GOTEK Group

Independent Auditors' Report

Combined and Consolidated Financial Statements

For the Year Ended 31 December 2006

COMBINED AND CONSOLIDATED FINANCIAL STETEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 3 to 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the combined financial statements of Closed Joint Stock Company ("Polipak"), Closed Joint Stock Company ("GOTEK-Stroy") and consolidated financial statements of Closed Joined Stock Company "GOTEK-Invest" and it's Subsidiaries (collectively "GOTEK Group" or the "Group").

Management is responsible for the preparation of combined and consolidated financial statements that present fairly the combined and consolidated financial position of the Group at 31 December 2006, the combined and consolidated results of its operations, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs").

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

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the combined and consolidated financial statements; and
- preparing the combined and consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards of the Russian Federation;
- taking steps as to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The combined and consolidated financial statements for the year ended 31 December 2006 were approved on behalf of the management on 31 May 2007 by:

Kurov K. N.	**Shaurova A. I.**
Director	Chief Accountant

Российская Федерация
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INDEPENDENT AUDITORS’ REPORT

To the shareholders of GOTEK Group:

We have audited the accompanying combined and consolidated financial statements of GOTEK Group (the “Group”), which comprise the combined and consolidated balance sheet as at 31 December 2006, the combined and consolidated income statement, and statements of cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the combined and consolidated financial statements

Management is responsible for the preparation and fair presentation of these combined and 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 combined and 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 the accompanying combined and consolidated financial statements based on our audit. Except as discussed below, 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 combined and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined and consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the combined and consolidated 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 combined and 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 combined and 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 combined and consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and of its combined and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow
31 May 2007

GOTEK GROUP

COMBINED AND CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(In thousands of US Dollars)

	Note	2006	2005 (unaudited)
REVENUE	10	180,239	144,943
COST OF SALES		(134,408)	(112,466)
GROSS PROFIT		45,831	32,477
Selling, general and administrative expenses	11	(33,644)	(23,306)
Other expenses, net	13	(1,435)	(2,800)
OPERATING PROFIT		10,752	6,371
Finance cost, net	12	(9,071)	(5,231)
PROFIT BEFORE TAXATION		1,681	1,140
TAXATION	23	(1,287)	(1,564)
PROFIT/(LOSS) FOR THE YEAR		**394**	**(424)**
Attributable to:			
Minority interest		210	244
Equity holders of the parent		604	(180)
		394	**(424)**
Earnings per share			
Basic (US dollars per share)	9	**8.88**	**(2.28)**
Diluted (US dollars per share)	9	**8.88**	**(2.28)**

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.

GOTEK GROUP

COMBINED AND CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006
(In thousands of US Dollars)

	Note	2006	2005
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	14	155,024	114,786
Intangible assets		517	279
Long-term investments	15	1,423	984
Deferred tax assets	23	2,594	1,477
		159,558	**117,526**
CURRENT ASSETS:			
Inventories	16	21,625	15,511
Trade accounts receivable	17	18,837	11,879
Value added tax and other taxes receivable	18	11,133	7,569
Other receivables and advances paid	19	4,928	2,606
Held-for-trading investments	20	554	206
Non-current assets classified as held for sale	28	6,140	2,904
Cash and cash equivalents	21	11,583	7,718
		74,800	**48,393**
TOTAL ASSETS		**234,358**	**165,919**
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	22	150	243
Foreign currency translation reserve		1,812	(1,302)
Retained earnings		32,324	35,873
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**34,286**	**34,814**
MINORITY INTEREST		825	4,648
TOTAL EQUITY		**35,111**	**39,462**
NON-CURRENT LIABILITIES:			
Deferred tax liabilities	23	12,160	10,429
Long-term borrowings	24	81,971	69,249
		94,131	**79,678**
CURRENT LIABILITIES:			
Trade accounts payable		11,357	7,882
Advances received		1,003	799
Other payables and accrued expenses	25	37,238	6,935
Taxes payable	26	1,559	4,325
Short-term borrowings	27	53,959	26,838
		105,116	**46,779**
TOTAL EQUITY AND LIABILITIES		**234,358**	**165,919**

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.

GOTEK GROUP

COMBINED AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(In thousands of US Dollars)

	Share capital	Foreign currency translation reserve	Retained earnings	Attributable to shareholders of the parent	Minority interest	Total
Balance as at 1 January 2005 (unaudited)	**243**	**26**	**38,025**	**38,294**	**5,069**	**43,363**
Loss for the year	-	-	(180)	(180)	(244)	(424)
Dividends	-	-	(1,972)	(1,972)	-	(1,972)
Effect of translation to presentation currency	-	(1,328)	-	(1,328)	(177)	(1,505)
Balance as at 31 December 2005	**243**	**(1,302)**	**35,873**	**34,814**	**4,648**	**39,462**
Profit for the year	-	-	604	604	(210)	394
Treasury shares	-	-	(786)	(786)	-	(786)
Additional purchases of shares of CJSC "Polipak" (Note 8)	(93)	-	(1,001)	(1,094)	(3,912)	(5,006)
Dividends paid	-	-	(2,366)	(2,366)	-	(2,366)
Effect of translation to presentation currency	-	3,114	-	3,114	299	3,413
Balance as at 31 December 2006	**150**	**1,812**	**32,324**	**34,286**	**825**	**35,111**

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.

