OAO LEBEDYANSKY

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

31 DECEMBER 2003

Contents

PRICEWATERHOUSECOOPERS

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AUDITORS` REPORT
TO THE SHAREHOLDERS OF OAO LEBEDYANSKY

1. We have audited the accompanying consolidated balance sheet of OAO Lebedyansky and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements as set out on pages 1 to 23 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of the Group as of 31 December 2003 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. Without qualifying our opinion we draw your attention to the fact that, as discussed in Note 2 of the consolidated financial statements, management has revised and reissued the consolidated financial statements for the year ended 31 December 2003 on which we previously issued a report dated 15 June 2004. Our previously issued report was qualified for non-compliance with IAS 1 as a result of non-presentation of comparative information.

PricewaterhouseCoopers

Moscow, Russian Federation
31 January 2005

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

	Note	31 December 2003	31 December 2002
ASSETS			
Current assets:			
Cash and cash equivalents	4	3,522	1,868
Available for sale investments	5	834	1,106
Originated loans		34	77
Accounts receivable and prepayments	6	36,097	23,934
Inventories	7	31,175	19,500
Total current assets		**71,662**	**46,485**
Non-current assets:			
Property, plant and equipment	8	55,902	37,216
Intangible assets	9	280	18
Investments in associated undertakings	10	-	2,498
Total non-current assets		**56,182**	**39,732**
Total assets		**127,844**	**86,217**
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	11	24,850	11,354
Tax payable	12	813	664
Finance leases payable	13	3,708	2,807
Short-term borrowings	14	4,006	19,185
Total current liabilities		**33,377**	**34,010**
Non-current liabilities:			
Finance leases payable	13	12,476	12,575
Government grants		100	109
Deferred tax liability	20	3,650	2,157
Total non-current liabilities		**16,226**	**14,841**
Total liabilities		**49,603**	**48,851**
Minority interest	21	**2,043**	**-**
Shareholders' equity:	15		
Share capital		423	386
Share premium		32	29
Presentation currency adjustment		4,393	-
Retained earnings		71,350	36,951
Total shareholders' equity		**76,198**	**37,366**
Total liabilities and shareholders' equity		**127,844**	**86,217**

Approved on behalf of the Board of Directors on 31 January 2005

M.B. Tavkazakov
Executive Director

D.V. Glavnov
Finance Director

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

	Note	For the year ended 31 December 2003	31 December 2002
Sales		272,634	175,205
Cost of sales	16	(179,058)	(127,879)
Gross profit		**93,576**	**47,326**
Selling and distribution costs	17	(32,412)	(22,238)
General and administrative expenses	18	(13,342)	(8,816)
Other operating expenses, net		(835)	(468)
Operating income		**46,987**	**15,804**
Finance expenses, net	19	(1,928)	(1,525)
Monetary gain		-	965
Net foreign exchange gain/(loss), net		333	(1,204)
Share of result of associate after tax	10	-	727
Income before taxation		**45,392**	**14,767**
Income tax expense	20	(10,672)	(4,586)
Income after taxation		**34,720**	**10,181**
Minority interest	21	(315)	-
Net income		**34,405**	**10,181**
Earnings per ordinary share — basic and diluted	22	US$ 0.00168	US$ 0.00050

