OJSC "Russian Sea Group"

Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2009

Ernst & Young

ERNST & YOUNG

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Contents

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Report on review of interim condensed consolidated financial statements

To the Shareholders of OJSC "Russian Sea Group"

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of OJSC "Russian Sea Group" and its subsidiaries (the "Group") as at 31 December 2009 and the related interim condensed consolidated statements of comprehensive income, cash flows and changes in equity for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

10 March 2010

OJSC "Russian Sea Group"

Interim Consolidated Statement of Financial Position

at 31 December 2009

(in thousands of Russian Roubles)

ASSETS	Notes	31 December 2009 (Unaudited)	30 June 2009 (Audited)
Non-current assets			
Property, plant and equipment	5	1,259,694	1,256,424
Intangible assets		40,205	40,397
Loan to related party	4	13,492	-
Deferred tax asset		47,829	89,856
		1,361,220	**1,386,677**
Current assets			
Inventory		2,048,748	2,060,054
Trade and other receivables	7	1,676,827	1,124,832
VAT recoverable		64,852	50,549
Advances paid to suppliers		756,429	713,688
Loans to related parties	4	-	71,367
Income tax receivable		186,096	121,252
Cash and cash equivalents	6	103,036	236,237
		4,835,988	**4,377,979**
Total assets		**6,197,208**	**5,764,656**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		7,230,687	7,230,687
Treasury shares		(361,525)	(361,525)
Effect from reorganization of the Group under common control		(7,230,687)	(7,230,687)
Retained earnings		904,513	758,038
		542,988	**396,513**
Minority interest		321	321
Total equity		**543,309**	**396,834**
Long-term liabilities			
Long-term borrowings	8	3,350,000	-
		3,350,000	**-**
Current liabilities			
Short-term borrowings	9	523,000	3,690,000
Bonds payable		205	42,904
Trade payables		1,567,926	1,357,392
Other payables		141,224	164,397
Advances received		61,265	106,199
Taxes payable other than income tax		10,279	6,930
		2,303,899	**5,367,822**
Total equity and liabilities		**6,197,208**	**5,764,656**

General Director
D. Dangauer
10 March 2010

The notes on pages 7 to 17 are an integral part of these interim condensed consolidated financial statements.

OJSC "Russian Sea Group"

Interim Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2009

(in thousands of Russian Roubles)

	Notes	For the six months ended 31 December 2009	2008
		(Unaudited)	
Revenues		8,964,827	9,584,239
Cost of sales		(7,394,022)	(7,725,580)
Gross margin		1,570,805	1,858,659
Selling and distribution costs		(719,855)	(802,845)
General and administrative expenses		(304,416)	(363,048)
Other operating income		19,142	4,810
Other operating expenses	12	(72,251)	(6,087)
Interest income		23,055	30,267
Interest expense		(339,331)	(372,763)
Exchange rate gain/(loss)		32,580	(549,831)
Profit /(loss) before income tax		**209,729**	**(200,838)**
Income tax (expense)/credit	11	(63,254)	39,490
Profit /(loss) for the period		**146,475**	**(161,348)**
Other comprehensive income		-	-
Total comprehensive income (loss)		**146,475**	**(161,348)**
Attributable to:			
Equity holders of the parent		146,475	(161,348)
Minority interests		-	-
Basic and diluted earnings (loss) per share, Russian Roubles	13	2.06	(2.23)

The notes on pages 7 to 17 are an integral part of these interim condensed consolidated financial statements.

OJSC "Russian Sea Group"

Interim Consolidated Cash Flow Statement

for the six months ended 31 December 2009

(in thousands of Russian Roubles)

