OAO SYNERGY
(SYNERGY GROUP)

Consolidated Financial Statements

for the year ended

31 December 2007

CONTENTS

BAKER TILLY
RUSSAUDIT

To: The Board of Directors
and Shareholders of Synergy OAO (Synergy Group)

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of Synegry OAO and its subsidiaries (hereinafter referred to as the "Group"), which comprise consolidated balance sheet as at 31 December 2007 and the 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 other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Synergy OAO and its subsidiaries at 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chernysheva N.Y.

Deputy General Director

"Baker Tilly Russaudit" Ltd.

30 April 2008

95 Prospect Mira, Moscow 129085 Russia

(All amounts in Russian Rubles thousand, unless stated otherwise)

Consolidated Balance Sheet

	Note	As at 31 December 2007	As at 31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	5	2 312 927	1 724 549
Goodwill	7	276 379	102 526
Other intangible assets	6	2 736 820	184 894
Loans to related parties	11b	-	28 035
Other investments	8	159 597	34 023
Deferred tax assets	22	121 170	32 239
Total non-current assets		5 606 893	2 106 267
Current assets			
Inventories	9	2 224 555	1 253 136
Biological assets	10	162 153	75 930
Trade and other receivables	11a	4 524 781	2 081 595
Prepayments		750 735	338 673
Loans to related parties	8, 11b	820 746	1 412 146
Investments		30 073	-
Income tax overpaid		16 884	30 776
Cash and cash equivalents	12	445 990	293 763
Total current assets		8 975 917	5 486 020
TOTAL ASSETS		**14 582 810**	**7 592 286**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Owners' equity:			
Share capital	13	1 432 000	1 160 000
Retained earnings		1 584 117	839 707
Other reserves	13	3 627 488	(478 601)
Minority interest		424 223	632 393
Total equity and reserves		7 067 828	2 153 498
Non-current liabilities			
Loans and borrowings	14	298 729	358 550
Bond issue	14	2 000 000	-
Deferred tax liabilities	22	819 989	110 620
Total non-current liabilities		3 118 718	469 170
Current liabilities			
Bond issue	14	748 649	1 000 000
Loans and borrowings	14	626 767	2 544 461
Trade and other payables	15	2 966 118	1 381 775
Income tax payable		54 730	43 381
Total current liabilities		4 396 264	4 969 618
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**14 582 810**	**7 592 286**

Notes to the financial statements on pages 8 through 47 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board __________

Kim E.S., Chief Accountant __________

30 April 2008

(All amounts in Russian Rubles thousand, unless stated otherwise)

Consolidated Income Statement

	Note	2007	2006
Revenue	16	**11 352 018**	**7 165 676**
Cost of sales	17	**(7 452 663)**	**(5 175 813)**
Gross profit		**3 899 355**	**1 989 863**
General and administrative expenses	18	(860 781)	(496 147)
Sales expenses	19	(1 532 260)	(811 602)
Other income		399 021	495 189
Other expenses		(316 084)	(221 126)
Results from operating activities		1 589 251	956 177
Finance costs	20	(630 153)	(233 324)
Finance income	20	173 327	46 216
Profit before tax		1 132 425	769 068
Income tax	21	(236 140)	(78 466)
Profit for the period		**896 285**	**690 602**
Attributable to:			
Equity holders of the Company		779 996	627 663
Minority interest		116 289	62 939
Basic and diluted earnings per share	23	66.35	54.11

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Mechetin A.A., Chairman of Management Board

Kim E.S., Chief Accountant

30 April 2008

(All amounts in Russian Rubles thousand, unless stated otherwise)

Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Other reserves	Total shareholders' equity	Minority interest	Total
Balance at 31 December 2005	**1 160 000**	**212 043**	**(478 601)**	**893 442**	**524 142**	**1 417 584**
Acquisition of subsidiary	-	-	-	-	7 396	7 396
Sale of bought out shares	-	-	-	-	37 916	37 916
Total changes, not recorded into net profit	-	-	-	-	45 312	45 312
Net profit for the period	-	627 663	-	627 663	62 939	690 602
Balance at 31 December 2006	**1 160 000**	**839 707**	**(478 601)**	**1 521 106**	**632 393**	**2 153 498**
Acquisition of shares in subsidiaries	-	-	-	-	(405 045)	(405 045)
Issue of share capital of the parent company	272 000	-	4 106 089	4 378 089	-	4 378 089
Issue of share capital of a subsidiary to minority	-	(35 586)	-	(35 586)	80 586	45 000
Total changes, not recorded into net profit	272 000	(35 586)	4 106 089	4 342 503	(324 459)	4 018 044
Net profit for the period	-	779 996	-	779 996	116 289	896 285
Balance at 31 December 2007	**1 432 000**	**1 584 117**	**3 627 488**	**6 643 605**	**424 223**	**7 067 827**

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Mechetin A.A., Chairman of Management Board

Kim E.S., Chief Accountant
30 April 2008

(All amounts in Russian Rubles thousand, unless stated otherwise)

Consolidated Cash Flow Statement

	Note	2007	2006
Cash flows from operating activities			
Proceeds			
Products		21 938 083	18 784 683
Services		60 094	34 309
Other operations		3 862 026	2 490 253
Total cash proceeds		25 860 203	21 309 244
Cash outflow			
Raw materials		(9 958 747)	(8 059 690)
Goods		(6 130 129)	(3 639 117)
Wages and salaries		(1 640 648)	(997 749)
Excises and VAT		(4 807 299)	(3 204 499)
Other expenses		(3 577 887)	(5 330 019)
Total cash outflow		(26 114 710)	(21 231 073)
Cash flows from operating activities		(254 507)	78 171
Interest paid		(387 038)	(199 855)
Income tax paid		(239 003)	(119 679)
Net cash flow from operating activities		(880 548)	(241 363)
Cash flows from investing activities			
Acquisition of subsidiaries	25	(2 427 185)	(767 098)
Disposal of subsidiaries		-	97 573
Acquisition of property, plant and equipment		(517 433)	(434 890)
Disposal of property, plant and equipment		4 487	112 739
Acquisition of intangible assets		(26 070)	(18 350)
Acquisition of financial assets		(223 837)	(26 429)
Disposal of financial assets		298 749	7 810
Loans originated		(4 152 184)	(668 995)
Loans originated repayment		3 993 121	94
Interest received		92 655	37 560
Net cash flow from investing activities		(2 957 697)	(1 659 986)
Cash flows from financing activities			
Issue of share capital	13	4 386 856	-
Loans received		32 907 791	9 222 049
Loans repaid		(33 304 174)	(7 207 740)
Dividends paid to Minority shareholders		-	-
Net cash flow from financing activities		3 990 473	2 014 309
Net increase/(decrease) in cash and cash equivalents		**152 227**	**112 959**
Cash and cash equivalents at beginning of the year	12	293 763	180 804
Cash and cash equivalents at end of the year	12	445 990	293 763

Notes to the financial statements on pages 8 through 47 shall be part and parcel of these Financial Statements

Mechetin A.A., Chairman of Management Board ______

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30 April 2008

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Reporting entity

OAO "Synergy" (the "Company") is domiciled in Russia as an open joint-stock company under the laws of the Russian Federation. The address of the Company's registered office is 30/1, Obrucheva street, bldg. 1, Moscow, Russia.

The consolidated financial statements of the Company as shown herewith comprise the Company and its subsidiaries (together referred to as the "Group").

The Company primarily is involved in the production of distilled alcohol and food products and operation of wholesale and retail business thereof.

Legal structure of the Group is as follows:

Group company	Share of the Group in ordinary voting share capital as at 31 December 2006, %	Share of the Group in ordinary voting share capital as at 31 December 2007, %
Synergy OAO	Parent company	
Alviz OAO	23%	74%
Alviz Rosalko ZAO	51%	100%
Finansist OOO	50%	50%
Frenk OOO	56%	56%
Habarovskiy Distillery OAO	51%	69%
KVEN OAO	73%	73%
Lysogorskaya Poultry Plant OAO	51%	58%
Mikhailovskaya Poultry Plant OAO	86%	78%
Nahodkinsky Meat-Packing Factory OAO	90%	91%
PPZ Tsarevschinsky-2 OAO	86%	78%
Rodstor ZAO	*0%	*0%
Synergy-Capital OAO	100%	100%
Synergy-Vostok OAO	100%	100%
Trading House of Habarovskiy Distillery OOO	100%	19%
Ussuriysky Balsam Trade Network OOO	94%	97%
Permsky Uralalko Distillery OAO	84%	97%
Ussuriysky Dairy Plant OAO	94%	95%
Ussuriysky Balsam OAO	70%	83%
AKA and K OOO	100%	100%
Zorinsky breeding farm of 1 level OAO	86%	78%
Permspirt OOO	100%	100%
Dakgomz OAO	98%	97%
Dakgomz-Torg OOO	98%	97%
Chugunovsky Distillery OAO	43%	60%
Akruks OOO	0%	100%
Mariinsky Distillery OAO	72%	97%
ROOM ZAO	100%	100%
Saratov-Broiler ZAO	*0%	*0%
Zavod sortovyh kolbas OOO	100%	100%
Russian Vodka Company OOO	Acquired in 2007	100%
Traditsii Kachestva OOO	Acquired in 2007	100%
Zodiak OOO	Acquired in 2007	100%
Diamant-Alko OOO	Acquired in 2007	100%
Ob'edinennye spirtovye zavody OOO	Acquired in 2007	100%

*Although the Group does not hold any ownership interest in this entity it receives substantially all of benefits related to its operations and net assets based on the terms of agreements under which the entity was acquired. Consequently, the Company consolidates these entities (see effective share of the Group in Note 0).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Summary of significant accounting policies

1.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ('IFRSs").