Approved on behalf of the Board of Directors on 31 January 2005

M.B. Tavkazakov
Executive Director

D.V. Glavnov
Finance Director

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

	Note	For the year ended 31 December 2003	31 December 2002
Cash flows from operating activities			
Income before taxation		**45,392**	**14,767**
Adjustments for:			
Depreciation	8	5,351	3,026
Amortisation	9	(18)	2
Provision for impairment of receivables	18	982	212
Allowance for obsolete inventory		(1)	42
Loss on disposal of property, plant and equipment		479	590
Interest expense and finance leases charges	19	1,928	1,836
Interest income	19	-	(311)
Share of result of associates after tax		-	(727)
Effect of inflation on cash balances		-	224
Effect of inflation on non-operating balances		-	(2,167)
Effect of foreign exchange on non-operating balances		(593)	1,086
Operating cash flows before working capital changes		**53,520**	**18,580**
Increase in accounts receivables and prepayments		(10,832)	(16,030)
Increase in inventories		(6,013)	(4,811)
Increase in accounts payable and accrued expenses		7,058	4,510
Increase in taxes payable		(3,087)	(1,301)
Cash provided from operations		**40,646**	**948**
Income taxes paid		(7,563)	(2,761)
Interest paid		(1,410)	(1,523)
Net cash provided from/(used in) operating activities		**31,673**	**(3,336)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(9,988)	(6,674)
Proceeds from property, plant and equipment disposal		-	38
Issuance of loans		-	(77)
Receipts from repayment of loans		47	-
Interest received		-	311
Acquisition of subsidiaries, net of cash acquired	23	190	(2,202)
Net cash used in investing activities:		**(9,751)**	**(8,604)**
Cash flows from financing activities:			
Proceeds from borrowings		57,760	75,857
Repayment of borrowings		(75,659)	(62,936)
Repayment of finance lease liability		(2,944)	(1,913)
Proceeds from sale of own shares		-	29
Decrease in promissory notes		345	1,288
Net cash (used in)/provided from financing activities		**(20,498)**	**12,325**
Net increase in cash and cash equivalents		**1,424**	**385**
Cash and cash equivalents at the beginning of the year		**1,868**	**1,707**
Net increase in cash and cash equivalents		1,424	**385**
Effect of inflation on cash balances		-	**(224)**
Presentation currency adjustment (Note 2)		230	-
Cash and cash equivalents at the end of the year	4	**3,522**	**1,868**

Approved on behalf of the Board of Directors on 31 January 2005

M.B. Tavkazakov
Executive Director

D.V. Glavnov
Finance Director

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

	Notes	Share capital	Share premium	Presentation currency adjustment (Note 2)	Retained earnings	Total shareholders' equity
Balance at 1 January 2002		**386**	**-**	**-**	**26,770**	**27,156**
Purchase and resale of treasury shares	15	-	29	-	-	29
Net income for the year		-	-	-	10,181	10,181
Balance at 31 December 2002		**386**	**29**	**-**	**36,951**	**37,366**
Balance at 1 January 2003		**386**	**29**	**-**	**36,951**	**37,366**
Issuance of shares	15	6	-	-	(6)	-
Net income for the year		-	-	-	34,405	34,405
Presentation currency adjustment (Note 2)		31	3	4,393	-	4,427
Balance at 31 December 2003		**423**	**32**	**4,393**	**71,350**	**76,198**

Approved on behalf of the Board of Directors on 31 January 2005

M.B. Tavkazakov
Executive Director

D.V. Glavnov
Finance Director

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

1. LEBEDYANSKY GROUP AND ITS OPERATIONS

OAO Lebedyansky and its subsidiaries ("the Group") principal activities are production and distribution of juices, juice based drinks and baby food juices and purees. The Group's juices and juice based drinks are distributed under brands Ya, Tonus, Fruktovy Sad, Frustail, Privet and Vitamin, baby food juices are distributed under brand Frutonyanya and Malysham and baby food purees under brand Frutonyanya. The Group's manufacturing facilities are primarily based in Lipetsk region, the Russian Federation. The parent company, OAO Lebedyansky ("the Company" or "Lebedyansky") was incorporated as an open joint stock company in the Russian Federation in 1992. The Group is controlled by individuals.

The principal subsidiaries consolidated within the Group and the degree of control exercised by Lebedyansky are as follows:

Entity	Country of Incorporation	Activity	**2003 % share**	**2002 % share**
OAO Progress	Russia	Juice production	75%	49%
DP Sandance	Ukraine	Juice distribution	100%	100%
Sandance Kazakhstan	Kazakhstan	Juice distribution	100%	-

At 31 December 2003 the Group employed approximately 3,432 employees (at 31 December 2002: 2,694). The registered office of the Company is ul. Matrosova 7, Lebedyan, Lipetsk region, Russian Federation.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group has issued IFRS financial statements for the first time as of 31 December 2003. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On 15 June 2004 management issued consolidated financial statements for the year ended 31 December 2003 which did not comply with International Accounting Standard ("IAS") 1 "Presentation of financial statements", as corresponding figures had not been presented for the statements of income, of cash flows, of changes in shareholders' equity and related disclosure notes.

