 639	**841 435**

44 Financial risks (continued)

Impairment losses

Receivables, including receivables of related parties, at maturity as of the reporting date are presented below:

	31 December 2008 '000 USD	**31 December 2008** '000 RUR
Overdue 0-30 days	20 253	595 044
Overdue 31-90 days	853	25 052
Overdue 91-180 days	235	6 913
Overdue 181-365 days	130	3 813
	21 471	**630 822**

Provision for impairment of receivables as of December 31, 2008 is 61 559 thousand rubles (2 096 thousand rubles).

Provisions account is applied for recording accounts receivable impairment loss if the Group of Companies does not suppose repayment is impossible; in this case, the amount of debt is considered outstanding and directly reduces financial asset cost.

As of the reporting date there was a significant concentration of credit risks in related parties' receivables and loans issued to related parties.

Receivables of related parties

As of December 31, 2008 "Pava ROS" LLC is considered to be a more significant debtor, receivables of which are 38 284 thousand rubles (1 303 thousand rubles).

Short-term loans issued to related parties

As of December 31, 2008 "Pava ROS" LLC is considered to be a more significant recipient of loans, the loans to which are included in short-term loans and equal to 79 247 thousand rubles (2 697 thousand dollars).

(b) Liquidity risks

The Group's companies manage liquidity to ensure availability to liquid assets at any time when it is necessary to fulfill liabilities, by means of preparation of the annual budgets, constant monitoring of predicted cash flows and comparison of assets and liabilities repayment schedules.

44 Financial risks (continued)

Classification of financial liabilities by maturity date (except for interest payments) as of 31 December, 2008 is the following:

Underived financial liabilities	Balance cost	Contractual cash flows	Less than a year	1-2 years	2-5 years
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Trade and other payables	1 254 917	1 254 917	1 254 917	-	-
Debt financing	1 063 528	1 063 528	430 518	376 126	256 884
Lease liabilities	11 227	11 227	3 759	7 468	-
	2 329 672	**2 329 672**	**1 689 194**	**383 594**	**256 884**

Underived financial liabilities	Balance cost	Contractual cash flows	Less than a year	1-2 years	2-5 years
	'000 USD	'000 USD	'000 USD	'000 USD	'000 USD
Trade and other payables	42 713	42 713	42 713	-	-
Debt financing	36 199	36 199	14 654	12 802	8 743
Lease liabilities	382	382	128	254	-
	79 294	**79 294**	**57 495**	**13 056**	**8 743**

Currency risks

Predominantly, the Group's companies are exposed to risks related to foreign exchange rate variations as there are debts denominated in foreign currency. Therefore, currency fluctuations may have a material influence on the financial results.

The Group's currency risks are represented in the following table:

	Amounts, denominated in USD as of 31.12.2008	Amounts, denominated in EURO as of 31.12.2008
	'000 USD	'000 USD
Trade and other receivables	-	254
Cash and cash equivalents	346	-
Trade and other payables	(995)	-
Debt financing	**(7 686)**	-
	(8 334)	**254**

44 Financial risks (continued)

Sensitivity analysis

As at 31 December 2008 the strengthening of the below mentioned currencies by 10 points relative to functional currency would increase/decrease profit/losses and capital by amounts given bellow. The given analysis is based on the assumption that all the variables, and interest rates in particular, do not change and the difference related to the presentation currency translation is not taken into consideration.

Net profit or loss	**31.12.2008**
	'000 USD
Amounts denominated in USD	(833)
Amounts denominated in EURO	25
	(808)

As at 31 December 2008 the weakening of the above mentioned currencies by 10% relative to functional currency would have the opposite effect, if other variables stay unchanged.

(c) Risks of Interest Rate Change

The Group's companies are less exposed to risks connected with interest rate change. Borrowed funds are attracted mainly to recruit current assets and to finance principal activity. Interest rate change may influence the financial result from other operating activity and is not material for the principal activity of the Group's companies.
As of the reporting date liabilities with floating rate are represented by the following credit contracts: №43/2008 with "Bank of Moscow" OJSC (Novosibirsk) and № 0052-000154-02 with "Vneshtorgbank" OJSC (Barnaul) for an overall amount of 130 686 thousand rubles (4 448 thousand USD), which is 13% of the total loan debt, recorded in the consolidated balance sheet as of December 31, 2008, all other borrowings and loans liabilities are with fixed interest rate.