Group companies maintain their accounting records and prepare statutory financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") and legal and statutory regulations effective in Russian Federation. As such, the accounting policies and reporting procedures adopted may differ from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for the financial statements to be presented in accordance with IFRS.

1.2. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for biological assets, which are measured at fair value less point-of-sale costs.

Functional and presentation currency

The consolidated financial statements are presented in Russian Rubles (RUR) which is both the Company's functional and presentation currency.

1.3. Principles of consolidation

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over their operations.

Subsidiaries are consolidated from the date at which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, accounting policies are changed for subsidiaries to ensure consistency with the policies adopted by the Group.

The consolidated financial statements include the financial statements of the head company and the controlled companies (subsidiaries) at 31 December of each reporting year. The Group exercises control when it may govern the financial and operating policies of the investee to obtain benefits from its operations.

The purchase method of accounting is used for the acquisition of a subsidiary, subsidiary's assets, liabilities, and contingent liabilities are measured at fair value thereof at the acquisition date. If acquired identifiable net assets are in excess of fair value thereof, such difference is recorded as goodwill. Any amount in excess of fair value of acquired identifiable net assets over cost of purchase is directly recorded in the profit and loss statement in the period of such acquisition. Share of minority shareholders is recorded as minority interest in fair value of recognised assets and liabilities. Subsequently, losses related to the minority shareholders in

NOTES TO THE FINANCIAL STATEMENTS (continued)

excess of minority interest are recorded in owners' equity.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

1.4. Goodwill

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

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired.

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

1.5. Revenue recognition

Revenue is recognised at fair value of contribution received or receivable, and represents amounts receivable for the goods and services sold in the course of normal operations, net of value added tax, excise duties, rebates and discounts and after eliminating intra-group operations.

Sales of goods are recognised when a Group company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services are recognised in the accounting period when the respective services were rendered, upon completion of a respective transaction measured against a share of the respective service in the total volume of all services to be rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established for the shareholder.

1.6. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.7. Finance costs

All finance costs are charged to the profit and loss statement over the period during which those occurred.

1.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1.9. Accounts receivable

Accounts receivable due within 12 months after the balance sheet date are recognised and recorded in the financial statements against the amounts specified in the respective invoices, less provision for doubtful and bad debts. A provision for doubtful and bad debts is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Accounts receivable due in more than 12 months after the balance sheet date are measured at discounted value.

1.10. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, if applicable, direct labour, other general costs borne to bring inventories in their current condition and location. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated expenses to complete the works and applicable selling expenses.

1.11. Biological assets

Biological assets, which include poultry, are measured at its fair value less estimated point-of-sale costs. The fair value of poultry is determined based on market value of poultry of similar age, breed and genetic merit. Poultry market value is based on market prices in the local area.

1.12. Impairment of assets

At each balance sheet date, the Group tests the carrying amount of tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indications of such impairment, the recoverable amount of a respective asset is assessed. If the asset generates no cash flows independently of other assets, the Group measures the recoverable amount of the cash-generating unit, which includes such asset.

Intangible assets that have an indefinite useful life are annually tested for impairment.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the

NOTES TO THE FINANCIAL STATEMENTS (continued)

purposes of assessing value in use, projected future cash flows are adjusted against current value through using an interest rate, which reflects current assessments of time value of money and risks out of the asset, to which future cash flows were not adjusted.

If carrying amount is in excess of asset's recoverable amount, asset's carrying amount is decreased to its recoverable amount. Impairment loss is recognised as expense in the period when impairment occurred.

If impairment loss is reversed afterwards, asset's (cash generating unit's) carrying value is increased to the reviewed estimate of recoverable amount so as the increased carrying amount was less than the carrying amount by which the respective asset (cash generating unit) would be recorded unless loss from its impairment was recognised before.

Reversal of the impairment loss is immediately recognised as income.

1.13. Property, plant and equipment

Land and buildings comprise mainly factories, retail outlets and offices. Land and buildings is stated at historic cost less depreciation.

Historic cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying value of replaced parts is derecognised.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on all other assets is calculated using the straight-line method in order to allocate their cost over their estimated useful lives, as follows:

Group of property, plant and equipment	Useful life
Buildings and constructions	5-30 years
Machinery and equipment	3-15 years
Vehicles	5-10 years
Tools and fixtures	3-10 years
Furniture and office equipment	3-15 years

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

Gains and losses on disposals are determined by company as the proceeds less the carrying amount and are recognised within other income or other expenses in the income statement.

1.14. Brands and other intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of intangible assets with the finite useful lives is charged on a straight-line basis over their estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Group of intangible assets	Useful life
Software	3-5 years
Patents and licenses	2-10 years

Useful lives of intangible assets are reviewed, and adjusted, if required, at each balance sheet date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Brands

Capitalised brands are regarded as having indefinite useful lives. These brands are protected in Russian Federation by trademarks, which are renewable indefinitely. Further there are not believed to be any legal, regulatory or contractual provisions that limit the useful life of these brands.

Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, written down to the extent impaired.

Internally-generated intangible assets – research and development expenditure

Research expenditure in respect of drink and food products and package design is written off in the period in which it is incurred.

Any subsequent development expenditure in the period leading up to a product launch that meets the necessary recognition criteria set in the relevant standard is capitalised.

1.15. Financial assets, financial liabilities and equity instruments

Financial assets and financial liabilities are recognised in the Group balance sheet when the Group is a party to a financial instrument contract.

Financial assets, financial liabilities and equity instruments are classified based on the substance of the assumed contractual commitment.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are stated at the proceeds received, less direct issue costs.

1.16. Investments

Investments are recognised and written-off at the purchase or sale date and are initially recognised at cost, including transaction costs. Investments are classified as held-for-trading or available-for-sale and are evaluated at fair value at every reporting date. If investments are classified as held-for-trading, then income

NOTES TO THE FINANCIAL STATEMENTS (continued)

and expenses from changes in fair value are stated in net profit or loss for the period. For assets available-for-sale gains and losses out of changes in fair value are directly recognised in equity, up to disposal or impairment of investment, when accumulated gains or losses recognised in equity are included in net profit or loss for the period.

1.17. Available-for-sale financial assets

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

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

1.18. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.19. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

1.20. Borrowings

Borrowings are initially recognised at cost, which is fair value of proceeds net of transaction costs.

Borrowings are subsequently stated at amortised cost using the effective interest method: any difference between fair value of the proceeds (net of transaction costs) and the redemption value is recognised as interest expenses within the borrowing period.

Borrowings are classified as short-term, unless the Group has a preemptive right to delay any liability repayment for the term not less than 12 months from the balance sheet date.

1.21. Trade accounts payable

Trade accounts payable are stated at their nominal amount.

1.22. Provisions

Provisions are recognised when a company has a legal or constructive obligation at the balance sheet date as a result of past events and when it is more likely than not that an outflow of resources, embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are reviewed on every balance sheet date and are adjusted to show the current, most sound

NOTES TO THE FINANCIAL STATEMENTS (continued)

estimates.

Where there are a number of similar obligations, the likelihood that an outflow of economic benefits will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be little.

1.23. Segment information

A business segment is a group of assets and operations, engaged in producing goods or rendering services that are subject to risks and returns different from those of other segments.

A geographical segment is engaged in producing goods or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

1.24. Employee benefits

Group companies operate defined contribution plans. The companies of the Group pay contributions to pension funds on the mandatory basis. The companies have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no other obligations in respect of employees' pensions or termination benefits.

1.25. Profit tax

Income tax is stated in the financial statements in accordance with the effective legislation. Income tax expenses in the profit and loss statement for the period comprise current and deferred income tax. Current income tax is calculated on the basis of taxable profit for the period, using the tax rates in effect at the balance sheet date. Deferred income tax is calculated on the basis of the balance sheet method.

Deferred income tax assets are recognised with allowance for all temporary differences, that decrease the tax base, and not used tax assets and liabilities are carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences that decrease the tax base, or unrealised tax assets and not settled liabilities to be carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, if the deferred asset in respect of income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Carrying amount of income tax deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred income tax assets and liabilities are determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax liabilities are recognised for all taxable temporary differences resulting from investments in subsidiaries, associated companies and joint ventures, with the exception of the cases when the term of utilisation of temporary differences could be controlled, and, with high degree of probability, temporary

NOTES TO THE FINANCIAL STATEMENTS (continued)

differences would not be utilised in the foreseeable future.

Deferred tax is charged or credited in the profit and loss statement, unless otherwise it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Critical accounting estimates and judgments in applying accounting policies

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

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently.

The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group's entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest.

The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances review may cover larger periods.

Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Impairments for bad and doubtful debts

Management estimate impairments against recoverable amounts of trade receivables based on the ageing of trade receivables. Individual trade receivables are written off when management believes that the amounts will not be recoverable.

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Provision for doubtful and bad debts is created based on the following criteria:

Ageing of accounts receivable	Provision
Over 3 years	To be written off
Over 1 year	80%
6 to 12 months	30%
3 to 6 months	5%
Less than 3 months	0%

Adoption of new or revised standards and interpretations

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management does not expect IFRS 8 to affect the Group's financial statements.