	Notes	For the six months ended 31 December 2009	2008
		(Unaudited)	
Cash flows from operating activities:			
Profit/(loss) for the period before income tax		209,729	(200,838)
Adjustments to reconcile profit/(loss) before tax to cash generated from operating activities:			
Depreciation and amortization		48,589	23,401
Interest income		(23,055)	(30,267)
Interest expense		339,331	372,763
(Gain)/loss from disposal of plant and equipment		(1,471)	2,283
Bad debt (credit)/expense		(4,383)	39,313
Operating profit before working capital changes		**568,740**	**206,655**
Working capital adjustments			
Inventory		11,306	(142,828)
Trade and other receivables		(528,411)	(362,024)
Advances paid		(42,741)	875,113
Trade accounts payable		210,534	(22,289)
Other payables		(23,173)	(56,373)
Taxes other than income tax		(10,954)	23,089
Advances received		(44,934)	(2,102)
Cash (used in)/from operations		**140,367**	**519,241**
Income tax paid		(86,070)	(57,924)
Interest received		3,853	15,665
Interest paid		(339,331)	(372,763)
Net cash (used in)/from operating activities		**(281,181)**	**104,219**
Cash flows from investing activities:			
Purchases of property and equipment	5	(50,946)	(385,686)
Proceeds from sale of fixed assets		1,060	690
Purchase of intangible assets		(310)	(3,676)
Loans provided to related parties	4	(44,250)	(50,000)
Loans repaid by related parties		102,125	-
Net cash from/(used in) investing activities		**7,679**	**(438,672)**
Cash flows from financing activities:			
Extinguishment of bonds payable		(42,699)	-
Proceeds from long-term loans	8	3,350,000	-
(Repayment)/ proceeds from short-term loans, net		(3,167,000)	414,145
Dividends paid	10	-	(84,000)
Acquisition of treasury shares		-	(44,601)
Net cash from financing activities		**140,301**	**285,544**
Net decrease in cash and cash equivalents		**(133,201)**	**(48,909)**
Cash and cash equivalents at 1 July		**236,237**	**443,660**
Cash and cash equivalents at 31 December	6	**103,036**	**394,751**

The notes on pages 7 to 17 are an integral part of these interim condensed consolidated financial statements.

OJSC "Russian Sea Group"

Interim Consolidated Statement of Changes in Equity

for the six months ended 31 December 2009

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent						
	Share capital	Treasury shares	Effect from reorganization of the Group under common control	Retained earnings	Total	Minority interests	Total equity
Balance at 1 July 2009 (Audited)	7,230,687	(361,525)	(7,230,687)	758,038	396,513	321	396,834
Profit for the period	-	-	-	146,475	146,475	-	146,475
Other comprehensive Income	-	-	-	-	-	-	-
Total comprehensive income				146,475	146,475	-	146,475
Balance at 31 December 2009 (Unaudited)	7,230,687	(361,525)	(7,230,687)	904,513	542,988	321	543,309

The notes on pages 7 to 17 are an integral part of these interim condensed consolidated financial statements.

OJSC "Russian Sea Group"

Interim Consolidated Statement of Changes in Equity (continued)

for the six months ended 31 December 2008

(in thousands of Russian Roubles)

	Equity attributable to equity holders of the parent						
	Share capital	Treasury shares	Effect from reorganization of the Group under common control	Retained earnings	Total	Minority interests	Total equity
Balance at 1 July 2008 (Audited)	7,230,687	-	(7,230,687)	696,636	696,636	321	696,957
Loss for the period	-	-	-	(161,348)	(161,348)	-	(161,348)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income (loss)	-	-	-	(161,348)	(161,348)	-	(161,348)
Acquisition of treasury shares	-	(361,525)	-	(54,233)	(415,758)	-	(415,758)
Balance at 31 December 2008 (Unaudited)	7,230,687	(361,525)	(7,230,687)	481,055	119,530	321	119,851

The notes on pages 7 to 17 are an integral part of these interim condensed consolidated financial statements.

(in thousands of Russian Roubles)

1. Corporate information

These interim condensed consolidated financial statements are prepared by the open joint stock company "Russian Sea Group". The principal activities of OJSC "Russian Sea Group" ("the Company") and its subsidiaries (jointly referred to as "the Group") are production and distribution of fish and seafood products. The production and selling companies of the Group are located in Russia. The Company is registered under the laws of Russia in Sankt-Petersburg, Dnepropetrovskaya st, building 65. The Company's headquarter address is Moscow, Letnikovskaya street, 10 building 5.

The sole shareholder of the Company is Corsico Ltd registered under the laws of Cyprus. The Group's ultimate controlling party is Maxim Vorobiev, a Russian citizen who controls 99% interest in Corsico Ltd.

These interim condensed consolidated financial statements were authorized for issue by the General Director of the Company on 10 March 2010.

The following table summarizes all the entities included in the interim condensed consolidated financial statements of the Group:

		Equity interest, %	
Name	Principal activity	31 December 2009	30 June 2009
OJSC "Russian Sea Group"	Holding/managing company	n/a	n/a
CJSC "Russian Fish Company"	Distribution	100	100
"Russian Sea Delivery" LLC	Distribution	100	100
"Russian Sea - Kaliningrad" LLC	Fish and seafood processing	100	100
CJSC "Russian Sea"	Fish and seafood processing	100	100
"Trout Farm Segozerskoye" LLC	Fish farming	100	100
"Russian Sea Aquaculture" LLC	Fish farming	100	100
"Royal Fish" LLC	Dormant entity	97	97

All subsidiaries are registered in Russia.

