

**Open Joint Stock Company
“HC “OZNA” and
Subsidiaries**

**Consolidated Financial Statements
For the Year Ended 31 December 2008**

OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

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OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Open Joint Stock Company "HC "OZNA" and its subsidiaries (the "Group") as of 31 December 2008, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2008 were approved by management on 10 June 2010.


M.V. Kravtsov
General Director


M.N. Sultanbekova
Finance & Economics Deputy Manager

10 June 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company "HC "OZNA":

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

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Open Joint Stock Company "HC "OZNA" and its subsidiaries as at 31 December 2008 and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter – corresponding figures

Without qualifying our opinion, we draw attention to Note 29 to the accompanying consolidated financial statements which indicate that certain corresponding figures have been restated to reflect correction of an error in inventory balances and presentation of certain lines in the consolidated statement of cash flows.

D. I. Kuznetsov

Moscow, Russian Federation

10 June 2010

OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousand of Russian Rubles, except earnings per share)

	Note	Year ended 31 December 2008	Year ended 31 December 2007 (restated)
REVENUE	7	4,459,630	4,246,557
COST OF SALES	8	<u>(3,205,563)</u>	<u>(2,886,786)</u>
GROSS PROFIT		1,254,067	1,359,771
Selling, general and administrative expenses	9	<u>(824,979)</u>	<u>(537,837)</u>
OPERATING PROFIT		429,088	821,934
Income on business combination	5	7,343	-
Impairment of goodwill	5	-	(20,176)
Interest income		10,875	46,499
Interest expense		(72,154)	(83,803)
Share in profit of associates	12	290	1,977
Donations and social expenses		(3,644)	(4,638)
Other non-operating income/(expense), net		<u>97</u>	<u>131</u>
PROFIT BEFORE INCOME TAX		371,895	761,924
INCOME TAX	19	<u>(93,895)</u>	<u>(207,402)</u>
PROFIT FOR THE YEAR		<u>278,000</u>	<u>554,522</u>
Attributable to:			
Equity holders of the parent		271,894	549,855
Minority interest		<u>6,106</u>	<u>4,667</u>
		<u>278,000</u>	<u>554,522</u>
Earnings per share			
Basic and diluted earnings per share (Russian Rubles)	6	<u>0.539</u>	<u>1.090</u>

The notes on pages 8-45 form an integral part of these IFRS consolidated financial statements.

OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2008 (in thousands of Russian Rubles)

	Note	As of 31 December 2008	As of 31 December 2007 (restated)
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	745,531	682,199
Goodwill	5	8,799	8,799
Intangible assets	11	15,133	8,750
Investments in associates	12	39,051	38,761
Deferred tax assets	19	48,941	11,233
Other long-term assets		1,175	925
Total non-current assets		<u>858,630</u>	<u>750,667</u>
CURRENT ASSETS:			
Inventories	13	1,393,910	707,708
Trade and other receivables	14	790,313	999,258
Value-added tax and other taxes receivable	15	82,116	67,474
Current income tax		5,975	52,626
Short-term investments in securities and other financial assets	16	110,671	58,830
Cash and cash equivalents	17	363,658	35,584
Total current assets		<u>2,746,641</u>	<u>1,921,680</u>
TOTAL ASSETS		<u>3,605,271</u>	<u>2,672,347</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	18	504,369	504,369
Retained earnings		951,427	786,459
Equity attributable to equity holders of the parent		<u>1,455,796</u>	<u>1,290,828</u>
Minority interest		14,455	10,388
Total shareholders' equity		<u>1,470,251</u>	<u>1,301,216</u>
NON-CURRENT LIABILITIES:			
Deferred tax liability	19	79,282	79,439
Total non-current liabilities		<u>79,282</u>	<u>79,439</u>
CURRENT LIABILITIES:			
Trade accounts payable	20	625,407	134,260
Advances received		722,968	133,434
Taxes payable	21	144,956	17,519
Current income tax		18,335	12,105
Short-term borrowings	22	414,501	902,342
Accruals and other payables	23	129,571	92,032
Total current liabilities		<u>2,055,738</u>	<u>1,291,692</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>3,605,271</u>	<u>2,672,347</u>

The notes on pages 8-45 form an integral part of these IFRS consolidated financial statements.

OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(in thousands of Russian Rubles)

	Note	Share capital	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance as of 1 January 2007 (as previously reported)		49,067	875,776	924,843	2,291	927,134
Restatement	5	-	(12,828)	(12,828)	-	(12,828)
Increase of share capital as a result of the changes of the Group structure (Note 1)		455,302	(455,302)	-	-	-
Balance as of 1 January 2007 (restated)		504,369	407,646	912,015	2,291	914,306
Profit for the year (restated)		-	549,855	549,855	4,667	554,522
Minority interest arising on acquisition of subsidiary		-	-	-	3,343	3,343
Minority interest increase connected with disposal of the subsidiary		-	-	-	87	87
Dividends		-	(171,042)	(171,042)	-	(171,042)
Balance as of 31 December 2007 (restated)		504,369	786,459	1,290,828	10,388	1,301,216
Profit for the year		-	271,894	271,894	6,106	278,000
Effect changes of the Group structure (LLC "OZNA Management" - Note 1)		-	19,876	19,876	-	19,876
Minority interest increase connected with disposal of the subsidiary		-	-	-	103	103
Dividends		-	(126,802)	(126,802)	(2,142)	(128,944)
Balance as of 31 December 2008		504,369	951,427	1,455,796	14,455	1,470,251

The notes on pages 8-45 form an integral part of these IFRS consolidated financial statements.

OPEN JOINT STOCK COMPANY "HC "OZNA" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008 (in thousands of Russian Rubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007 (restated)
OPERATING ACTIVITIES:			
Profit before income tax		371,895	761,924
Adjustments for:			
Depreciation of property, plant and equipment		58,485	43,538
Interest income		(6,048)	(46,499)
Interest expense		72,154	83,803
Share in profit of associates		(290)	(1,977)
Change in allowance for doubtful receivables		5,578	3,133
Change in allowance for slow-moving inventories		2,503	3,130
Loss on disposal of property, plant and equipment		13,470	2,043
Impairment of goodwill	5	-	20,176
Other adjustments		2,933	2,244
Operating profit before working capital changes		520,680	871,515
Increase in inventories	29	(687,722)	(113,564)
Decrease/(increase) in trade accounts and other receivables	5	234,931	(363,586)
Increase in value-added tax and other taxes receivable		(14,612)	(1,432)
(Decrease)/increase in trade accounts payables		1,072,481	(129,103)
Increase in short-term accruals and other payables		37,537	58,440
Increase in taxes payable		127,437	619
Cash flows from operating activities		<u>1,290,732</u>	<u>322,889</u>
Income tax paid		(77,680)	(261,287)
Interest paid		(74,409)	(84,092)
Net cash generated by/(used in) operating activities		<u>1,138,663</u>	<u>(22,490)</u>
INVESTING ACTIVITIES:			
Interest received		998	30,051
Purchase of property, plant and equipment		(153,466)	(203,704)
Proceeds on disposal of property, plant and equipment		-	6,685
Purchase of investments in subsidiary	5	2,057	(92,713)
Purchase of investments in associate		-	(36,122)
Purchase of intangible and other assets		(6,633)	(9,675)
Purchase of securities and other financial assets		(109,357)	(2,174,309)
Proceeds on disposal of securities and other financial assets		71,067	2,331,779
Net cash used in investing activities		<u>(195,334)</u>	<u>(147,999)</u>
FINANCING ACTIVITIES:			
Proceeds from borrowings		2,817,696	2,703,210
Repayment of borrowings		(3,146,002)	(1,963,682)
Retirement of bonds, coupon payments		(160,213)	(393,453)
Dividends paid		(128,944)	(171,131)
Group structure's changes		2,206	-
Net cash from financing activities		<u>(615,257)</u>	<u>174,944</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		328,072	4,455
CASH AND CASH EQUIVALENTS, beginning of year	17	35,584	31,129
CASH AND CASH EQUIVALENTS, end of year	17	<u>363,656</u>	<u>35,584</u>

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