Other new standards or interpretations.

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

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 11, Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 13, Customer loyalty programs (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

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

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Property, plant and equipment

	Land and buildings	Machines and equipment	Vehicles	Tools and fixtures	Furniture and office equipment	Assets under construc tion	Total
Cost							
At 01.01.2006	731 083	566 339	121 037	104 094	94 004	30 497	1 647 054
Acquisition of subsidiaries	278 675	291 655	20 503	3 401	20 519	42 171	656 924
Additions	39 066	143 289	20 070	21 492	49 084	180 716	453 717
Reclassification	2 881	6 098	180	102	3 762	(13 023)	-
Disposals	(16 716)	(29 964)	(3 363)	(6 378)	(7 009)	(16 502)	(79 932)
At 31.12.2006	1 034 989	977 417	158 427	122 711	160 360	223 859	2 677 763
Acquisition of subsidiaries	234 498	87 248	31 907	1 125	6 000	140 723	501 502
Additions	133 936	202 108	34 215	6 556	18 624	110 893	506 332
Reclassification	144 399	33 271	463	2 156	2 075	(182 364)	-
Disposals	(143 920)	(35 322)	(24 790)	(15 778)	(23 056)	-	(242 867)
At 31.12.2007	1 403 902	1 264 722	200 223	116 770	164 002	293 111	3 442 730
Depreciation							
At 01.01.2006	423 754	215 500	81 957	51 488	71 106	-	843 805
Charge for the year	23 977	73 327	14 656	11 576	13 548	-	137 084
Disposals	(9 908)	(9 607)	(2 428)	(3 562)	(2 167)	-	(27 672)
At 31.12.2006	437 823	279 220	94 185	59 502	82 487	-	953 217
Charge for the year	38 993	189 607	6 091	11 752	17 156	-	263 598
Disposals	(12 198)	(11 011)	(9 404)	(10 592)	(43 807)	-	(87 012)
At 31.12.2007	464 617	457 816	90 872	60 662	55 836	-	1 129 803
Carrying amount							
At 31.12.2007	939 284	806 906	109 351	56 108	108 167	293 111	2 312 927
At 31.12.2006	597 166	698 197	64 242	63 209	77 873	223 859	1 724 546

Security

At 31 December 2007, bank borrowings were secured on land and buildings and equipment for the value of RUR 411 859 thousand (at 31 December 2006 RUR 233 516 thousand).

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Intangible assets

	Software	Patents and licenses	Brands	Total
Cost				
At 01.01.2006	11 495	18 184	10 354	40 033
Acquisition of subsidiaries	592	10 219	147 778	158 589
Additions	2 090	16 259	-	18 349
Disposals	(436)	(2 779)	-	(3 215)
At 31.12.2006	13 741	41 883	158 132	213 756
Acquisition of subsidiaries	-	1 056	2 545 870	2 546 926
Additions	2 909	13 825	7 860	24 594
Disposals	(509)	(4 397)	-	(4 906)
At 31.12.2007	16 141	52 367	2 711 862	2 780 370
Amortisation				
At 01.01.2006	9 768	5 622	-	15 390
Charge for the year	1 217	6 321	-	7 538
Impairment	-	-	8 944	8 944
Disposals	(231)	(2 779)	-	(3 010)
At 31.12.2006	10 754	9 164	8 944	28 862
Charge for the year	1 375	9 107	5 257	15 739
Disposals	(218)	(832)	(1)	(1 051)
At 31.12.2007	11 910	17 439	14 200	43 550
Net book value				
At 31.12.2007	4 230	34 928	2 697 662	2 736 820
At 31.12.2006	2 987	32 719	149 188	184 894

Brands are stated at fair value on acquisition. The principal brands are as follows:

Brand's name	Product	Remaining amortisation period	Carrying amount as at 31.12.07	Carrying amount as at 31.12.06
Beluga	Vodka	Indefinite life	631 000	-
Belen'kaya	Vodka	Indefinite life	1 852 000	-
Medvezhyi Ugol	Vodka	Indefinite life	110 061	-
AZ	Vodka	Indefinite life	63 982	-
Russkiy prazdnik	Vodka	Indefinite life	20 346	20 841
Total			**2 677 389**	**20 841**

The Group also owns internally generated brands, such as "Gosudarev Zakaz" and "Sily Prirody". These internally generated brands are not capitalised within the balance sheet in accordance with the group stated accounting policies.

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Goodwill

Goodwill arising on consolidation relates to the acquisitions of subsidiaries and acquisitions of minority interest. Details of acquisitions are disclosed in Note 0.

Cost	
At 01.01.2006	35 367
Acquisition through business combination	59 564
Acquisition of minority interest	37 307
At 01.01.2007	132 238
Acquisition of minority interest	173 851
At 31.12.2007	306 089
Accumulated impairment losses	
At 01.01.2006	-
Impairment loss for the year	29 712
At 01.01.2007	29 712
Impairment loss for the year	-
At 31.12.2007	29 712
Net book value	
At 31.12.2006	**102 526**
At 31.12.2007	**276 379**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated by segments as follows:

	As at 31 December 2007	As at 31 December 2006
Distilled spirit production	233 779	59 926
Food	42 600	42 600
Trade	-	-
	276 379	**102 526**

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of cash generating units are determined from value in use calculations. The key assumptions for value in use calculation are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

pre-tax rates that reflect current market assessment of the time value of money and the risks specific to the cash generating units. The growth rates are based on management forecasts. Changes in selling prices and direct costs are based on historic practice and expectation of future changes in the market.
The Group prepares cash flow forecasts derived from the most recent financial budget approved by management for the next 4-5 years.

Other investments

Long-term financial assets include equity participations, stock, debt securities and interest-bearing borrowings maturing after 12 months and more after the balance sheet date.

Short-term financial assets include interest-bearing borrowings maturing within 12 months after the balance sheet date.

Long-term financial assets

Investee	As at 31 December 2007	As at 31 December 2006
OAO Sibneftgazpererabotka	24 944	24 944
OAO CB Dzemgi	-	3 311
OOO TK Rifey-Perm	5 512	5 512
Other	3 946	176
Total equity participation and stock	34 402	33 943
Debt securities	-	80
Loans given	125 194	-
Total long-term financial assets	**159 596**	**34 023**

Equity participations, stock and bonds are recognised according to original cost. Group's management considers that this cost approximates fair value of the assets.

Inventories

	As at 31 December 2007	As at 31 December 2006
Raw materials	1 158 136	1 030 930
Work-in-progress	160 119	69 331
Finished goods	906 300	152 875
	2 224 555	**1 253 136**

At 31 December 2007, bank borrowings were secured on inventories with a carrying value of RUR 604 782 thousand (at 31 December 2006 RUR 354 976 thousand).

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Biological assets

	As at 31 December 2007	As at 31 December 2006
Animals at fair value	162 153	75 930

Trade and other receivables

a) Trade and other receivables

	As at 31 December 2007	As at 31 December 2006
Trade accounts receivable	2 865 414	1 463 253
Provision for doubtful debts	(54 497)	(37 000)
	2 810 917	1 426 253
Other accounts receivable	1 327 963	505 106
VAT and excises recoverable	385 901	150 236
Total account receivable	**4 524 781**	**2 081 595**

b) Loans to related parties

	As at 31 December 2007	As at 31 December 2006
Current		
Non-interest bearing	558 128	762 625
Interest bearing	262 618	649 521
	820 746	**1 412 146**
Non-current loans to related parties	-	28 035
Total loans to related parties	**820 746**	**1 440 181**

Non-interest bearing loans are provided to related parties principally in order to finance acquisitions made on behalf of the Group. Related parties are used for such purposes in order to preserve confidentiality of the Group's intent. Such anonymity is considered to reduce the potential for the Group becoming commercially prejudiced whilst undertaking acquisitions.

Amounts due to related parties in respect of non-interest bearing loans also exist and are shown in Note 0. Such amounts are principally recycled, i.e. used to finance acquisitions made by other related parties in favour of the Group as detailed above.

Interest bearing loans are also provided to finance the short-term working capital requirement of new acquired businesses. Such loans attract interest at a rate of 11% - 13% per annum.

Cash and cash equivalents

Cash and cash equivalents at the end of each financial year as shown in the cash flow statements can be reconciled to the related items in the balance sheet as follows:

NOTES TO THE FINANCIAL STATEMENTS (continued)

	As at 31 December 2007	As at 31 December 2006
Cash on hand	9 911	9 413
Cash in banks	392 168	207 407
Cash in transit	43 911	76 943
	445 990	**293 763**

At 31 December 2007 and 31 December 2006, there are no effective restrictions on the use of cash.

Share capital

Share capital is the authorised capital of the parent company.

	Number of ordinary shares (thousands)	Share capital
At 31 December 2004	11 600	1 160 000
At 31 December 2005	11 600	1 160 000
At 31 December 2006	11 600	1 160 000
At 31 December 2007	14 320	1 432 000

Synergy OAO issued 14 320 000 ordinary shares of RUR100 each at par. All issued shares are fully paid.

On November 19, 2007 Selling Shareholders sold 2 720 000 ordinary shares, representing a total deal size of approximately US$190 million before fees and expenses. Following completion of the public initial offering (the “Offering”), the Company offered an identical number of newly issued ordinary shares (the “New Shares”) in a closed subscription to the Selling Shareholders, who were the sole offerees. The Selling Shareholders used all of their respective net proceeds from the Offering to pay for the New Shares offered in the closed subscription. As a result, the Company received all of the net proceeds of the Offering. The Offering represents 19% of the Company's enlarged share capital.