GOTEK GROUP

COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(In thousands of US Dollars)

	Notes	2006	2005 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		1,681	1,140
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		10,730	8,101
Interest income		(1,342)	(204)
Loss on disposal of property, plant and equipment		160	1,717
Fair value adjustment on investment in quoted shares		(319)	(131)
Change in allowance for doubtful receivables		570	551
Change in allowance for slow-moving inventory and waste materials		658	576
Foreign exchange loss/(gain)		50	(2,090)
Interest expense		10,682	7,656
Other adjustments		-	383
Operating profit before working capital changes		22,910	17,699
(Increase)/decrease in accounts receivable		(10,486)	12,853
Increase in inventory and non-current assets held for sale		(8,356)	(2,414)
Increase/(decrease) in accounts payable		27,319	(17,571)
Cash flows from operations		31,387	10,567
Income tax paid		(1,948)	(1,508)
Interest paid		(10,343)	(7,573)
Net cash generated by operating activities		19,096	1,486
CASH FLOW USED IN INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangibles		(43,871)	(23,332)
Purchase of additional shares in share capital of subsidiaries		(5,005)	-
Purchase of treasury shares		(786)	-
Proceeds from disposal of property, plant and equipment		4,155	570
Interest received		1,342	283
Net cash used in investing activities		(44,165)	(22,479)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from short-term and long-term borrowings		91,016	134,095
Repayment of short-term and long-term borrowings		(61,334)	(108,560)
Short-term loans provided to third parties, net		-	(401)
Dividends paid to shareholders		(1,427)	(1,391)
Net cash generated from financing activities		28,255	23,743
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,186	2,750
EFFECT OF TRANSLATION TO PRESENTATION CURRENCY		679	(237)
CASH AND CASH EQUIVALENTS, beginning of year	21	7,718	5,205
CASH AND CASH EQUIVALENTS, end of year	21	11,583	7,718

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The accompanying combined and consolidated financial statements comprise combination of financial statements of Closed Joint Stock Company "Polipak", Closed Joint Stock Company "GOTEK-Stroy" and consolidated financial statements of Closed Joined Stock Company "GOTEK-Invest" and its subsidiaries (the "Group" or "GOTEK Group").

The main activity of the Group is the production of packaging from various materials such as paperboard, polygraph, flexible, plastic and proformas. The Group was formed in 1991 centered around a packaging factory in Zheleznogorsk established in 1969. The principal operating facilities of the Group are located at: Promzona, Zheleznogorsk, Kursk region, 307170, Russian Federation.

The Group operates in the Russian Federation.

The principal activities of the significant entities of the Group as of 31 December 2006 are as follows:

		Percentage of effective ownership interest as of 31 December	
Operating entity	**Activity**	**2006**	**2005**
CJSC "GOTEK-Invest"	Holding company	Parent	Parent
CJSC "GOTEK"	Production of corrugated cardboard and cardboard packages	93.92%	93.92%
CJSC "GOTEK-Print"	Production of printing packages	99.38%	97.88%
CJSC "GOTEK-Litar"	Production of cast packages	93.92%	93.92%
CJSC "GOTEK-Center"	Production of corrugated cardboard and packages from it	100%	100%
CJSC "Universaliniy Leasing"	Lease of property to the companies of the Group	100%	100%
LLC "GOTEK-CPU"	Rendering accounting and other services to the companies of the Group	100%	100%
CJSC "GOTEK-Avto"	Transportation services to the companies of the Group – delivery of finished goods to customers	93.92%	93.92%
LLC "CHOP GOTEK-Garant"	Rendering security services to companies of the Group	100%	100%
CJSC "MIR"	Cattle Breeding	99.5%	49%
CJSC "Polipak"	Production of plastic packaging	Company under common control	Company under common control
CJSC "GOTEK-Stroy"	Construction company	Company under common control	Company under common control

As of 31 December 2006 and 2005 all companies of the Group were under the common control of a group of individuals (the "Control Group") who owned, directly or indirectly, a majority of shares in each of these companies, or otherwise controlled these companies. The Control Group is represented by the following individuals: Mr. V.A. Chuikov, Mrs. E.V. Chuikova, Mr. U.V. Alpeev, Mrs. N.P. Golubeva and Mr. V.V. Sukhoteplov.

During 2006 CJSC "MIR" performed additional share issue by the means of new share issuance. Additional 4.456.330 shares were purchased by the Group at nominal value of 1 RUR as a result of this operation the Group's share in the company increased to 99.5%.

As of 31 December 2006 the combined and consolidated financial statements consisted of the following enterprises with the following controlling interests by the Control Group:

Operating entity	Controlling interest
CJSC "GOTEK- Invest"	98.94%
CJSC "Polipak"	94.94%
CJSC "GOTEK- Stroy"	59.00%

The average number of employees of the Group as of 31 December 2006 and 2005 was 3,252 and 2,932 respectively.

2. STATEMENT OF COMPLIANCE

The combined and consolidated financial statements of the Group for the year ended 31 December 2006 have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRSs"). Certain disclosures required by IFRS 1 "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1") in relation to the transition from Russian Accounting Standards ("RASs") to IFRSs are given in Note 7.

IFRSs include Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IASs") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") which replaced the Standing Interpretations Committee.

In preparing the combined and consolidated financial statements, management has used existing standards and interpretations that are effective at the Group's first IFRS annual reporting date, 31 December 2006.

