

**ОАО SYNERGY  
(SYNERGY GROUP)**

**Consolidated Financial Statements  
for the year ended  
31 December 2007**

**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 Synergy 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**

**SYNERGY GROUP**

Consolidated Financial Statements for the year ended 31 December 2007

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

**Consolidated Balance Sheet**

	Note	As at 31 December 2007	As at 31 December 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>5 606 893</b>	<b>2 106 267</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>8 975 917</b>	<b>5 486 020</b>
<b>TOTAL ASSETS</b>		<b>14 582 810</b>	<b>7 592 286</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity and reserves</b>			
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
<b>Total equity and reserves</b>		<b>7 067 828</b>	<b>2 153 498</b>
<b>Non-current liabilities</b>			
Loans and borrowings	14	298 729	358 550
Bond issue	14	2 000 000	-
Deferred tax liabilities	22	819 989	110 620
<b>Total non-current liabilities</b>		<b>3 118 718</b>	<b>469 170</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>4 396 264</b>	<b>4 969 618</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>14 582 810</b>	<b>7 592 286</b>

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

**SYNERGY GROUP**

*Consolidated Financial Statements for the year ended 31 December 2007*

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

**Consolidated Income Statement**

	<u>Note</u>	<u>2007</u>	<u>2006</u>
<b>Revenue</b>	16	<b>11 352 018</b>	<b>7 165 676</b>
<b>Cost of sales</b>	17	<b>(7 452 663)</b>	<b>(5 175 813)</b>
<b>Gross profit</b>		<b>3 899 355</b>	<b>1 989 863</b>
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)
<b>Profit for the period</b>		<b>896 285</b>	<b>690 602</b>
Attributable to:			
Equity holders of the Company		779 996	627 663
Minority interest		116 289	62 939
<b>Basic and diluted earnings per share</b>	23	<b>66.35</b>	<b>54.11</b>

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**Mechetin A.A., Chairman of Management Board**

**Kim E.S., Chief Accountant**

30 April 2008

**SYNERGY GROUP**

Consolidated Financial Statements for the year ended 31 December 2007

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

**Consolidated Statement of Changes in Equity**

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Total shareholders' equity</u>	<u>Minority interest</u>	<u>Total</u>
<b>Balance at 31 December 2005</b>	<b>1 160 000</b>	<b>212 043</b>	<b>(478 601)</b>	<b>893 442</b>	<b>524 142</b>	<b>1 417 584</b>
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
<b>Balance at 31 December 2006</b>	<b>1 160 000</b>	<b>839 707</b>	<b>(478 601)</b>	<b>1 521 106</b>	<b>632 393</b>	<b>2 153 498</b>
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
<b>Balance at 31 December 2007</b>	<b>1 432 000</b>	<b>1 584 117</b>	<b>3 627 488</b>	<b>6 643 605</b>	<b>424 223</b>	<b>7 067 827</b>

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

**SYNERGY GROUP**

Consolidated Financial Statements for the year ended 31 December 2007

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

**Consolidated Cash Flow Statement**

	<u>Note</u>	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>			
<b>Proceeds</b>			
Products		21 938 083	18 784 683
Services		60 094	34 309
Other operations		<u>3 862 026</u>	<u>2 490 253</u>
Total cash proceeds		25 860 203	21 309 244
<b>Cash outflow</b>			
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		<u>(3 577 887)</u>	<u>(5 330 019)</u>
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		<u>(239 003)</u>	<u>(119 679)</u>
Net cash flow from operating activities		(880 548)	(241 363)
<b>Cash flows from investing activities</b>			
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		<u>92 655</u>	<u>37 560</u>
Net cash flow from investing activities		(2 957 697)	(1 659 986)
<b>Cash flows from financing activities</b>			
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		<u>3 990 473</u>	<u>2 014 309</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>152 227</u></b>	<b><u>112 959</u></b>
Cash and cash equivalents at beginning of the year	12	<u>293 763</u>	<u>180 804</u>
Cash and cash equivalents at end of the year	12	<u>445 990</u>	<u>293 763</u>

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**Mechetin A.A., Chairman of Management Board**

**Kim E.S., Chief Accountant**

30 April 2008