As at December 31, 2007 the Company recognized in its Consolidated Financial Statements addition of Share Capital in amount RUR 272 000 thousands and Share Premium RUR 4 106 089 thousands net of issue costs.

As at December 10-11, 2007 the Company received payments for the New Shares. As at January 18, 2008 corresponding changes were made in the Charter of the Company and New Shares were registered and authorised.

Synergy intends to use the proceeds of the Offering primarily for product brand development, expanding its distribution network and making additional acquisitions of distilled spirits brands and production facilities.

The Company's ordinary shares have been admitted to trading on the Russian Trading System Stock Exchange ("RTS") under the ticker symbol “SYNG” and on the Moscow Interbank Currency Exchange ("MICEX") with the ticker symbol “SYNG”. The commencement of trading on RTS and MICEX took place on 19 November 2007.

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Borrowings

Non-current liabilities:

	Average interest rates	As at 31 December 2007	As at 31 December 2006
Bond issue	10.7%	2 000 000	-
Secured bank loans	11-12.5%	298 729	358 550
		2 298 729	**358 550**

Current liabilities:

	Average interest rates	As at 31 December 2007	As at 31 December 2006
Bond issue	11.0%	748 649	1 000 000
Bank overdrafts	11.5-12.5%	116 751	332 318
Unsecured bank loans	10.0%	20 631	127 871
Secured bank loans	8.5-12.0%	444 092	1 125 294
Unsecured loans from related parties		45 293	958 978
		1 375 416	**3 544 461**

Interest rates on the bank credits are fixed at 10 through 12.5% p.a. in 2007 and 11 through 14% in 2006 (see Note 0) in Russian Rubles depending on the borrower and the terms of the respective contract.

Repayment schedule

The maturity of loans and borrowings is as follows:

	As at 31 December 2007	As at 31 December 2006
On demand or within one year	1 375 416	3 544 461
Between the first and second year	2 083 500	232 550
Between the second and fifth years	205 279	75 000
After five years	9 950	51 000
	3 674 145	**3 903 011**

The interest rate paid on bank borrowings during 2007 and 2006 ranged from 11% to 14%. For more information about Group’s exposure to interest rate risk see Note 0. The Group does not have foreign currency denominated loans and borrowings.

The directors estimate that the fair value of the Group’s loans and borrowings is not materially different to the carrying value. Other principle features of the Group’s loans and borrowings are as follows:

1) On 26 July 2007, the Company placed a certified interest-bearing non-convertible and registered bond with nominal value RUR 1 thousand. Bond issue amounted to RUR 2 000 000 thousands. The interest rate payable is 10.7% per annum and the bond is redeemable in July 2010. The bond is secured over the following Group companies: Ussuriysky Balsam OAO, Permsky Uralalko Distillery OAO, and Mariinsky Distillery OAO.

   Further, obligations of the issuer will arise:

NOTES TO THE FINANCIAL STATEMENTS (continued)

- The issuer is obligated to purchase bonds under demand of bondholders, which is announced in the period of last 5 business days before payment of the third coupon (22 January 2009 – 27 January 2009). In case if in the stated period owners would present demand, the relevant obligation of issuer should be executed by the 5 business days after payment of third coupon (28 January 2009 – 2 February 2009).

  Bonds under series 02 will be paid on 22.07.2010 unless a notice is received as referred to above.

2) Bank loans totalling RUR 3 377 188 thousand are secured over guarantees and fixed assets and inventories with a total carrying value of RUR 1 016 641 thousand (see Notes 5 and 9).
3) Unsecured loans from related parties are discussed in Note 0b.
4) On 26 April 2006, the Group placed a certified interest-bearing non-convertible and registered bond with nominal value RUR 1 thousand. Bond issue amounted to RUR 1 000 000 thousands. The interest rate payable is 10.7% per annum and the bond is redeemable in April 2009. The bond is secured over the following Group companies: Alviz OAO, Permsky Uralalko Distillery OAO, Habarovskiy Distillery OAO and Ussuriysky Balsam OAO.

- According to the terms of the Offering circular, the issuer was obligated to purchase bonds on demand of bondholders, which was announced in the period of last 5 business days before payment of the third coupon (18 October 2007 – 24 October 2007). 664 868 bonds were bought and 443 517 bonds were placed. New interest rate announced was 11%.

- During the period 1 January 2008 – 30 April 2008 the Company placed 90 000 bonds previously bought.

- As at 30 April 2008 the Company executed put option on 840 376 bonds and placed 971 727 bonds at new interest rate 12.5%.

  Further, obligations of the issuer will arise:

- The issuer is obligated to purchase bonds under demand of bondholders, which is announced in the period of last 5 business days before payment of the fifth coupon (17 October 2008 – 23 October 2008). In case if in the stated period owners would present demand, the relevant obligation of issuer should be executed by the 5 business days after payment of fifth coupon (24 October 2008 – 29 October 2008). The execution will be effected if interest rate on sixth coupon was not previously determined.

  Bonds under series 01 will be paid on the 1092nd day (22.04.2009) after the bond placement unless a notice is received as referred to above.

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Trade and other payables

	As at 31 December 2007	As at 31 December 2006
Trade payables	1 097 077	521 169
Sundry taxes payable	1 183 221	700 119
Other payables	605 745	84 411
Advances obtained	80 075	76 076
	2 966 118	**1 381 775**

Revenue

	2007	2006
Sales revenue	11 304 428	7 121 920
Other revenue	47 590	43 756
	11 352 018	**7 165 676**

Other revenue principally comprises of income generated from the rental and sub-lease of properties and supply of services such as distribution and transportation.

Cost of sales

	2007	2006
Materials and supplies	3 406 557	2 548 343
Cost of finished goods purchased	2 827 323	1 770 256
Wages and salaries	508 469	380 334
Depreciation, amortisation and impairment	170 513	123 531
Fuel and power	164 867	105 319
Repairs and maintenance	95 527	63 205
Other costs	279 407	184 825
	7 452 663	**5 175 813**

General and administration expenses

	2007	2006
Wages and salaries	478 783	267 389
External services	182 941	75 449
Sundry taxes	52 378	74 075
Other costs	146 679	79 234
	860 781	**496 147**

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Sales expenses

	2007	2006
Wages and salaries	624 283	317 628
External services	611 330	294 130
Materials and supplies	73 410	54 580
Fuel and power	61 205	44 675
Other costs	162 032	100 589
	1 532 260	**811 602**

Finance income and finance costs

	2007	2006
Interest income	173 327	46 216
Finance income	**173 327**	**46 216**
Interest on bank overdrafts and loans	358 302	151 174
Interest on bond issue	196 252	73 288
Costs of arrangement of borrowings	75 599	8 862
Finance costs	**630 153**	**233 324**
Net finance costs	**456 826**	**187 108**

Profit tax

	2007	2006
Current income tax charge	257 571	109 672
Deferred income tax (income)	(21 431)	(31 206)
Total income tax	**236 140**	**78 466**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the consolidated entities as follows:

	2007	2006
Profit before tax	1 132 425	769 068
Tax calculated at domestic tax rates applicable to profits in the respective regions	271 782	192 890
Income not subject to tax	(107 334)	(124 534)
Expenses not deductible for tax purposes	71 692	10 580
Tax charge	**236 140**	**78 466**

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Deferred tax

Stated below are main deferred tax assets and liabilities recognised by the Group and the respective changes over the reporting period.

2007	Deferred tax (asset)/liability at 01.01.2007	Charged to profit tax in 2007	Acquired with subsidiaries	Deferred tax (asset)/liability at 31.12.2007
Accounts receivable	(12 479)	(11 341)	30	(23 790)
Other current assets	(705)	(9 043)	(326)	(10 074)
Raw materials	(2 977)	3 886	3 233	4 142
Property, plant and equipment	55 885	961	28 369	85 215
Intangible assets	38 636	(10 169)	609 812	638 278
Accounts payable and accrued liabilities	22	4 275	750	5 048
Net deferred income tax liability	**78 382**	**(21 431)**	**641 868**	**698 819**
Deferred tax assets	(32 239)			(121 170)
Deferred tax liabilities	110 621			819 989
Net deferred income tax liability	**78 382**	**(21 431)**	**641 868**	**698 819**

2006	Deferred tax (asset)/liability at 01.01.2006	Charged to profit tax in 2006	Acquired with subsidiaries	Disposed with subsidiaries	Deferred tax (asset)/liability at 31.12.2006
Accounts receivable	9 860	(22 091)	(1 451)	1 203	(12 479)
Other current assets	(404)	129	(434)	4	(705)
Raw materials	(5 087)	3 308	(1 198)	-	(2 977)
Property, plant and equipment	14 764	(13 338)	54 178	281	55 885
Intangible assets	4 245	(648)	35 039	-	38 636
Accounts payable and accrued liabilities	(1 412)	1 434	-	-	22
Net deferred income tax liability	**21 966**	**(31 206)**	**86 134**	**1 488**	**78 382**
Deferred tax assets	(14 797)				(32 239)
Deferred tax liabilities	36 763				110 621
Net deferred income tax liability	**21 966**	**(31 206)**	**86 134**	**1 488**	**78 382**

The recognition and reversals of temporary differences, as presented in the tables above, primarily relate to the revaluation of property, plant and equipment and intangible assets (brands) for the purposes of acquisitions; impairment of receivables; and provisions to write inventories down to net realisable value.