Impact of inflation

Impact of inflation may have a negative effect on actual profitability of investments to the Group's debt liabilities; in particular a sudden increase of inflation may lead to reduction of actual profitability on the long-term investment horizon. In 2008 the rate of inflation in the country was 13,3%, which is higher than the data of 2006-2007, which were 9% and 11% accordingly.

Increase of price rise may lead to increase of cost, borrowing costs, recession of asset and inventory turnover and may become the reason for low profitability ratio.
During the growth of inflation the Group's companies plan to pay special attention to the increase of turnover of current assets, mainly by means of changes in existing contract relationships with consumers in order to decrease receivables of consumers. In general, the impact of inflation on the financial stability of the issuer is insignificant and is predicted during the development of financial plans and budget of the Group's companies.

44 Financial risks (continued)

(d) Planned benefit deficiency risk

A number of the Group products consumers and other debtors may not pay for the purchased goods or not fulfill the agreement terms, which may have negative impact on the results of operating activity of the Group.

Besides, it is difficult to assess the creditability of some clients, as there are no reliable methods for assessing their financial situation, e.g., trustworthy credit reports or data bases. As a result, the Group faces the risk, that some clients or other debtors may not pay or fulfill the terms of their agreements, which may have negative impact on the results of operating activity of the Group's companies.

The Group makes provision for bad debt receivables on the basis of the annual stock count.

The most sensitive to the impact of the risks, given above, are the indices of profit, cost and net income of the Group.

45 Legal risks

(a) Changes in tax legislation

Changes in tax legislation of the Russian Federation may have an impact on generating of Group's financial flows. In particular, a possible growth of tax rates, which the Group applies during its business activity, may lead to an increase of expenses of the Group as well as to the decrease of cash, aimed at current financing and debt mature.

(b) Exchange regulation

Changes in currency regulation will have no significant impact on the Group's business, though the Group is exposed to certain currency risk as debts are denominated in foreign currencies.
Nevertheless, main costs of the Group are in roubles and devaluation rate increase will positively impact the financial indices of the Group and, first of all, will lead to an increase in sales profitability.

(c) Licensing

At the very moment the Group has all necessary licenses and the Group's management supposes that it will have no need of licensing in the future even as a result of changes in license requirements.

45 Legal risks (continued)

(d) Changes in judicial practice

The Group believes that possible changes in judicial practice (including licensing, arbitration legislation, labour legislation) will not have a material influence on its economical activity.

46 Subsequent Events

On January 20, 2009 the Group acquired 100% interest (10 000 shares) in “Chemrovskoye khlebopriyemnoye predpriyatiye” JSC authorized capital for 45 000 000 rubles.

After the balance sheet date the Group has acquired new liabilities in the amount of 5 105 thousand USD (150 000 thousand rubles).

In March the Group filed an application in Altai Territory Court of Arbitration on nullification of decision of tax authority (Interdistrict IFTS of Russia, Altai Territory) on bringing to tax liability under the act of field tax inspection. IFTS decision was made according to the results of field tax audit, as a result of which the Group was presented the amount of 42 049 thousand rubles for payment. According to Part 3, Art. 199 of Arbitration Procedure Code of Russian Federation the court decided to suspend the effect of the decision of Interdistrict IFTS of Russia of the major taxpayers of Altai Territory, Barnaul №PA-042-10 dated 29.12.2008 on application of the claimant. On 2 March, 2009 Court of Arbitration examined application of “PAVA” OJSC and decided to commence proceedings of the case of “PAVA” OJSC against Interdistrict IFTS of Russia of the major taxpayers of Altai Territory, Barnaul, on nullification of the judgement of tax authority in the case №A03-1926/2009 dated 29.12.2008 on bringing to tax liability for commitment of tax violation.

The Group received decision of the Court of Arbitration on taking over the statement of claim, developing a case and appointment of preliminary court hearing.

47 Contacts

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