2. Basis of preparation and accounting policies

Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Accordingly, they do not include all of the information and disclosures required by International Financial Reporting Standards ("IFRS") in the annual financial statements.

2. Basis of preparation and accounting policies (continued)

Basis of preparation (continued)

These interim condensed consolidated financial statements should be read in conjunction with the Group's annual IFRS consolidated financial statements as of 30 June 2009 and for the year then ended, considering the effect of adoption of new Standards and Interpretations, which is described below.

The Company and its subsidiaries maintain their accounting records in accordance with regulations applicable in the Russian Federation. These interim condensed consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IAS 34.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates.

Other than the effect of adoption of new Standards and Interpretations, as described below, the Group followed the same accounting policies and methods of computation as compared with those applied in the financial statements at 30 June 2009 and for the year then ended.

These interim condensed consolidated financial statements are presented in the national currency of the Russian Federation, Russian Rouble (RR), which is the functional currency of the Company and its subsidiaries.

In the six month period ended 31 December 2009, the Group introduced improvements in the logistics process, which allowed a more precise allocation of transportation costs to inventory/cost of sales as freight in or selling and distribution costs as freight out. Owing to the nature of the Group accounting records it was impracticable to estimate the amount of the respective reclassification between cost of sales and selling and distribution costs in the comparative period, however the effect is not believed to be material to the financial statements.

For consistency of presentation, certain amounts were reclassified in the comparative figures from general and administrative expenses to selling and distribution costs.

Seasonality of operations

Due to the seasonal nature of the Group's operations, higher revenues in both operating segments (Note 3) are usually expected in the fourth quarter of each calendar year due to very high customer demand on fish and seafood during Christmas and New Year period.

Given the seasonality of operations, the Group's operating results for the six-month period ended 31 December 2009 are not necessarily indicative of the results that may be expected for the year ending 30 June 2010.

2. Basis of preparation and accounting policies (continued)

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2009 except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 July 2009:

- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- IFRIC 17 "Distributions of Non-cash Assets to Owners";
- IFRIC 18 "Transfers of Assets from Customers";
- IFRS 8 "Operating segments";
- IAS 23 (amended 2007) "Borrowing costs";
- IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible Hedged Items;
- IFRS 2 "Share-based Payments" - Vesting Conditions and Cancellations;
- IFRS 3R "Business Combinations" and IAS 27R "Consolidated and Separate Financial Statements";
- IAS 1 Revised "Presentation of Financial Statements";
- Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation";
- Amendments to IFRS 1 and IAS 27 "Determining the cost of an investment in the separate financial statements";
- "Improvements to IFRSs (May 2008)" – a collection of amendments to IFRSs that will not be included as part of another major project. The following table shows the list of IFRSs where amendments have been made that can result in accounting changes for presentation, recognition or measurement purposes and the topics addressed by these amendments:

2. Basis of preparation and accounting policies (continued)

Changes in accounting policies (continued)

IFRS	Subject of amendment
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Plan to sell the controlling interest in a Subsidiary
IFRS 7 Financial Instruments: Disclosures"	Removal of the reference to "total interest income" as a component of finance costs
IAS 8 Accounting Policies, Change in Accounting Estimates and Errors	Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies
IAS 10 Events after the Reporting Period	Clarification that dividends declared after the end of the reporting period are not obligations
IAS 16 Property, Plant and Equipment	Recoverable amount Sale of assets held for rental
IAS 18 Revenue	Replacement of the term "direct costs" with "transaction costs" as defined in IAS 39
IAS 19 Employee Benefits	Curtailments and negative past service cost Plan administration costs Replacement of term 'fall due' Guidance on contingent liabilities
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Government loans with a below-market rate of interest
IAS 27 Consolidated and Separate Financial Statements	When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale
IAS 28 Investments in Associates	Required disclosures when investments in associates are accounted for at fair value through profit or loss Impairment of investment in associate
IAS 34 Interim Financial Reporting	Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33
IAS 31 Interests in Joint Ventures	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss

2. Basis of Preparation of the Financial Statements (continued)

Changes in accounting policies (continued)

IFRS	Subject of amendment
IAS 29 Financial Reporting in Hyperinflationary Economies	Description of measurement basis in financial statements
IAS 36 Impairment of Assets	Disclosure of estimates used to determine recoverable amount
IAS 38 Intangible Assets	Advertising and promotional activities Units of production method of amortisation
IAS 39 Financial Instruments: Recognition and Measurement	Reclassification of derivatives into or out of the classification of at fair value through profit or loss Designating and documenting hedges at the segment level Applicable effective interest rate on cessation of fair value hedge accounting
IAS 40 Investment Property	Property under construction or development for future use as investment property
IAS 41 Agriculture	Discount rate for fair value calculations Additional biological transformation

- IFRS 7 Financial Instruments: Disclosures

There were no significant effects of these changes in accounting policies on these financial statements.