The Group previously did not prepare combined and consolidated financial statements under IFRS. The entities of the Group maintain their accounting records in Russian Roubles in accordance with the regulatory accounting and reporting requirements of the Russian Federation which differ substantially from those generally accepted under IFRSs. Accordingly, their statutory financial statements have been adjusted so that the combined financial statements of the Group are presented in compliance with IFRS.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has complied with all the IFRS which have been issued by the IASB, with effect from 1 January 2005, if they are relevant and applicable to the Group's business and disclosure requirements. In 2006, the Group adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006.

At the date of approval of the Group's combined financial statements, the following new and revised Standards and Interpretations have been issued, but not are effective for the current year:

New or revised Standards and Interpretations	Effective for accounting periods beginning on or after
Amendment to IAS 1 "Capital Disclosures"	1 January 2007
Amendment to IAS 23 "Borrowing Costs"	1 January 2008
IFRS 7 "Financial Instruments: Disclosures"	1 January 2007
IFRS 8 "Operating Segments"	1 January 2009
IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"	1 March 2006
IFRIC 8 "Scope of IFRS 2 (Share-Based Payment)"	1 May 2006
IFRIC 9 "Reassessment of Embedded Derivatives"	1 June 2006
IFRIC 10 "Interim Financial Reporting and Impairment"	1 November 2006
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"	1 March 2007
IFRIC 12 "Service Concession Arrangements"	1 January 2008

The impact of the adoption of these Standards and Interpretations in the preparation of the combined and consolidated financial statements in future periods is currently being assessed by Group management, however no material effect on the Group's financial position or results of its operations is anticipated as a result of such adoption. IFRS 7 "Financial Instruments: Disclosures", is expected to require more comprehensive disclosures in the combined and consolidated financial statements of the Group's financial instruments.

4. BASIS OF PRESENTATION

The Group applied IFRS 1 in the preparation of its combined and consolidated balance sheet at 1 January 2005 and this is the Group's transition date for the first time adoption of IFRS. The Group elected under IFRS 1 to account for property, plant and equipment at deemed cost being the fair value of such assets at the date of transition to IFRS.

The combined and consolidated financial statements of the Group have been prepared on the historical cost basis, except for the valuation of property, plant and equipment, which has been presented at fair value, as determined by independent appraisers and valuation of held-for-trading investments which are presented at fair value based on quoted market price.

Functional and Presentation Currency

The functional currency of the Group's entities, which reflects the economic substance of its operations, is the Russian Rouble ("RUR").

The Group has chosen to present its combined and consolidated financial statements in US Dollars ("USD"). The translation of the combined and consolidated financial statements from the functional currency to the presentation currency is made as follows:

- All assets and liabilities, both monetary and non-monetary are translated at closing exchange rates at the dates of each combined balance sheet presented;
- All items included in the combined equity, other than net profit for the year, are translated at historical exchange rates;
- All income and expenses in each income statement are translated at the average exchange rates for the years presented;
- Resulting exchange differences are included in equity and presented separately as Foreign currency translation reserve; and
- In the combined statement of cash flows, cash balances at beginning and end of each year presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented. Resulting exchange differences are presented as "Effect of translation to presentation currency".

The Russian Rouble is not a fully convertible currency outside the territory of the Russian Federation. The translation of assets and liabilities, denominated in RUR, into US Dollars for the purpose of these financial statements does not indicate that the Group could or will in the future realise or settle in US Dollars the translated values of these assets and liabilities.

	2006	2005	2004
EXCHANGE RATES			
31 December	26.3311	28.7825	27.7487
Average for the year	27.1852	28.2864	28.8150

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Combination and Consolidation

The combined and consolidated financial statements of the Group incorporate the financial statements of entities that are controlled by the Control Group through direct or indirect ownership of the majority of voting interests, or by other means of control. There is no formal legal structure in place which would allow for consolidation based on ownership; however, the companies of the Group conduct their business as a unified group. Management believes that it is necessary to present combined financial statements of the companies under common control in order to achieve a comprehensive presentation of the financial position and results of the operations of the Group.

Where entities owned or controlled directly by the Control Group, directly or indirectly, own a majority voting interest or exercises control by other means of other entities, those entities are consolidated into the financial statements of their parents within these combined financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation and combination.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Minority interests at the reporting date consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method.
The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale which are recognised and measured at fair value less costs to sell.

The excess of cost of acquisition over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities on the transactions under the common control is recognised on the statement of changes in equity as distribution to equity holders .

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.
For the purpose of impairment testing, the Group is viewed as a single cash-generating unit. Goodwill is being tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of cash-generating unit is less than carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Non-Current Assets Held for sale

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or (disposal group) is available for immediate sale in its present condition.

Management must be committed to sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets are measured at the lower of its previous carrying amount and fair value less costs to sell.

Foreign Currencies

The individual financial statements of each Group's entity are presented in its functional currency. Transactions in currencies other than the Group's functional currency ("foreign currencies") are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the income statement.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and value-added tax.

Revenue from the sale of packaging (finished goods) is recognised when the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership, upon finished goods delivery;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering of services is recognised at the time the services are provided.

Interest income is accrued on timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts, through the expected life of the financial asset, to that assets net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Segmental Reporting

The Group predominately operates in a single business and geographical segment, producing different types of packages in the Russian Federation.