Group companies, registered on the territory of the Russian Federation, maintain their accounting records in Russian Rouble ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The Group's subsidiaries are considered foreign operations integral to those of the parent, as defined by IAS 21 "The Effects of Changes in Foreign Exchange Rates", if the individual businesses operations depend on the parent company. The measurement currency of the Group's subsidiaries may be either RR or other local currency depending upon the location and nature of the activities of the particular business.

In the case of subsidiaries located in other territories, where the measurement currency is not RR, the financial statements have been measured in local currency and translated into RR at the applicable exchange rates as required by IAS 21 for inclusion in these consolidated financial statements.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale investments are shown at fair value. The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of financial instruments and the provision for impairment of receivables. Actual results could differ from these estimates.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

These consolidated financial statements have been measured in Russian Roubles (RR), which reflects the economic substance of the underlying events and circumstances of the Group, but have been presented in US dollars ("US$") in accordance with pronouncements of Standing Interpretation Committee (SIC) 30 "Reporting Currency – Translation from Measurement Currency to Presentation Currency". Balance sheet items have been translated at the official rate of the Central Bank of the Russian Federation at 31 December 2003 (RR 29.4545 for US$1) and 31 December 2002 (RR 31.7844 for US$1), respectively. Income and expense items for the year ended 31 December 2003 have been translated at the exchange rates that approximate the actual exchange rates existing at the dates of the transactions. All exchange differences resulting from the presentation translation have been recognised directly in equity as a presentation currency adjustment. As the economic environment of the Russian Federation was considered hyperinflationary until 31 December 2002, income and expense items for the year ended 31 December 2002 have been translated at the exchange rate at 31 December 2002 (RR 31.7844 for US$1). Management believes that presentation of consolidated financial statements in US dollars will be convenient for users of these consolidated financial statements.

The US$ amounts should not be construed as a representation that the RR amounts have been or could have been converted to US$ at this rate.

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

Corresponding figures, for the year ended 31 December 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Year	Index	Conversion Factor
1998	1,216,400	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,154	1.00

The main guidelines followed in restating the corresponding figures were:

- All corresponding amounts, were stated in terms of the measuring unit current at 31 December 2002;
- Monetary assets and liabilities held at 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002.
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002.
- All items in the statement of income and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2002.
- Gains or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 31 December 2002 were included in the income statement as a monetary gain or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Group accounting

Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating polices, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity.

Associated undertakings

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associated undertakings includes goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

3.2 Investments

The Group classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the consolidated statement of income in the period in which they arise.

3.3 Cash and cash equivalents

Cash comprise cash in hand and cash held on demand with banks.

3.4 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.6 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.7 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. At each reporting date Management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, Management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings and constructions	10 to 50
Machinery and equipment	7 to 15
Computer hardware	3 to 5
Motor vehicles	3 to 7

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.8 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisition of subsidiary undertakings is included in intangible assets. Goodwill on acquisition of associated undertakings is included in investments in associated undertakings. Goodwill is amortised using the straight-line method over its estimated useful life of ten years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Intangible assets (continued)

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the disposed entity.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the statement of income when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the statement of income over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets is recognised in the consolidated statement of income immediately.

Other intangible assets

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

3.9 Borrowings

Borrowings are recognised initially at the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

3.10 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.11 Foreign currency transactions

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at 31 December 2003, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of income.

At 31 December 2003, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (US$) 1=RR 29.4545 (31 December 2002 US$1= 31.7844). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Shareholders' equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Treasury shares

Where the Company or its subsidiaries purchases the Company's equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.13 Revenue recognition

Sales are recognised upon transfer of title for goods in accordance with the terms of contract or as services are provided as this is the date that the risks and rewards of ownership are transferred to the customers. Sales are shown net of VAT, sales tax and discounts, and after eliminating sales within the Group.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

3.14 Employee benefits

Social costs

The Group incurs employee costs related to the provision of benefits such as medical insurance, which are included in labour costs.