Application of IFRS 8 Operating Segments and IAS 1 Revised Presentation of Financial Statements, which had an impact on presentation of these financial statements, is described below:

Application of IFRS 8 Operating Segments
This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 3, including revised comparative information.

IAS 1 Revised Presentation of Financial Statements
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

3. Segment information

For management purposes, the Group is organized into business units based on their products and has two reportable operating segments[1]: (1) chilled and frozen fish distribution and (2) ready-to-eat fish and seafood products.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit. Segment profit is segment revenue less segment expense. Segment expense consists of cost of sales and selling and distribution costs.

The following table presents revenue and profit information regarding the Group's operating segments:

Six months ended 31 December 2009 (Unaudited)	Chilled and frozen fish distribution	Ready-to-eat fish and seafood products	Eliminations	Group
Sales to external customers	6,827,504	2,137,323		8,964,827
Inter-segment sales	750,235	200,282	(950,517)	-
Total revenue	7,577,739	2,337,605	(950,517)	8,964,827
Segment profit [2]	403,169	398,149	49,632	850,950
General and administrative expenses				(304,416)
Other operating expenses,net				(53,109)
Interest expenses, net				(316,276)
Exchange rate gain				32,580
Profit before income tax				209,729

Six months ended 31 December 2008 (Unaudited)	Chilled and frozen fish distribution	Ready-to-eat fish and seafood products	Eliminations	Group
Sales to external customers	6,537,860	3,046,379	-	9,584,239
Inter-segment sales	979,611	-	(979,611)	-
Total revenue	7,517,471	3,046,379	(979,611)	9,584,239
Segment profit [2]	624,851	445,657	(14,694)	1,055,814
General and administrative expenses				(363,048)
Other operating expenses,net				(1,277)
Finance costs, net				(342,496)
Exchange rate loss				(549,831)
Loss before income tax				(200,838)

[1] *These segments were re-named as compared to the annual consolidated financial statements from (1) wholesale of raw fish and seafood and (2)production and wholesale of ready-for-use fish and seafood products .*
[2] *Inter-segment sales are based on about 5% mark up*

4. Balances and transactions with related parties

The nature of the related party relationships for those related parties with whom the Group entered into transactions for the six month period ended 31 December 2009 and 2008 or had balances outstanding at 31 December and 30 June 2009 are detailed below.

Balances with Related Parties:

	Loans receivable from related parties	Interest and other receivable
31 December 2009 (Unaudited)		
Entities under common control	-	281
Key management personnel (A)	13,492	216
30 June 2009 (Audited)		
Parent entity (B)	62,367	2,648
Entities under common control (B)	9,000	-

Transactions with Related Parties:

		Six months ended 31 December,	
Description	**Relationship**	**2009 (Unaudited)**	**2008 (Unaudited)**
Loans provided to related parties	Entity under common control (B)	25,000	50,000
	Key management personnel (A)	19,250	-
Loans repaid by related parties	Parent entity (B)	62,367	-
	Entities under common control (B)	34,000	-
	Key management personnel (A)	5,758	-
Purchases	Entity under common control (C)	5,153	2,427
	Parent entity	230	-
Interest income	Entity under common control (B)	781	593
	Key management personnel (A)	216	-
	Parent entity (B)	716	-

(A) Long-term unsecured loan denominated in Russian Roubles provided to related party had maturity date in 2015 and attracted an interest rate of 6.67% p.a.

(B) Short-term unsecured loans provided to related parties were denominated in US dollars and attracted an interest rate of 14% p.a. (2008: 12% p.a).

(C) Purchases from entities under common control represented consulting services and purchase and rent of office equipment.

4. Balances and transactions with related parties (continued)

Acquisition of treasury shares

During the six month ended 31 December 2008, the Group acquired 3,615,254 ordinary shares for cash consideration of RR 415,758. The difference of RR 54,233 between par value of the treasury shares and consideration paid was recorded to equity.