At present revenue from export comprises less than 3% of total sales; therefore Management of the Group considers that it is not practical to disclose segment information.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

Property, Plant and Equipment

As discussed in Note 2, the Group has adopted IFRS for the first time effective 1 January 2005. The Group has elected to utilize exemptions available for first-time adopters under IFRS 1 and has recorded property, plant and equipment at fair value. The valuations were performed by an independent appraiser. The difference between the fair value of the property, plant and equipment and its cost in Russian GAAP at 1 January 2005 is recorded as retained earnings at that date, net of effect of deferred tax (Note 7).

Subsequent additions to property, plant and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs, including overhaul expenses, are included in the asset's carrying amount 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.

Capitalised cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to income statement as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and property under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

	Number of years
Buildings and constructions	15-50 years
Machinery and equipment	8-20 years
Vehicles	5 years
Office and other equipment	3 years

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation. Fixtures and fittings are stated at cost less accumulated depreciation and any accumulated impairment loss.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible Assets, Other than Goodwill

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of Tangible Assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cost generating unit (“CGU”) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation reserve decrease to the extent of the balance of the reserve, the remaining loss is recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation reserve increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial Assets

General description – Financial assets are classified into the following specified categories: at fair value through profit or loss (“FVTPL”); held-to-maturity investments, “available-for-sale” (“AFS”) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of their investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Effective interest method – The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL – Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments – Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

Loans and receivables – Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Liabilities and Equity Instruments Issued by the Group

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Effective interest method – The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Equity instruments – 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 are recorded at the proceeds received, net of direct issue costs.

Financial liabilities – Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Income Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes have been computed in accordance with the laws of countries where the Group operates. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Employee Benefit Obligations

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the income statement.

The Group's entities are legally obliged to make defined contributions to the State Pension Funds of countries where Group operates (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the State Pension Funds of countries where Group operates relating to defined contribution plans are charged to the income statement in the period to which they relate.

Dividends Declared

Dividends paid to shareholders are determined by the board of directors and declared and approved at the annual shareholders' meeting.

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable by the Group's entities are based on the amounts available for distribution in accordance with the applicable legislation of the jurisdictions where entities operate and as reflected in the statutory financial statements of the individual entities of the Group based on calendar reporting years.

These amounts may differ significantly from the amounts calculated on the basis of IFRSs.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to taxation, useful economic lives and residual values of the oil and gas fields and property, plant and equipment and impairment of goodwill.

Taxation

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made (Note 31).

Useful Economic Lives and Residual Values of Plant and Equipment

The Group's property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

	Number of years
Buildings and constructions	15-50 years
Machinery and equipment	8-20 years
Vehicles	5 years
Office and other equipment	3 years

7. EFFECT OF TRANSITION TO IFRS

The Group's IFRS's transition date is 1 January 2005 and it prepared its opening combined and consolidated balance sheet at that date. In preparing combined and consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and the optional exemption on acquisitions from full retrospective application of IFRS that are expected to be effective at 31 December 2006.

The reconciliations of the effects of transition to IFRS are presented below:

Reconciliation of equity at the date of the transition to IFRS and at the reporting date:

	Note	31 December 2006 '000 USD	1 January 2005 '000 USD
Equity under Russian GAAP		**24,749**	**15,740**
List of IFRS adjustments:			
Inflation adjustment for available-for-sale investments	(a)	67	64
Allowance for slow-moving inventory	(b)	(595)	-
Fair value adjustment on property, plant and equipment, net of deferred tax effect	(i)	37,325	45,457
Consolidation of subsidiaries not consolidated under Russian GAAP	(d)	(8,807)	(7,817)
Deferred income tax adjustment	(e)	(7,140)	(7,460)
Accruals for employees' holidays and compensations	(f)	(788)	-
Allowance for doubtful receivables	(g)	(1,074)	-
Accrual of audit, consulting and other professional services	(h)	(6,927)	(1,382)
Repairs and maintenance expense	(h)	(1,807)	(1,106)
Fair value adjustment for held-for-sale investments	(i)	544	80
Other adjustments		(436)	(213)
Total adjustments to equity		10,362	27,623
Total equity IFRS		**35,111**	**43,363**

Reconciliation of net profit for the year ended 31 December 2006:

	Note	2006 '000 USD
Total net profit under Russian GAAP		**4,982**
List of IFRS adjustments:		
Allowance for slow-moving inventory	(b)	(61)
Additional depreciation charge	(c)	(1,607)
Consolidation of subsidiaries not consolidated under Russian GAAP	(d)	210
Reversal of deferred income tax liability	(e)	67
Accruals for employees vocations and compensations	(f)	(201)
Allowance for doubtful receivables	(g)	(570)
Accrual of audit, consulting and other professional services	(h)	(1,701)
Waste materials	(h)	(582)
Repair and maintenance expenses	(h)	(252)
Fair value adjustment for held-for-sale investments	(i)	319
Total adjustments to net profit		(4,378)
Net profit under IFRS		**604**

(a) Effect of inflation of long-term investments under Russian GAAP is different from IFRS.
(b) Additional allowance created for the difference between net realizable value of inventory and its carrying value under Russian GAAP.
(c) This is the difference between the fair value of the property, plant and equipment and its cost under Russian GAAP at 1 January 2005. Additional depreciation charge is required due to this difference.
(d) Under Russian GAAP companies are not obliged to prepare consolidated financial statements.
(e) The calculation of deferred income tax comprises different measurement criteria between assets and liabilities under Russian GAAP and IFRS's (see Note 23).
(f) The accrual of a provision for employees' holidays and compensation is not required under Russian GAAP.
(g) Additional allowance created for bad debts not created under Russian GAAP.
(h) Current year expenses permitted for capitalisation under Russian GAAP but not IFRS's.
(i) Russian GAAP permits recording of investments in shares of quoted company at cost, but IFRS's require them to be fair valued.