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of income, however, separate disclosures are not provided as these costs are not material.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Accounting for finance leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current payables. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the shorter of the useful life of the asset or the lease term, if there is no reasonable certainty that the lessee will obtain ownership by the end of lease term.

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

3.16 Government grants

Government grants are recognized when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants related to assets are recognized on the balance sheet as deferred income, which is recognised as income in the consolidated statement of income on a systematic and rational basis over the useful life of the asset.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	31 December 2003	31 December 2002
RR denominated cash on hand and balances with banks	3,122	1,868
Foreign currency denominated balances with bank (Ukrainian hryvna)	359	-
Foreign currency denominated balances with bank (Kazakhstan tenge)	41	-
	3,522	**1,868**

5. AVAILABLE FOR SALE INVESTMENTS

	31 December 2003	31 December 2002
OOO Pervomayskoe promissory notes (Note 24)	637	224
Alfa Bank promissory notes	-	693
Other	197	189
	834	**1,106**

Promissory notes issued by OOO Pervomayskoe are interest free, redeemable upon demand.

Promissory notes issued by Alfa Bank are 2 months interest free promissory notes purchased at 97.85% to par value. The notes were redeemed in February 2003.

Management believes that the fair value of these notes is not materially different from their carrying amounts.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

6. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2003	**31 December 2002**
Trade receivables (net of provision for impairment of receivables of US$ 1,469 and US$ 235 as at 31 December 2003 and 31 December 2002, respectively)	19,797	10,974
VAT recoverable	12,858	7,732
Advances to suppliers and other receivables	3,347	2,924
Advance for acquisition of OAO Progress (Note 23)	-	2,202
Profit tax advance	95	102
	36,097	**23,934**

In 2002 the Group made a prepayment for 26% shares of OAO Progress to Lipetsk regional government in the form of a loan of RR 70 mln. at 18% interest. In January 2003 26% shares of OAO Progress were transferred to the Group (Note 23).

US$ 449 and US$ 48 of net trade receivables are denominated in foreign currency, mainly Ukrainian Hryvna, at 31 December 2003 and 31 December 2002, respectively.

The Group settled its income tax liability in the amount of US$ 3,195 and US$ 1,130 against VAT recoverable in 2003 and 2002 respectively.

7. INVENTORIES

Inventories consist of the following:

	31 December 2003	**31 December 2002**
Raw materials	21,167	12,331
Work in progress	913	187
Finished products	9,160	7,048
Less obsolescence provision	(65)	(66)
	31,175	**19,500**

Inventories with carrying value of US$ 2,951 and US$ 20,671 per statutory accounting reports were pledged as security for borrowings at 31 December 2003 and 31 December 2002 respectively (Note 14).

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings and constructions	Machinery and equipment	Computer hardware	Motor vehicles	Other	Assets under construction	Total
Cost							
Balance at 31 December 2002	4,100	28,915	473	1,989	1,210	11,111	47,798
Acquisition of subsidiaries (Note 23)	2,955	4,674	17	95	30	-	7,771
Additions	214	2,462	67	524	18	9,816	13,101
Disposals	(316)	(191)	(36)	(48)	(140)	(59)	(790)
Internal movements	4,476	8,087	202	710	255	(13,730)	-
Presentation currency adjustment (Note 2)	437	3,181	35	231	118	716	4,718
Balance at 31 December 2003	**11,866**	**47,128**	**758**	**3,501**	**1,491**	**7,854**	**72,598**
Accumulated Depreciation							
Balance at 31 December 2002	(948)	(8,158)	(136)	(801)	(539)	-	(10,582)
Depreciation charge	(540)	(3,941)	(172)	(516)	(182)	-	(5,351)
Disposals	17	166	15	34	54	-	286
Presentation currency adjustment (Note 2)	(97)	(804)	(17)	(84)	(47)	-	(1,049)
Balance at 31 December 2003	**(1,568)**	**(12,737)**	**(310)**	**(1,367)**	**(714)**	**-**	**(16,696)**
Net Book Value							
Balance at 31 December 2002	**3,152**	**20,757**	**337**	**1,188**	**671**	**11,111**	**37,216**
Balance at 31 December 2003	**10,298**	**34,391**	**448**	**2,134**	**777**	**7,854**	**55,902**