In 2007, the nominal profit tax rate in Russia was 24%, excluding the Permsky Krai, where the profit tax rate makes 20%.

URALALKO Permsky Distillery OAO was registered and exists in the Permsky Krai and thus its deferred tax assets and liabilities were determined based on the profit tax rate equal to 20%.

As management of the Group has no information about expected future changes in tax rate, all deferred tax assets and liabilities of other entities were calculated using current profit tax rate of 24%.

Some of Group companies do not pay the profit tax in accordance with the tax law of Russian Federation. Companies engaged in the production of poultry pay the unified agricultural tax. Retail companies pay the unified tax on imputed income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during period.

	2007	2006
Profit attributable to equity holders	779 996	627 663
Weighted average number of ordinary shares in issue (thousands)	11 756	11 600
Basic and diluted earnings per share, RUR	**66.35**	**54.11**

All shares are ordinary shares and there are no dilutive potential ordinary shares. Thus, the Group does not compute diluted earnings per share.

New Shares issued at Offering (see note 0) included in calculation of EPS for the period since receipt of payments at December 10-11, 2007.

Operating lease commitments

The Group leases various offices, plant and machinery and land under operation lease agreements. The lease expenditures charged to the profit and loss statement during the year are: 2007 – RUR 165 675 thousand, 2006 – RUR 66 869 thousand.

Business combinations

On 5 January 2007, Synergy Group acquired 100% of authorised capital of Russian Vodka Company OOO (Tomsk), which is the owner of Beluga premium brand vodka and a supplier of Mariinsky Distillery OAO acquired by the Group in 2006.

In July 2007, the Group gained control over 100% of the shares of Diamant-Alko OOO (Moscow), which is the owner of Belenkaya and AZ vodka brands. Diamant-Alko OOO has three subsidiaries: Traditsii Kachestva OOO, located in the town of Krasnoznamensk, Zodiak OOO (Moscow Region), and Ob'edinennye spirtovye zavody OOO (Kursk region). From 10 July 2007, the percentage of equity owned by Synergy OAO in the authorised capital of Zodiak OOO was 80% and in the authorised capital of Diamant-Alko OOO, 100%, respectively. The rest 20% in the authorised capital of Zodiak OOO, and 100% in Traditsii Kachestva OOO are owned by Diamant-Alko OOO. 100% in Ob'edinennye spirtovye zavody OOO are owned by Traditsii Kachestva OOO.

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The assets and liabilities of Russian Vodka Company OOO, Diamant-Alko OOO, Traditsii Kachestva OOO, Zodiak OOO, and Ob'edinennye spirtovye zavody OOO as of acquisition date are as follows:

	Recognised value on acquisition	Fair value adjustments	Pre-acquisition carrying amount
Cash and cash equivalents	8 847	-	8 847
Property, plant and equipment	361 203	85 460	275 744
Construction in progress	165 402	30 545	134 857
Intangible assets, including brands	2 546 932	2 540 882	6 051
Inventories	85 207	(35 643)	120 850
Financial assets	56 623	-	56 623
Trade and other receivables	475 517	(42 207)	517 724
Net deferred tax liabilities	(649 241)	(633 253)	(15 988)
Loans and credits	(510 499)	-	(510 499)
Trade and other payables	(421 330)	(31 745)	(389 585)
Net assets	2 118 662	1 914 040	204 622
Minority interests	-		
Net assets acquired	2 118 662		
Purchase consideration	1 878 074		
Result arising on acquisition, accounted as:	(240 588)		
Goodwill	-		
Negative goodwill	240 588		
Purchase consideration settled in cash	1 878 074		
Cash and cash equivalents acquired	(8 847)		
Cash outflow on acquisition	1 869 227		

At 31 December 2007, the acquired entities were recognised into the consolidated financial statements.

In the period from the moment of joining the Group and up to 31 December 2007, the acquired entity generated the revenue and net profit (loss) for the period as follows:

	Russian Vodka Company OOO	Traditsii Kachestva Group
Sales proceeds	2 681	711 166
Profit/(loss) for the period	(2 868)	67 010

As Russian Vodka Company OOO was acquired on 5 January 2007, management assumes that the subsidiary has not generated any significant revenues and financial results in the period from 1 to the 5 January 2007 and therefore all revenues and financial results of the subsidiary were included in Group's revenue.

If the acquisition of Diamant-Alko OOO and its subsidiaries occurred on 1 January 2007, the revenues of the Group for the year would have been RUR 11 825 660 thousand and Group profit would have been RUR 918 040 thousand.

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

In 2006 the Group has acquired subsidiaries as follows: Zorinsky breeding farm of 1 level OAO, Dakgomz OAO, Dakgomz-Torg OOO, ROOM ZAO, Chugunovsky Distillery OAO, Akruks OOO, Mariinsky Distillery OAO, AKA and K OOO. The Group acquired the following effective interests in the share capital of the companies as follows:

Company	% of issued capital
AKA and K OOO	100.00
Zorinsky breeding farm of 1 level OAO	85.70
Dakgomz OAO	98.47
Dakgomz-Torg OOO	98.47
Chugunovsky Distillery OAO	58.35
Akruks OOO	100.00
Mariinsky Distillery OAO	78.15
ROOM ZAO	99.97
Saratov-Broiler ZAO	100.00
Branded sausage manufacturing plant OOO	100.00

	Recognised value on acquisition	Fair value adjustment	Pre-acquisition carrying amount
Cash and cash equivalents	28 368	-	28 368
Property, plant and equipment	628 778	224 262	404 516
Construction in progress	28 034	2 254	25 780
Intangible assets, including brands	157 651	145 224	12 427
Inventories	266 227	-	266 227
Financial assets	34 931	-	34 931
Trade and other receivables	616 135	(240)	616 375
Deferred tax assets (liabilities)	(86 134)	(89 160)	3 026
Loans and credits	(170 906)	-	(170 906)
Trade and other payables	(423 529)	-	(423 529)
Net assets	1 079 555	282 340	797 215
Minority interests	(137 386)		
Net assets acquired	942 169		
Purchase consideration	663 159		
Result arising on acquisition, accounted as:	(279 010)		
Goodwill	59 564		
Negative goodwill	(338 574)		
Purchase consideration settled in cash	663 159		
Cash and cash equivalents acquired	(28 368)		
Cash outflow on acquisition	634 791		

The amount of the acquirees' revenue and profit or loss since the acquisition date included in the acquirer's profit or loss for the period are as follows:

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Acquiree's name	Date of acquisition	Revenue	Profit/(loss) before tax
Zorinsky breeding farm of 1 level OAO	Jan 2006	66 663	(3 726)
Dakgomz OAO	Apr 2006	419 287	14 822
Dakgomz-Torg OOO	Apr 2006	259 416	28 101
Mariinsky Distillery OAO	Jul 2006	598 451	82 072
ROOM ZAO	Oct 2006	54 045	64
Chugunovsky Distillery OAO	Oct 2006	50 736	8 627
Akruks OOO	Oct 2006	271 612	2 057
AKA and K OOO	Oct 2006	-	-
Total for the period from the acquisition date to 31.12.2006		**1 720 210**	**132 017**

If the acquisition had occurred on 1 January 2006, the revenues of the Group for the year would have been RUR 10 176 537 thousand and Group profit would have been RUR 897 620 thousand.

Acquisition of minority interests

During September 2007 the Group made acquisitions of interest in its subsidiaries. Several transactions must be considered together as subsidiaries have interest in other companies of the Group.

Subsidiary	Increase in legal ownership	Purchase consideration	Net assets as at the date of acquisition	Decrease in Minority Interest	Goodwill	Negative Goodwill
Lysogorskaya Poultry Plant OAO	12.1%					
Mikhailovskaya Poultry Plant OAO	16.2%					
Ussuriysky Dairy Plant OAO	1.2%	67 816	523 301	72 913	-	5 330
Zorinsky breeding farm of 1 level OAO	16.2%					
PPZ Tsarevschinbsky-2 OAO	16.2%					
Habarovskiy Distillery OAO	19.8%					
Permsky Uralalko Distillery OAO	15.4%	318 156	1 026 305	185 285	132 871	-
Ussuriysky Balsam OAO	19.3%					
Ussuriysky Balsam Trade Network OOO	3.7%					
Alviz OAO	3.4%	21 904	261 074	8 868	13 036	-
Chugunovsky Distillery OAO	2.0%	1 282	87 397	1 757	-	475
Mariinsky Distillery OAO	20.7%	157 696	627 256	129 752	27 944	-
Nahodkinsky Meat-Packing Factory OAO	1.1%	217	140 365	1 565	-	1 348
					173 851	**7 153**

If the acquisition of minority interests occurred on 1 January 2007, profit for the period attributable to the equity holders of the Company would have been RUR 833 274 thousand.

In January 2006 the Group acquired an additional 26.5% interest in Permsky Uralalko Distillery OAO for RUR 42 900 thousand increasing its legal ownership from 57.0% to 83.5%. The carrying amount of Permsky Uralalko Distillery OAO net assets in the consolidated financial statements at the date of acquisition was RUR 237 348 thousand. The Group recognised a decrease in minority interest of RUR 62 897 thousand and negative goodwill of RUR 19 997 thousand.