8. ACQUISITION OF SUBSIDIARIES

In April 2006 an additional 2% of the voting shares in CJSC "GOTEK-Print" were acquired by CJSC "GOTEK-Invest" from minority shareholders. As the result of such acquisition goodwill in the amount of USD 80 thousand was recognised by the Group as the difference between consideration paid and the fair value of net assets acquired. As of 31 December 2006 management performed impairment test of goodwill and total amount was written off to current year expense.

In August 2006, CJSC "GOTEK-Invest" acquired 39% of voting shares in CJSC "Polipak" for cash consideration in the amount of USD 5,005 thousand. Transaction was treated as operation under common control and excess of consideration paid over the net assets acquired has been recognized directly to the Equity.

9. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2006 and 2005 have been calculated on the basis of the net profit/(loss) for the year and the weighted average number of common shares in issue during the year.

The calculation of basic and diluted earnings per common share for the years ended 31 December 2006, 2005:

	2006 '000 USD	2005 '000 USD
Profit/(loss) for the year attributable to equity holders of the parent (in USD thousands)	604	(180)
Weighted average number of shares (in thousand of shares)	68	79
Basic and diluted earnings per share (US dollars)	**8.88**	**(2.28)**

10. REVENUE

Revenue for the years ended 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Domestic sales of finished goods	167,808	137,101
Export sales of finished goods	3,737	2,423
Transportation services	1,387	412
Sales of wasted paper	633	1,297
Other sales	6,674	3,710
Total	**180,239**	**144,943**

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Payroll and related taxes	8,226	5,469
Repair and maintenance expenses	7,335	2,690
Transportation costs	5,559	4,762
Utilities	2,524	2,056
Taxes other than income tax	1,858	300
Professional services	1,701	3,634
Change in allowance for doubtful receivables	570	551
Bank services	422	85
Commission fee	360	343
Other expenses	5,089	3,416
Total	**33,644**	**23,306**

12. FINANCE COST

Finance cost for the years ended 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Interest expense on borrowings and bonds	10,682	7,656
Interest income	(1,342)	(204)
Fair value adjustment on investment	(319)	(131)
Foreign exchange loss/(gain)	50	(2,090)
Total	**9,071**	**5,231**

13. OTHER EXPENSES, NET

Other income and expenses, for the years ended 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Charity payments	633	750
Loss on disposal of property, plant and equipment	160	1,717
Penalties	62	9
Goodwill impairment	80	-
Other expenses	500	324
Total	**1,435**	**2,800**

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2006 and 2005 consisted of the following:

	Buildings '000 USD	Machinery and equipment '000 USD	Other assets '000 USD	Construction in progress '000 USD	Total '000 USD
Cost					
At 1 January 2005	31,528	85,113	10,796	12,879	140,316
Additions	165	16,148	595	6,130	23,038
Transfers from construction in progress	6,143	132	13	(6,288)	-
Disposals	(375)	(2,282)	(526)	(264)	(3,447)
Effect of translation to presentation currency	(1,234)	(3,299)	(390)	(455)	(5,378)
At 31 December 2005	36,227	95,812	10,488	12,002	154,529
Additions	2	106	886	42,624	43,618
Transfers from construction in progress	9,432	11,135	126	(20,693)	-
Disposals	(4,166)	(25)	(262)	(32)	(4,485)
Effect of translation to presentation currency	3,544	9,284	1,000	1,827	15,655
At 31 December 2006	45,039	116,312	12,238	35,728	209,317

	Buildings '000 USD	Machinery and equipment '000 USD	Other assets '000 USD	Construction in progress '000 USD	Total '000 USD
Accumulated depreciation					
At 1 January 2005	11,950	19,599	2,620	-	34,169
Charge for the year	879	6,488	710	-	8,077
Disposals	(170)	(638)	(353)	-	(1,161)
Effect of translation to presentation currency	(441)	(805)	(96)	-	(1,342)
At 31 December 2005	12,218	24,644	2,881	-	39,743
Charge for the year	1,229	8,648	806	-	10,683
Disposals	(101)	(23)	(46)	-	(170)
Effect of translation to presentation currency	1,174	2,574	289	-	4,037
At 31 December 2006	14,520	35,843	3,930	-	54,293
Net Book Value					
At 31 December 2005	24,009	71,168	7,607	12,002	114,786
At 31 December 2006	30,519	80,469	8,308	35,728	155,024

As at 31 December 2006 and 2005, property, plant and equipment with carrying value of USD 205,766 thousand and USD 114,777 thousand, respectively, were pledged as collateral for long-term and short-term borrowings obtained by the Group (Notes 24, 27).