Bank borrowings are secured on properties to the value of US$ Nil and US$ 92 at 31 December 2003 and at 31 December 2002 respectively (Note14).
Leased assets included in the table above, where the Group is a lessee under a finance leases arrangements, comprise machinery and equipment:

	31 December 2003	31 December 2002
Cost: capitalised finance leases	26,019	20,924
Accumulated depreciation	(3,918)	(1,841)
Net book amount	**22,101**	**19,083**

The additions of finance leases in the year ended 31 December 2003 amounted to US$ 3,301.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

9. INTANGIBLE ASSETS

	Negative Goodwill	Goodwill	Other	Total
Cost				
Balance at 31 December 2002	-	-	21	21
Acquisition of subsidiaries (Note 23)	(615)	550	204	139
Additions	-	-	87	87
Disposals	-	-	-	-
Presentation currency adjustment (Note 2)	(49)	44	22	17
Balance at 31 December 2003	(664)	594	334	264
Accumulated Amortization				
Balance at 31 December 2002	-	-	(3)	(3)
Amortization charge	75	(52)	(5)	18
Disposals	-	-	-	-
Presentation currency adjustment (Note 2)	3	(2)	-	1
Balance at 31 December 2003	78	(54)	(8)	16
Net Book Value				
Balance at 31 December 2002	-	-	18	18
Balance at 31 December 2003	**(586)**	**540**	**326**	**280**

10. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	2003	2002
Balance at 1 January	2,498	1,771
Share of net income of associate before tax	-	576
Share of associate's tax charge	-	79
Amortization of negative goodwill	-	72
Effect of acquisition of control over associate	(2,498)	-
Balance at 31 December	**-**	**2,498**

At 31 December 2002 the Group held 49% in OAO Progress, juice plant, located in Lipetsk region. In January 2003 the Group acquired a further 26% in OAO Progress and obtained control over the plant. The associate was consolidated since January 2003 (Note 23).

Investments in associated undertakings at 31 December 2002 included negative goodwill of US$ 615, net of accumulated amortisation of US$ 109.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2003	**31 December 2002**
Trade payable	21,162	9,381
Accrued salaries and bonuses to personnel	1,543	872
Advances received	399	-
Payable for property, plant and equipment	461	280
Payable to associated companies (Note 23)	-	538
Accrued liabilities and other creditors	1,285	283
	24,850	**11,354**

US$ 16,758 and US$ 4,393 of trade payables are denominated in foreign currency, mainly Swedish Krona, US Dollar and Euro, at 31 December 2003 and 31 December 2002, respectively.

US$ 461 and US$ 280 of payables for property, plant and equipment are denominated in foreign currency, mainly US Dollar and Euro at 31 December 2003 and 31 December 2002, respectively.

12. TAX PAYABLE

	31 December 2003	**31 December 2002**
Payroll taxes	560	302
Property tax	226	184
Other taxes	27	178
	813	**664**

13. FINANCE LEASES PAYABLE

The maturity of finance leases liabilities (minimum lease payments) is as follows:

	31 December 2003	**31 December 2002**
Finance leases liabilities – minimum lease payments		
Not later that 1 year	4,216	3,397
Later than 1 year and not later that 5 years	10,739	11,093
Later that 5 years	2,537	2,501
	17,492	16,991
Future finance charges on finance leases	(1,308)	(1,609)
Present value of finance leases liabilities	16,184	15,382
Not later that 1 year	3,708	2,807
Later than 1 year and not later that 5 years	10,028	10,187
Later that 5 years	2,448	2,388
	16,184	15,382