Compensation to Key Management Personnel

Key management personnel comprised 7 persons as at 31 December and 30 June 2009. Total compensation to key management personnel, all of which represented short-term employee benefits (monthly payroll and annual bonuses), included in general and administrative expenses in the income statement amounted to RR 30,379 for the six months ended 31 December 2009 (RR 53,319 for the six months ended 31 December 2008).

5. Property, plant and equipment

During the six months ended 31 December 2009, the Group acquired assets with a cost of RR 50,946 (RR 385,686 for the six months ended 31 December 2008). There were no material disposals during the six months ended 31 December 2009 and 2008.

6. Cash and cash equivalents

	31 December 2009 (Unaudited)	30 June 2009 (Audited)
Cash in bank and in hand, RR	100,901	221,776
Cash in bank and in hand, EUR, USD	2,135	2,493
Cash equivalents	-	11,968
Total	103,036	236,237

7. Trade and other receivables

	31 December 2009 (Unaudited)	30 June 2009 (Audited)
Trade receivables (net of provision for impairment of receivables of RR 125,475 (30 June: RR 129,857))	1,402,658	949,904
Other receivables	274,169	174,928
	1,676,827	1,124,832

8. Long -term borrowings

During the six month ended 31 December 2009, the Group received the following new long-term credit facilities:

Bank and credit facility agreement	Outstanding balance as of 31 December 2009 (unaudited)	Interest rate	Maturity Date	Credit facility limit
Bank VTB	1,700,000	14.7%	June 2011	1,700,000
Bank VTB (a)	1,000,000	16%	February 2011	1,000,000
Sberbank	650,000	15%	April 2011	650,000
Total	3,350,000			

(a) In February 2010, that facility balance was re-financed with a Sberbank long-term facility having limit of RR 1,500,000 and floating interest rate defined as MosPrime Interbank Offerred Rate plus 3.25% p.a. with maturity date in 2013.

VTB credit facilities (long-term and short-term - see Note 9) were secured by pledge of 100% shares of CJSC "Russian Fish Company" and CJSC "Russian Sea" and guarantee of OJSC "Russian Sea Group".

Sberbank long-term credit facility was secured by pledge of property, plant and equipment in the amount of RR 270,549 and inventory in the amount of RR 694,251.

The loan agreements with VTB and Sberbank establish certain financial ratios which should be maintained by the Group.

9. Short-term borrowings

During the six month ended 31 December 2009, the Group received the following new short-term credit facilities:

Bank	Outstanding balance as of 31 December 2009 (Unaudited)	Interest rate	Credit facility limit
Bank VTB	260,000	16%	260,000
Sberbank	263,000	15.4%	263,000
Total	523,000		

VTB credit facility was secured as described in Note 8.

Sberbank short-term credit facility was secured by pledge of property, plant and equipment in the amount of RR 90,097 and inventory in the amount of RR 329,865.

10. Dividends paid and proposed

There were no dividends proposed and/or paid during the six month ended 31 December 2009 and 2008.

11. Income tax

The major components of income tax expense (credit) are as follows:

	Six months ended 31 December	
	2009 (Unaudited)	2008 (Unaudited)
Current income tax expense	21,226	-
Deferred income tax expense / (credit)	42,028	(39,490)
Total	63,254	(39,490)

12. Other operating expenses

	Six months ended 31 December	
	2009 (Unaudited)	2008 (Unaudited)
Charity	54,341	626
Loss from disposal of property, plant and equipment	1,471	2,283
Other	16,439	3,178
Total	72,251	6,087

13. Earnings per share

Earnings per share are as follows:

	Six months ended 31 December	
	2009 (Unaudited)	2008 (Unaudited)
Weighted average number of ordinary shares outstanding	71,101,789	72,306,874
Profit (loss) for the period attributable to equity holders of the parent	146,475	(161,348)
Basic and diluted earnings / (loss) per share, Russian Roubles	2.06	(2.23)

14. Operating environment

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

15. Taxation

As at 31 December 2009, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 31 December 2009. Management's estimate of the amount of possible liabilities, including fines that could be incurred in the event that the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group is RR 24,823 at 31 December 2009. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of Russia rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in these financial statements.

16. Subsequent events

Resale of bonds

In 2010, the Group resold on the market non-convertible bonds in the amount of RR 1,180,955 which were redeemed by the Group from the holders in June 2009. The bonds have initial maturity period of five years until 2012, but they can be unconditionally offered for redemption by the holders every June during the perod of circulation. Nominal inerest rate until 19 June 2010 is 18% p.a.

Additional issue of shares

The Group announced issuance of additional 7,230,777 ordinary shares with par value per share of RR 0.1, which is planned in April 2010.

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