15. LONG-TERM INVESTMENTS

Long-term investments as at 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Investments available-for-sale		
Shares of CJSC Insurance Company "Asko-Center"	334	305
Shares of Kurskprombank	69	64
Total available-for-sale investments	**403**	**369**
Promissory notes	1,020	504
Other	-	111
Total	**1,423**	**984**

As of 31 December 2006 and 2005 the Group owned 19,16% of voting shares of insurance company "Asko-Center". Investment in CJSC "Asko-Center" is treated as available for sale and stated at historical cost adjusted for inflation, as there is no active market for this kind of investments in Russia.

Promissory notes at 31 December 2006 and 2005 consisted of non-interest-bearing notes issued by third parties which mature on demand but not earlier than 2009.

16. INVENTORIES

Inventories as at 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Raw materials	16,486	10,688
Finished goods	4,839	4,512
Work in progress	982	877
Allowance for slow-moving inventory	(682)	(566)
Total	**21,625**	**15,511**

As at 31 December 2006 and 2005 inventories with carrying value of USD 11,522 thousand, and USD 8,175 thousand, respectively, were pledged as collateral against short-term loans granted to the Group (Note 27).

17. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as at 31 December 2006 and 2005 were as follows:

	2006 '000 USD	2005 '000 USD
Trade receivables from third parties	18,667	11,678
Trade receivables from CJSC "Asko-Center"	118	108
Other recivables	562	329
Allowance for doubtful trade receivables from third parties	(510)	(236)
Total	**18,837**	**11,879**

18. VALUE ADDED TAX AND OTHER TAXES RECEIVABLE

Value added tax ("VAT") and other taxes receivable as at 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
VAT reimbursable	10,058	7,074
Corporate income tax	936	350
Other taxes receivable	139	145
Total	**11,133**	**7,569**

19. OTHER RECEIVABLES AND ADVANCES PAID

Other receivables and advances paid as at 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Advances paid to third parties	3,898	1,824
Other receivables and prepaids	1,349	1,087
Short-term loans receivable, from related parties	282	-
Allowance for doubtful advances and other receivables	(601)	(305)
Total	**4,928**	**2,606**

20. HELD-FOR–TRADING INVESTMENTS

	2006 '000 USD	2005 '000 USD
Shares of Sberbank RF	554	206

As of 31 December 2006 and 2005 the Group owns 159 shares of Sberbank of the Russian Federation. Fair value of these investments as of 31 December 2006 and 2005 was determined using published price quotations of Moscow Interbank Currency Exchange ("MICEX"). Income at the amount of USD 319 thousand and USD 131 thousand was recognised in finance cost for the years 2006 and 2005 respectively (Note 12).

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2006 and 2005 consisted of the following:

	2006 '000 USD	2005 '000 USD
Cash in banks, in RUR	1,227	1,212
Cash in banks, in USD	2	2
Cash in banks, in EUR	2	2
Total cash in banks	**1,231**	1,216
Deposits in RUR	1,075	5,421
Cash to guarantee letter of credit, USD	630	156
Cash to guarantee letter of credit, EUR	5,280	189
Cash to guarantee letter of credit, CHF	3,364	732
Total cash to guarantee letters of credit	**9,274**	**1,077**
Petty cash	3	4
Total	**11,583**	**7,718**

The Group placed rouble deposits with Sberbank RF. These deposits mature on January 9, 2007 and bear interest of 2-2.75% per annum.

At 31 December 2006 and 2005 cash amounting to USD 750 was in restricted use.

The letter of credits relate to acquisition of production equipment and mature upon delivery.

22. SHARE CAPITAL

Share capital of the Group as at 31 December 2006 and 2005 consisted of the following:

Company Name	Amount of share capital combined in Group		Percentage of share capital combined in Group	
	2006	2005	2006	2005
	'000 USD	'000 USD		
CJSC "GOTEK-Invest"	24	24	100%	100%
CJSC "Polipak"	108	201	61%	100%
CJSC "GOTEK-Stroy"	18	18	100%	100%
Total	**150**	**243**		

The share capital of CJSC "GOTEK-Invest" is contributed by shareholders in RUR and consists of 188 authorized, issued and fully paid shares with a par value of 31.46 USD.

The share capital of CJSC "Polipak" is contributed by shareholders in RUR and consists of 47,893 authorized, issued and fully paid shares with a par value of 0.63 USD.

The share capital of CJSC "GOTEK-Stroy" is contributed by shareholders in RUR and consists of 100 authorized, issued and fully paid shares with a par value of 0.031 USD.

During 2006 CJSC "GOTEK-Invest" repurchased its own shares for the amount of USD 786 thousand.

In August 2006 CJSC "GOTEK-Invest" acquired 39% of voting shares in CJSC "Polipak" as a result of this transaction combined share capital of the Group was decreased by USD 93 thousand.

Earnings available for dividend distribution are limited to profits determined in accordance with Russian statutory accounting regulations.

Dividends declared for 2005 and 2004 were USD 2,366 and 1,972 thousand, respectively. The total amounts of dividends paid during 2006 and 2005 were 1,427 and 1,391 thousand, respectively.