In June 2006 the Group acquired an additional 43.8% interest in Ussuriysky Dairy Plant OAO for RUR 22 775 thousand increasing its legal ownership from 50.0% to 83.8%. The carrying amount of Ussuriysky Dairy Plant OAO net assets in the consolidated financial statements at the date of acquisition was RUR 44

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

705 thousand. The Group recognised a decrease in minority interest of RUR 16 102 thousand and increase in goodwill of RUR 3 336 thousand.

In July 2006 the Group acquired an additional 34.7% interest in Lysogorskaya Poultry Plant OAO for RUR 47 115 thousand increasing its legal ownership from 53.6% to 88.4%. The carrying amount of Lysogorskaya Poultry Plant OAO net assets in the consolidated financial statements at the date of acquisition was RUR 37 911 thousand. The Group recognised a decrease in minority interest of RUR 18 943 thousand and increase in goodwill of RUR 33 971 thousand.

The Group acquired an additional 40% interest in Nahodkinsky Meat-Packing Factory OAO for RUR 19 517 thousand increasing its legal ownership from 50% to 90%. The carrying amount of Nahodkinsky Meat-Packing Factory OAO net assets in the consolidated financial statements at the date of acquisition was RUR 104 426 thousand. The Group recognised a decrease in minority interest of RUR 41 770 thousand and negative goodwill of RUR 22 253 thousand.

Disposal of subsidiary

On 31 December 2006 the Group disposed of its interest in the following subsidiaries:

OAO Kolizey;

OAO Trading house “Mir Produktov”;

ZAO Rodimaya Storonka;

OAO Trading house “Rodimaya Storonka”;

OOO Stoik;

OOO Balsam Invest.

The net assets of the subsidiaries at the date of disposal were as follows:

Inventories	22 384
Accounts receivable	131 654
Bank balances and cash	22 427
Short-term financial assets	215 961
Intangible assets	205
Long-term financial assets	206 794
Share of net assets of Ussuriisky Balsam disposed with Balsam Invest	41 838
Property, plant and equipment	4 205
Deferred tax assets	1 735
Short-term borrowings	(70 357)
Trade and other payables	(62 118)
Non-interest-bearing loans, obtained	(113 827)
Long-term borrowings	(19 993)
Deferred tax liabilities	(190)
	380 719
Loss on disposal	(38 908)
Total consideration	341 811

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Satisfied by:

Cash	120 000
Accounts receivable from disposed subsidiaries	221 811
	341 811
Cash consideration	120 000
Bank balances and cash disposed of	(22 427)
Net cash inflow arising on disposal:	97 573

There were no discontinued operations as a result of the disposals.

There were no disposals in 2007.

Business and geographical segments

For management purposes, the Group is currently organised into three divisions: Distilled spirit production, Food and Trade. These divisions are the basis on which the Group reports its primary segment information

Principal activities are as follows:

Distilled spirits production	– the production of branded distillery products, principally vodka;
Food	– cultivation and production of poultry, milk and meat products;
Trade	– wholesale and retail operations selling produced alcohol and food products along with products purchased from third parties.

Segmental information about their businesses is presented in the following tables:

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.26. Results of Group's operations by segments

Business segment

2007	Distilled spirit production	Food	Trade	Unallocated corporate transactions	Group
Revenue, including:	7 265 188	2 829 085	1 544 994	79 847	11 719 114
Proceeds of the Group from operations with third parties	7 043 308	2 762 117	1 544 994	1 599	11 352 018
Intersegment proceeds	221 880	66 968	-	78 248	367 096
Total cost, including	(4 899 622)	(1 771 452)	(1 150 147)	-	(7 821 221)
Cost of operations with third parties	(4 825 888)	(1 752 925)	(873 850)	-	(7 452 663)
incl. Amortisation and depreciation	(95 266)	(75 090)	(156)	-	(170 512)
Cost of intragroup operations	(73 734)	(18 527)	(276 297)	-	(368 558)
Gross profit	**2 365 566**	**1 057 633**	**394 847**	**79 847**	**3 897 893**
General and administration expenses, including:	(362 440)	(283 135)	(64 915)	(152 320)	(862 810)
General and administration expenses from operations with third parties	(360 529)	(283 135)	(64 915)	(152 203)	(860 782)
incl. Amortisation and depreciation	(10 988)	(2 195)	(822)	(2 210)	(16 215)
Expenses from intersegment operations	(1 911)	-	-	(117)	(2 028)
Selling expenses total, including:	(1 039 348)	(286 881)	(208 048)	(160)	(1 534 437)
Selling expenses from operations with third parties	(1 038 814)	(285 630)	(207 656)	(160)	(1 532 260)
incl. Amortisation and depreciation	(18 387)	(3 626)	(4 641)	(35)	(26 689)
Expenses from intersegment operations	(534)	(1 251)	(392)	-	(2 177)
Other income, including:	284 648	108 254	4 665	7 592	405 159
Other income from operations with third parties	280 253	108 144	4 410	6 214	399 021
Income from intersegment operations	4 395	110	255	1 378	6 138
Other expenses total, including	(120 340)	(183 223)	(7 943)	(5 048)	(316 554)
Other expenses from operations with third parties	(120 125)	(183 223)	(7 688)	(5 048)	(316 084)
Expenses from intersegment operations	(215)	-	(255)	-	(470)
Operating profit	**1 128 086**	**412 648**	**118 606**	**(70 089)**	**1 589 251**
Finance expenses from operations with third parties					(456 827)
Profit tax					(236 140)
Profit					**896 285**

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2006	Distilled spirit production	Food	Trade	Unallocated corporate transactions	Group
Revenue, including:	3 629 823	2 299 284	1 594 211	14 294	7 537 612
Proceeds of the Group from operations with third parties	3 346 254	2 225 074	1 585 672	8 677	7 165 676
Intersegment proceeds	283 569	74 210	8 540	5 617	371 936
Total cost, including	(2 507 886)	(1 731 816)	(1 257 660)	(22 139)	(5 519 501)
Cost of operations with third parties	(2 498 814)	(1 730 966)	(923 895)	(22 139)	(5 175 814)
incl. Amortisation and depreciation	(62 366)	(59 954)	(179)	(1 225)	(123 723)
Cost of intragroup operations	(9 073)	(850)	(333 765)	-	(343 687)
Gross profit	**1 121 937**	**567 468**	**336 551**	**(7 845)**	**2 018 112**
General and administration expenses, including:	(240 947)	(215 273)	(28 237)	(14 688)	(499 144)
General and administration expenses from operations with third parties	(240 342)	(213 395)	(27 722)	(14 688)	(496 147)
incl. Amortisation and depreciation	(7 966)	(5 024)	(625)	(588)	(14 202)
Expenses from intersegment operations	(605)	(1 877)	(515)	-	(2 997)
Selling expenses total, including:	(463 265)	(153 300)	(220 724)	(171)	(837 460)
Selling expenses from operations with third parties	(461 656)	(150 484)	(199 292)	(171)	(811 602)
incl. Amortisation and depreciation	(9 435)	(2 716)	(2 740)	-	(14 892)
Expenses from intersegment operations	(1 609)	(2 816)	(21 433)	-	(25 858)
Other income, including:	223 318	268 401	4 429	(959)	495 189
Other income from operations with third parties	223 318	268 401	4 429	(959)	495 189
Income from intersegment operations	-	-	-	-	-
Other expenses total, including	(160 972)	(44 884)	(13 380)	(1 283)	(220 520)
Other expenses from operations with third parties	(161 548)	(44 915)	(13 380)	(1 283)	(221 126)
Expenses from intersegment operations	576	31	-	-	606
Operating profit	**480 071**	**422 412**	**78 639**	**(24 946)**	**956 177**
Net finance expenses from operations with third parties					(187 108)
Profit tax					(78 466)
Profit					**690 602**

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Groups operations are located wholly in the Russian Federation which, as a result of size, has resulted in two geographical segments divided on the East of the Russian Federation and the West of the Russian Federation.

Geographical segments

2007	West	East	Group Total
Revenue, including:	6 015 760	5 372 251	11 388 011
Proceeds of the Group from operations with third parties	5 982 180	5 369 838	11 352 018
Intersegment proceeds	33 580	2 413	35 993
Total cost, including	(3 971 439)	(3 521 151)	(7 492 590)
Cost of operations with third parties	(3 965 967)	(3 486 696)	(7 452 663)
incl. Amortisation and depreciation	(105 648)	(64 864)	(170 512)
Cost of intragroup operations	(5 472)	(34 455)	(39 927)
Gross profit	**2 044 321**	**1 851 100**	**3 895 421**
General and administration expenses, including:	(506 037)	(356 179)	(862 216)
General and administration expenses from operations with third parties	(506 037)	(354 744)	(860 781)
incl. Amortisation and depreciation	(11 580)	(4 635)	(16 215)
Expenses from intersegment operations	-	(1 435)	(1 435)
Selling expenses total, including:	(777 873)	(754 387)	(1 532 260)
Selling expenses from operations with third parties	(777 873)	(754 387)	(1 532 260)
incl. Amortisation and depreciation	(13 564)	(13 125)	(26 689)
Expenses from intersegment operations	-	-	-
Other income, including:	404 965	56	405 021
Other income from operations with third parties	402 417	(3 396)	399 021
Income from intersegment operations	2 548	3 452	6 000
Other expenses total, including	(216 902)	(99 812)	(316 714)
Other expenses from operations with third parties	(216 272)	(99 812)	(316 084)
Expenses from intersegment operations	(630)	-	(630)
Operating profit	**948 474**	**640 778**	**1 589 252**
Net Finance expenses from operations with third parties			(456 827)
Profit tax			(236 140)
Profit			**896 285**