23. INCOME TAX

The Group's provision for income tax for the year ended 31 December 2006 and 2005 was as follows:

	2006 '000 USD	2005 '000 USD
Current tax expense	1,500	1,193
Deferred tax (benefit)/expense	(213)	371
Total income tax expense	**1,287**	**1,564**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The movements in the Group's deferred tax position were as follows:

	2006 '000 USD	2005 '000 USD
Net liability at beginning of the year	8,952	8,907
(Benefit)/expense for the year	(212)	371
Effect of translation into presentation currency	826	(326)
Net liability at end of the year	**9,566**	**8,952**

The tax effect on the major temporary differences that gave rise to the deferred tax assets and liabilities as at 31 December 2006 and 2005 is presented below:

	2006 '000 USD	2005 '000 USD
Deferred tax assets		
Allowance for doubtful receivables and correction of timing difference	209	135
Provision for slow-moving inventory and written off inventory balance	302	197
Accrual of audit, consulting and other professional services	1,632	1,123
Other adjustments	451	22
Total	**2,594**	**1,477**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	12,012	10,380
Valuation of investments in Sberbank RF	148	49
Total	**12,160**	**10,429**
Net deferred tax liability	**9,566**	**8,952**

The statutory tax rate effective in the Russian Federation was 24% in 2006 and 2005. The taxation charge recorded in the combined and consolidated income statement differs from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group's consolidated income statement:

	2006 '000 USD	2005 '000 USD
Profit before income tax	1,681	1,140
Theoretical income tax expense at statutory rate of 24%	403	274
Adjustments due to:		
Non-deductible expenses	884	1,290
Income tax expense	**1,287**	**1,564**

24. LONG-TERM BORROWINGS

Long-term borrowings as at 31 December 2006 consisted of the following:

	Currency	Interest rate 2006	Maturity date	2006 '000 USD
Sberbank RF	Euro	2%-11%	15/03/08-05/12/11	18,804
Sberbank RF	Russian roubles	11%-13.2%	05/06/08-18/12/09	945
Sberbank RF	US Dollars	1.35%-12%	14/09/08-25/12/11	4,710
Vneshtorgbank	Swiss franc	5-6%	14/08/08-25/10/08	787
Vneshtorgbank	Euro	7-8%	14/01/08	6,392
Vneshtorgbank	Russian roubles	9.5%	24/02/08	1,518
Promissory notes	Russian roubles	5.36%	25/12/08	160
Total long-term borrowings				**33,316**
Non-convertible interest bearing bonds, net of issue cost	Russian roubles	9.9%	22/12/05-18/06/09	48,474
Interest accrued on bonds				181
Total bonds				**48,655**
Total				**81,971**

Long-term borrowings as at 31 December 2005 consisted of the following:

	Currency	Interest rate 2005	Maturity date	2005 '000 USD
Vneshtorgbank	Swiss frank	5-6%	04/07-10/08	3,746
Vneshtorgbank	Euro	7-8%	04/07-11/08	6,296
Vneshtorgbank	Russian roubles	9%	15/03/07	10,196
Sberbank RF	Russian roubles	13%	04/07-06/08	2,396
Sberbank RF	Euro	8.5%-10.5%	01/07-11/10	9,014
Sberbank RF	US Dollars	8.8%-12%	01/07-06/09	3,097
Sberbank RF	Euro	9%	06/09-08/10	7,385
Interest accrued				173
Total long-term borrowings				**42,303**
Non-convertible interest bearing bonds, net of issue cost	Russian roubles	9.9%-12.5%	10/06/03-06/06/06	26,656
Interest accrued on bonds				290
Total bonds				**26,946**
Total				**69,249**

At 31 December 2006 and 2005, long-term loans were collateralised by property, plant and equipment with a carrying value of USD 130,080 and 86,604 thousand, respectively (Note 14).

At 31 December 2006 guarantees were provided by CJSC “GOTEK”, CJSC “GOTEK-Litar”, CJSC “Polipak” and CJSC “GOTEK-Print” (subsidiaries of the Group) for long-term borrowings obtained from Vneshtorgbank and Sberbank by CJSC “Universalny Leasing”. These guarantees are provided in addition to the pledged equipment with no amounts mentioned.

Bonds

In June 2003, the Group issued 550,000 non-convertible interest bearing bonds with a face value of RUR 1 thousand, maturing on the 06 June 2006.

In December 2005, the Group issued 1,500,000 non-convertible interest bearing bonds with a face value of RUR 1 thousand, maturing on the 18 June 2009.

As of 31 December 2006 and 2005 bonds held by the Group amounted to USD 8,672 and 44,120 thousand respectively.

25. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2006 and 2005 consisted of the following:

	2006 ‘000 USD	2005 ‘000 USD
Letter of Credit (Vneshtorgbank)	23,419	-
Payables for purchases of equipment	3,572	2,527
Payables for purchases of shares of subsidiaries	3,524	-
Wages and salaries payable	1,368	1,052
Dividends payable	1,611	587
Accruals for employees’ holidays and compensations	795	537
Other payables and accrued expenses	2,949	2,232
Total	**37,238**	**6,935**

26. TAXES PAYABLE

Taxes payable as at 31 December 2006 and 2005 consisted of the following:

	2006 ‘000 USD	2005 ‘000 USD
Property tax	452	86
Value-added tax	305	3,780
Unified social tax	297	280
Other taxes	222	41
Corporate income tax	164	40
Personal income tax	119	98
Total	**1,559**	**4,325**

27. SHORT-TERM BORROWINGS

Short-term borrowings as at 31 December 2006 and 2005 consisted of the following:

	Currency	Interest rate 2006	Interest rate 2005	2006 000 USD	2005 000 USD
Sberbank RF	Russian Roubles	10.2%-11%	10.5%-11.5%	21,317	15,925
Sberbank RF	Euro	8.5%-11%	-	2,994	-
Gazprombank	Russian Roubles	9.3%-11.5%	-	2,127	-
International Moscow Bank	Russian Roubles	11%	-	3,038	-
Raiffeisenbank	US Dollars	-	Libor 1m+6%	-	1,753
American Express	US Dollars	-	0%	-	9
Vneshtorgbank	Russian Roubles	7.9%-11%	8.4%-11.75%	15,686	5,180
Vneshtorgbank	Swiss Frank	5-6%	-	3,240	-
Vneshtorgbank	Euro	8-9%	-	5,467	-
Sberbank RF	Euro	-	8.8%-10.5%	-	3,081
Sberbank RF	US Dollars	-	12%	-	782
Accrued interest				90	108
Total				**53,959**	**26,838**

As at 31 December 2006, short-term loans were collateralised as follows:

- Inventory with approximate carrying value of USD 11,522 thousand respectively (Note 16);
- Property, plant and equipment with a carrying value of USD 75,686 thousand (Note 14)
- 32,895 shares of CJSC “GOTEK” (company of the Group), representing 51% of its share capital were pledged as a collateral against the loan from Sberbank RF; and
- Guarantees were provided by CJSC “GOTEK”, CJSC “GOTEK-Print”, CJSC “Polipak”, CJSC “GOTEK-Litar” and CJSC “Universaliniy Leasing” (companies of the Group) for short-term borrowings provided by Sberbank, Vneshtorgbank and International Moscow Bank to entities of the Group.

As at 31 December 2005, short-term loans were collateralised as follows:

- Inventory with approximate carrying value of USD 8,175 thousand (Note 16);
- Property, plant and equipment with a carrying value of USD 28,173 thousand (Note 14);
- 32,895 shares of CJSC “GOTEK” (company of the Group), representing 51% of its share capital were pledged as a collateral against the loan from Sberbank;
- Guarantees were provided by CJSC “GOTEK”, CJSC “GOTEK-Print” and CJSC “Universaliniy Leasing” (companies of the Group) for short-term borrowings provided by Sberbank , Vneshtorgbank and Raiffeisen Bank to entities of the Group.

28. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

As of 31 December 2006 the Group Classified net assets of it’s subsidiary CJSC “MIR” as held for sale. These assets are represented mainly by cattle breeding livestock, land, buildings and constructions and agricultural equipment.

29. RELATED PARTIES

Related parties are considered to include the ultimate controlling parties, affiliates and entities under common ownership and control with the Group. Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. The Group, its subsidiaries and associates, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Details of transactions between the Group and other related parties are disclosed below.

Balances and transactions with the related parties

Included in the consolidated financial statements for the years ended 31 December 2006 and 2005 were the following significant balances and transactions with related parties:

	2006 '000 USD	2005 '000 USD
Trade accounts receivable (Note 17)	680	437
Other receivables and advances paid (Note 19)	282	-
Trade accounts payable	-	(129)
Other payables and accrued expenses (Note 24)	(34)	(46)
Revenue from sales	(32)	-
Purchase of services	200	186

Compensation of key management personnel

The remuneration of Board of Directors and other payments to key management of the Group that are members of Board of Directors for the years ended 31 December 2006 and 2005 amounted to USD 3,823 thousand and USD 2,885 thousand, respectively.

30. RISK MANAGEMENT

The main risks inherent to the Group's operations are those related to foreign exchange rates, liquidity, market movements in interest rates and credit risk exposures. A summary of the Group's risk management policies in relation to those risks is presented below.

Currency risk – Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The group diversified it's portfolio into different currencies with majority of the Group's borrowings being denominated in RUR, while most of the Group's assets are also denominated in RUR. Accordingly, the Group is not exposed to risk of exchange rate fluctuations.

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Company's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

Interest rate risk – The interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. All Group borrowings bear fixed interest rate.

Credit risk – Credit risk is the risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of counterparties. The Company is not economically dependent on a limited number of customers for the sale of its products, because of the existence of liquid markets for all of its products.

31. COMMITMENTS AND CONTINGENCIES

Capital commitments **–** Contracted capital expenditures at 31 December 2006, amounted to USD 28,041 thousand.

Social commitments **–** Some subsidiaries of the Group have entered into collective agreements with its employees. Under terms of such agreements the Group has a commitment to make certain social payments to its employees, the amount of which can vary from year to year. No provision for such commitments is recorded in the consolidated financial statements as future payments under such agreements are not fixed and depend entirely on the Group's management decisions. There is no reasonable basis to reliably measure even short-term liability amount.

Litigation – The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group.

Russian Federation tax and regulatory environment – The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

32. SUBSEQUENT EVENTS

In February 2007 CJSC "Gotek- Invest" established LLC "Gotek Severo-Zapad" contributing RUR 11,302,772 thousand (USD 429 thousand at 31 December 2006 exchange rate) into the share capital of the company. The entity will produce corrugated cardboard and cardboard packages in North region.

In April 2007 holding company CJSC "Gotek- Invest" was renamed CJSC "Management Company of GoC Gotek".

In May 2007 CJSC "Management Company of GoC Gotek" established LLC "Paper Factory GP "Gotek" contributing 100,000 thousand (USD 3.7 thousand at 31 December 2006 exchange rate) share capital.