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2006	West	East	Group Total
Revenue, including:	3 082 805	4 095 316	7 178 121
Proceeds of the Group from operations with third parties	3 074 590	4 091 087	7 165 676
Intersegment proceeds	8 215	4 229	12 444
Total cost, including	(2 295 797)	(2 892 582)	(5 188 380)
Cost of operations with third parties	(2 291 802)	(2 884 012)	(5 175 814)
incl. Amortisation and depreciation	(65 918)	(57 805)	(123 723)
Cost of intragroup operations	(3 995)	(8 571)	(12 566)
Gross profit	**787 008**	**1 202 734**	**1 989 741**
General and administration expenses, including:	(263 651)	(233 335)	(496 986)
General and administration expenses from operations with third parties	(263 417)	(232 730)	(496 147)
incl. Amortisation and depreciation	(6 765)	(7 437)	(14 202)
Expenses from intersegment operations	(234)	(605)	(839)
Selling expenses total, including:	(280 604)	(531 466)	(812 070)
Selling expenses from operations with third parties	(280 604)	(530 998)	(811 602)
incl. Amortisation and depreciation	(4 408)	(10 484)	(14 892)
Expenses from intersegment operations	-	(467)	(467)
Other income, including:	434 316	60 874	495 189
Other income from operations with third parties	434 316	60 874	495 189
Income from intersegment operations	-	-	-
Other expenses total, including	(93 951)	(125 747)	(219 698)
Other expenses from operations with third parties	(95 379)	(125 747)	(221 126)
Expenses from intersegment operations	1 428	-	1 428
Operating profit	**583 117**	**373 060**	**956 177**
Net finance expenses from operations with third parties			(187 108)
Profit tax			(78 466)
Profit			**690 602**

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.27. By business-segment distribution of assets and liabilities

By business-segment distribution of assets and liabilities

2007	Distilled spirit production	Food	Trade	Unallocated corporate balances	Elimination	Group
ASSETS						
Non-current assets						
Property, plant and equipment	1 485 784	784 183	32 526	10 434	-	2 312 927
Goodwill	233 711	42 600	68	-	-	276 379
Other intangible assets	2 729 345	1 894	572	5 009	-	2 736 820
Other investments	9 419	125 234	-	24 944	-	159 597
Deferred tax assets	74 443	35 340	806	10 581	-	121 170
Total non-current assets	4 532 702	989 251	33 972	50 968	-	5 606 893
Current assets						
Inventories	1 294 349	778 190	135 135	16 881	-	2 224 555
Biological assets	1	162 152	-	-	-	162 153
Trade and other receivables	3 429 645	903 866	79 567	555 884	(444 181)	4 524 781
Prepayments	608 479	122 878	12 855	6 523	-	750 735
Loans to related parties	121 904	115 833	343 786	239 223	-	820 746
Investments	22 129	7 825	-	119	-	30 073
Income tax overpaid	16 813	-	-	71	-	16 884
Cash and cash equivalents	209 328	87 748	58 053	90 861	-	445 990
Total current assets	5 702 648	2 178 492	629 396	909 562	(444 181)	8 975 917
TOTAL ASSETS	10 235 350	3 167 743	663 368	960 530	(444 181)	14 582 810
LIABILITIES						
Non-current liabilities						
Loans and borrowings	137 679	161 050	-	-	-	298 729
Other long-term liabilities	-	-	-	2 000 000	-	2 000 000
Deferred tax liabilities	761 580	54 866	323	3 220	-	819 989
Total non-current liabilities	899 259	215 916	323	2 003 220	-	3 118 718
Current liabilities						
Bond issue	-	-	-	748 649	-	748 649
Loans and borrowings	2 543 215	3 440 838	330 033	459 945	(6 147 264)	626 767
Trade and other payables	2 552 499	342 105	188 325	201 982	(318 793)	2 966 118
Income tax payable	46 700	6 006	2	2 022	-	54 730
Total current liabilities	5 142 414	3 788 949	518 360	1 412 598	(6 466 057)	4 396 264
TOTAL LIABILITIES	6 041 673	4 004 865	518 683	3 415 818	(6 466 057)	7 514 982

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2006	Distilled spirit production	Food	Trade	Unallocated corporate balances	Elimination	Group
ASSETS						
Non-current assets						
Property, plant and equipment	898 678	780 981	30 241	14 650	-	1 724 549
Goodwill	59 927	42 600	-	-	-	102 526
Other intangible assets	179 434	1 137	1 117	3 206	-	184 894
Loans to related parties	41 709	133 659	2 510	2 384 358	(2 534 200)	28 035
Other investments	-	-		34 023	-	34 023
Deferred tax assets	19 866	9 087	949	2 336	-	32 239
Total non-current assets	1 199 614	967 464	34 816	2 438 574	(2 534 200)	2 106 267
Current assets						
Inventories	655 372	473 832	123 249	683	-	1 253 136
Biological assets	1	75 929	-	-	-	75 930
Trade and other receivables	1 683 714	1 585 153	164 660	132 235	(1 484 166)	2 081 595
Prepayments	310 176	67 567	3 388	2 978	(45 436)	338 673
Loans to related parties	369 954	622 481	227 488	926 484	(734 261)	1 412 146
Income tax overpaid	27 827	2 729	220	-	-	30 777
Cash and cash equivalents	159 725	55 500	64 693	13 846	-	293 763
Total current assets	3 206 769	2 883 191	583 697	1 076 227	(2 263 863)	5 486 021
TOTAL ASSETS	4 406 383	3 850 655	618 513	3 514 801	(4 798 063)	7 592 286
LIABILITIES						
Non-current liabilities						
Long-term borrowings	217 550	111 000	30 000	-	-	358 550
Deferred tax liabilities	78 201	32 304	116	-	-	110 620
Total non-current liabilities	295 751	143 304	30 116	-	-	469 170
Current liabilities						
Bond issue	-	-	-	1 000 000	-	1 000 000
Loans due in less than one year	872 627	2 018 423	316 369	1 053 039	(1 715 996)	2 544 461
Accounts payable	1 337 671	582 975	93 072	93 207	(725 150)	1 381 775
Income tax due	35 317	6 892	948	224	-	43 381
Total current liabilities	2 245 615	2 608 290	410 389	1 146 470	(2 441 146)	4 969 618
TOTAL LIABILITIES	2 541 366	2 751 594	440 505	2 146 470	(2 441 146)	5 438 788

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Geographical segments

2007	West	East	Elimination	Group
ASSETS				
Non-current assets				
Property, plant and equipment	1 626 302	686 625	-	2 312 927
Goodwill	151 595	124 784	-	276 379
Other intangible assets	2 719 289	17 531	-	2 736 820
Other investments	34 205	125 392	-	159 597
Deferred tax assets	71 788	49 382	-	121 170
Total non-current assets	4 603 179	1 003 714	-	5 606 893
Current assets				
Inventories	1 300 125	924 430	-	2 224 555
Biological assets	162 153	-	-	162 153
Trade and other receivables	2 944 417	1 832 168	(251 804)	4 524 781
Prepayments	567 279	183 456	-	750 735
Loans to related parties	329 146	491 600	-	820 746
Investments	22 129	7 944	-	30 073
Income tax overpaid	16 813	71	-	16 884
Cash and cash equivalents	274 011	171 979	-	445 990
Total current assets	5 616 073	3 611 648	(251 804)	8 975 917
TOTAL ASSETS	10 219 252	4 615 362	(251 804)	14 582 810
LIABILITIES				
Non-current liabilities				
Loans and borrowings	211 729	87 000	-	298 729
Other long-term liabilities	2 000 000	-	-	2 000 000
Deferred tax liabilities	755 764	64 225	-	819 989
Total non-current liabilities	2 967 493	151 225	-	3 118 718
Current liabilities				
Bond issue	748 649	-	-	748 649
Loans and borrowings	2 141 333	3 319 894	(4 834 460)	626 767
Trade and other payables	2 286 148	857 101	(177 131)	2 966 118
Income tax payable	45 640	9 090	-	54 730
Total current liabilities	5 221 770	4 186 085	(5 011 591)	4 396 264
TOTAL LIABILITIES	8 189 263	4 337 310	(5 011 591)	7 514 982

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2006	West	East	Elimination	Group
ASSETS				
Non-current assets				
Property, plant and equipment	1 028 809	695 740	-	1 724 549
Goodwill	93 898	8 629	-	102 526
Intangible assets	164 299	20 595	-	184 894
Loans to related parties	2 387 063	175 173	(2 534 200)	28 035
Other investments	34 023	-	-	34 023
Deferred tax assets	23 669	8 570	-	32 239
Total non-current assets	3 731 761	908 707	(2 534 200)	2 106 267
Current assets				
Inventories	623 332	629 804	-	1 253 136
Biological assets	75 930	-	-	75 930
Accounts receivable	1 458 606	2 107 156	(1 484 166)	2 081 595
Advances originated	182 824	201 286	(45 436)	338 673
Non-interest-bearing loans, originated	983 911	1 162 496	(734 261)	1 412 146
Income tax overpaid	28 364	2 413	-	30 777
Cash and cash equivalents	119 582	174 181	-	293 763
Total current assets	3 472 548	4 277 335	(2 263 863)	5 486 021
TOTAL ASSETS	7 110 411	5 177 413	(4 798 063)	7 592 286
LIABILITIES				
Non-current liabilities				
Long-term borrowings	81 050	277 500	-	358 550
Deferred tax liabilities	75 381	35 239	-	110 620
Total non-current liabilities	156 431	312 739	-	469 170
Current liabilities				
Bond issue	1 000 000	-	-	1 000 000
Loans due in less than one year	1 557 505	2 702 953	(1 715 996)	2 544 461
Accounts payable	1 346 740	760 186	(725 150)	1 381 775
Income tax due	28 717	14 664	-	43 381
	3 932 962	3 477 803	(2 441 146)	4 969 618
TOTAL LIABILITIES	4 089 393	3 790 542	(2 441 146)	5 438 786

Financial instruments and risk factors

1.28. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Borrowing at variable rates exposes the Group to cash flow interest rate risk. Lending at fixed rates or the purchase of debt instruments at fixed rates exposes the Group to fair value interest rate risk.

The Group constantly reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels. Information relating to interest rates on the Group's borrowings is disclosed in Note 0.

Interest rate sensitivity on financial assets and liabilities are determined by analysis of the market of financial instruments. Interest rates on principal financial items remain fixed throughout the term of the contract. The average term of a credit agreement is one and a half years.

As the Group has an excess of floating rate liabilities over floating rate assets it is vulnerable to rises in interest rates.

The Group's surplus funds are placed with reputable banks as fixed deposits, which generate interest income for the Group. The Group's policy is to obtain the most favourable interest rates available.

1.29. Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. It is the Group's policy to enter into transactions with creditworthy customers to mitigate any significant credit risk. The Group has procedures in place to control credit risk and exposure to such risk is monitored on an ongoing basis. The Group has made allowances for potential losses on receivables.

The Group trades only with recognised, creditworthy third parties. It is Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that Group exposure to bad debts is not significant.

Other financial assets of the Group with exposure to credit risk include cash. Cash is placed with reputable banks. As such, management does not expect any counterparty to fail to meet their commitments.

The Group's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet. At the end of the financial period, there was no significant concentration of credit risk to the Group.

1.30. Tax risks

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Instances of inconsistent opinions between local, regional, and federal tax authorities and between the tax authorities and the Ministry of Finance are not unusual. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. These facts create uncertainties in the Russian Federation substantially more significant than typically found in countries with more developed tax systems. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding to the year of review. Under certain circumstances reviews may cover longer periods.

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.31. Liquidity risk

Liquidity risk management aims at ensuring sufficient amounts of monetary funds and marketable securities and availability of credit fundraising.

The Group's strategy in maintenance of liquidity includes acquiring long-term loans, decreasing share of short-term loans issuing bonds and regularly review the current and future liquidity requirements.

Related party transactions

The major stakeholders of the Group are A.A. Mechetin and V.G. Zavadnikov, who beneficially control 51% and 26% shares of the Group, respectively, at 31 December 2007. Mr Mechetin is therefore the ultimate controlling party.

Compensation of key management personnel

Remuneration paid to key management personnel for the year 2007 was RUR 74 017 thousand (in 2006, RUR 68 477 thousand).

The remuneration of directors and key executives is determined by labour contracts. The directors received no share based payments, post employment benefits and other benefits in the years ended 31.12.2007 and 31.12.2006.

A number of key management personnel, or their related parties, hold positions in other entities that result in then having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with non-related parties or on an arms length basis.

The aggregate value of transactions and outstanding balances relating to related parties over which they have control or significant influence were as follows:

Sales of goods and services

	2007	2006
Sales of goods	197 516	209 801
Sales of services	51 994	8 679
	249 510	**220 486**

Purchases of goods and services

	2007	2006
Purchases of goods	82 747	1 523 885
Purchases of services	28 089	5 528
	110 836	**1 531 419**

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Receivables and payables arising from sales and purchases of goods and services

	31 December 2007	31 December 2006
Trade and other receivables from related parties	68 303	46 175
Trade and other payables to related parties	202 912	73 148

Non-interest bearing loans are provided by and to related parties, principally in order to finance acquisitions. More details are given with regard to the nature of these transactions in Note 0b.

Details of the movements within these balances are as follows:

Interest-bearing loans to related parties

	2007	2006
Beginning of year	677 556	-
Loans advanced	1 221 426	668 995
Loans repayments received	1 622 550	94
Interest charged	100 101	46 216
Interest received	108 757	37 560
End of the year	**267 776**	**677 556**

Non interest-bearing loans to related parties

	31.12.2007	31.12.2006
Non interest-bearing loans to related parties	552 971	762 624

Interest-bearing loans from related parties

	2007	2006
Beginning of year	13 478	-
Loans received	1 142 357	112 328
Loans paid	1 120 195	98 966
Interest accrued	36 333	152
Interest paid	26 681	37
End of the year	**45 293**	**13 478**

Non interest-bearing loans from related parties

	31.12.2007	31.12.2006
Non interest-bearing loans from related parties	191 042	958 978

In 2006 Ussuriysky Balsam OAO sold 100% share in Balzam Invest OAO to one of related parties. The Group received RUR 120 000 thousand, net assets of Balzam Invest OAO as at the date of disposal

(All amounts in Russian Rubles thousand, unless stated otherwise)

NOTES TO THE FINANCIAL STATEMENTS (continued)

amounted to RUR 131 317 thousand.

Group entities

The Company had a controlling interest, directly or indirectly in the following principal subsidiaries, all of which are incorporated in Russia:

	Group company	Share of the Group in ordinary voting share capital as at 31 December 2006, %	Share of the Group in ordinary voting share capital as at 31 December 2007, %
1	Synergy OAO	Parent company	
2	Alviz OAO	70.94%	74.34%
3	Alviz Rosalko ZAO	99.99%	100.00%
4	Finansist OOO	50.00%	50.00%
5	Frenk OOO	55.54%	55.54%
6	Habarovskiy Distillery OAO	51.00%	70.82%
7	KVEN OAO	72.77%	72.77%
8	Lysogorskaya Poultry Plant OAO	88.49%	87.16%
9	Mikhailovskaya Poultry Plant OAO	85.70%	85.17%
10	Nahodkinsky Meat-Packing Factory OAO	90.00%	91.12%
11	PPZ Tsarevschinsky-2 OAO	85.70%	85.17%
12	Rodstor ZAO	99.90%	100.00%
13	Synergy-Capital OAO	100.00%	100.00%
14	Synergy-Vostok OAO	100.00%	100.00%
15	Trading House of Habarovskiy Distillery OOO	100.00%	100.00%
16	Ussuriysky Balsam Trade Network OOO	94.27%	97.93%
17	Permsky Uralalko Distillery OAO	83.50%	98.91%
18	Ussuriysky Dairy Plant OAO	93.83%	95.06%
19	Ussuriysky Balsam OAO	69.85%	89.13%
20	AKA and K OOO	100.00%	100.00%
21	Zorinsky breeding farm of 1 level OAO	85.70%	85.17%
22	Permspirt OOO	100.00%	100.00%
23	Dakgomz OAO	98.47%	98.50%
24	Dakgomz-Torg OOO	98.47%	98.50%
25	Chugunovsky Distillery OAO	58.35%	60.36%
26	Akruks OOO	100.00%	100.00%
27	Mariinsky Distillery OAO	78.15%	98.84%
28	ROOM ZAO	99.97%	99.97%
29	Saratov-Broiler ZAO	100.00%	100.00%
30	Zavod sortovyh kolbas OOO	100.00%	100.00%
31	Russian Vodka Company	Acquired in 2007	100.00%
32	Traditsii Kachestva OOO	Acquired in 2007	100.00%
33	Zodiak OOO	Acquired in 2007	100.00%
34	Diamant-Alko OOO	Acquired in 2007	100.00%
35	Ob'edinennye spirtovye zavody OOO	Acquired in 2007	100.00%

NOTES TO THE FINANCIAL STATEMENTS (continued)

Events after the balance sheet date

On March 25, 2008 the Company acquired 100% of authorised capital of Cyhill Commercial Limited, located at Nicosia, Cyprus, which is the owner of Myagkov and SQ vodka brands and Trading House Myagkov, located at Moscow, Russia, which is distributor of Myagkov and SQ vodka in Russia.

Group management considers the price paid for the got asset fair, to the full considering financial condition and prospects of the development of the Trading House Myagkov and Cyhill Commercial Limited.

According to IFRS 3 "Business combinations" the organisation-buyer recognises identified actives, obligations and conditional obligations of the got organisation at their fair cost for date of purchase.

Group has made the decision to engage an independent appraiser to assess the fair value of the intangible assets Cyhill Commercial Limited on the date of its acquiring.

At date of signing of this report, work of the independent appraiser was not completed and any data on an estimation of fair cost of the intangible assets is not available. The management of OAO Synergy has no opportunity to reflect corresponding values in the present financial report.

Group management is not aware of other events after the balance sheet date that would require recognition in the financial statements or disclosure in the notes.

Contingent liabilities

Contingent liabilities exist in respect of agreements entered into in the normal course of business, none of which are individually or collectively significant.

Neither the Company, nor any member of the Group, is or has been engaged in, nor (so far as the Company is aware) is there pending or threatened by or against it, any legal or arbitration proceedings, which may have a significant effect on the financial position of the Group.