The Group leases machinery and equipment for a period 60-96 months with the option to acquire leased assets at 5% of contract value at the end of the lease. Interest rates for finance leases are determined as LIBOR plus premium within the range 1,65% - 4,5%.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

14. SHORT-TERM BORROWINGS

Short-term borrowings by principal lender may be analysed as follows:

	31 December 2003	31 December 2002
Loan from Sberbank	-	9,376
Loan from Alfa Bank	4,001	9,800
Loan from Lipetsk regional government	5	9
Total short-term borrowings	**4,006**	**19,185**

The loan obtained from Alfa Bank in 2003 was denominated in US$, secured by finished goods and bore interest at the rate of 6.5% per annum. The loan was repaid in January 2004.

The loan obtained from Alfa Bank in 2002 was denominated in US$, secured by raw materials, finished goods and equipment and bore interest at the rate of 12.75% per annum. The loan was repaid in February 2003.

The loan obtained from Lipetsk regional government in 2002 was denominated in RR, non-secured and interest free.

The loans obtained from Sberbank in 2002 were denominated in RR, secured by raw materials and finished goods and bore interest at the rate of 15-18% per annum. The loans were repaid in January-March 2003.

Management believes that the fair value of these borrowings is not materially different from their carrying amounts.

15. SHAREHOLDERS' EQUITY

	Number of shares	Share Capital	Share Premium	Total
At 1 January 2002	7	386	-	386
Purchase and sale of treasury shares	-	-	29	29
At 31 December 2002	**7**	**386**	**29**	**415**
At 1 January 2003	7	386	29	415
Issue of shares	84	6	-	6
Presentation currency adjustment	-	31	3	34
At 31 December 2003	**91**	**423**	**32**	**455**

The issued share capital value was US$ 423 at 31 December 2003 (nominal value was RR 204,113). Seven issued and fully paid up shares with a nominal value RR 2,243 per share represented share capital at 31 December 2002. In 2003 the Group issued 84 shares with a nominal value RR 2,243 per share to the shareholders by capitalising retained earnings. In January 2004 91 shares with a nominal value RR 2,243 per share were split into 20,411,300 shares with a nominal value RR 0.01 per share (Note 27).

In 2002 the Group acquired its own shares from shareholders and sold them to other shareholders with US$ 29 premium to par value.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2003, the current year net statutory profit for the Company as reported in the published statutory reporting forms was US$ 31,221 at annual average exchange rate of RR 30.69 per US$. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

16. COST OF SALES

The components of cost of sales were as follows:

	For the year ended 31 December 2003	31 December 2002
Materials and components used	161,911	118,512
Production overheads	6,565	3,537
Labour costs	6,254	3,514
Depreciation	4,328	2,316
	179,058	**127,879**

17. SELLING AND DISTRIBUTION COSTS

Selling and distribution costs comprise:

	For the year ended 31 December 2003	31 December 2002
Transportation	9,702	6,638
Advertising	11,266	7,798
Labour costs	7,197	4,787
Warehousing	3,519	2,370
Other	728	645
	32,412	**22,238**

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise:

	For the year ended 31 December 2003	31 December 2002
Labour costs	4,797	2,674
Depreciation	1,005	710
Taxes (property tax, etc.)	900	2,238
Provision for impairment of receivables	982	212
Other	5,658	2,982
	13,342	**8,816**

19. FINANCE EXPENSES/(INCOME)

The components of finance expenses were as follows:

	For the year ended 31 December 2003	31 December 2002
Interest expense on bank loans	1,283	1,245
Finance leases charge	645	591
Interest income on loan	-	(311)
	1,928	**1,525**

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

20. INCOME TAX EXPENSE

The components of income tax expense were as follows:

	For the year ended 31 December 2003	31 December 2002
Income tax expense – current	10,744	3,790
Deferred tax – origination and reversal of temporary differences	(72)	796
Income tax expense	**10,672**	**4,586**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	For the year ended 31 December 2003	31 December 2002
Income before taxation	**45,392**	**14,767**
Theoretical tax charge at statutory rate of 24%	10,894	3,544
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses:		
Write-off of spoiled finished goods and raw materials shortages	248	157
Non-production unit expenses	143	2
Penalties	68	12
Other	694	151
Statutory tax concession	(1,147)	-
Investment in associated companies	(251)	-
Amortization of goodwill	23	-
Non-temporary element of monetary gain	-	720
Consolidated tax charge	**10,672**	**4,586**

While most companies of the Group were subject to tax rates of 24% on taxable profits for 2003, the Company has a statutory profits tax concession. Profit derived from the sale of finished goods produced on equipment purchased during 2003 is taxed at 20%, all other profit derived is taxed at 24%. Deferred tax asset/ liabilities are measured at the rate of 22% as at 31 December 2003, as this is the rate, that is expected to apply to the period, when the asset is realised or the liability is settled. The net effect of the change on deferred tax balances recognised as at 31 December 2003 is reflected in the statement of income for the year ended 31 December 2003.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company.

The Company has not recognised deferred tax liability of US$ 539 in respect of temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Net deferred tax liability in the amount of US$ 2,623 is expected to be settled after more than 12 months from balance sheet date.

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

20. INCOME TAX EXPENSE (continued)

	1 January 2002	Differences recognition and reversals	31 December 2002
Tax effects of deductible temporary differences:			
Provision for impairment of receivables	7	45	52
Accounts payable	2,369	998	3,366
Inventories	-	60	60
Other	244	126	370
Tax effects of taxable temporary differences:			
Property, plant and equipment	(3,739)	(2,003)	(5,742)
Investment in associated companies	(39)	(203)	(242)
Accounts receivable	(122)	102	(20)
Inventories	(79)	79	-
Total net deferred tax (liability)/assets	**(1,360)**	**(796)**	**(2,157)**

	1 January 2003	Differences recognition and reversals	Acquisition of subsidiary	Presentation currency adjustment	31 December 2003
Tax effects of deductible temporary differences:					
Provision for impairment of receivables	52	33	44	9	138
Accounts payable	3,366	1,149	287	337	5,139
Inventories	60	(79)	16	3	-
Other	370	(387)	4	13	-
Tax effects of taxable temporary differences:					
Property, plant and equipment	(5,742)	(326)	(1,622)	(597)	(8,287)
Investment in associated companies	(242)	251	-	(9)	-
Other	(21)	(569)	(24)	(26)	(640)
Total net deferred tax (liability)/assets	**(2,157)**	**72**	**(1,295)**	**(270)**	**(3,650)**

21. MINORITY INTEREST

	2003	2002
Balance at 1 January	-	-
Acquired in a business combination (Note 23)	1,588	-
Share of net income of subsidiaries	315	-
Presentation currency adjustment	140	-
Balance at 31 December	**2,043**	**-**

(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2), unless noted otherwise)

22. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average numbers of ordinary shares for the years ended 31 December 2003 and 31 December 2002 were adjusted for the effect of shares issuance (Note 15) and share split in January 2004 (Note 27) that have changed the number of ordinary shares outstanding without a corresponding change in resources.

	31 December 2003	31 December 2002
Weighted average number of ordinary shares outstanding	20,411,300	20,411,300
Net income	34,405	10,181
Basic and diluted earnings per share	**US$ 0.00168**	**US$ 0.00050**

23. ACQUISITION OF OAO PROGRESS

In June 2001 the Company acquired 49% of issued share capital of OAO Progress, a juice production plant located in Lipetsk region, Russian Federation, for a consideration US$ 1,695 of cash.

In January 2003 the Company acquired a further 26% of issued share capital of OAO Progress for US$ 2,202. The Group's share in share capital of OAO Progress increased to 75%. The goodwill (negative goodwill) calculated as the difference between the acquisition cost and the fair value of net assets acquired was recorded in the consolidated financial statements of the Group. Goodwill (negative goodwill) is amortised on a regular basis over a period of 10 years, which has been determined by the Directors as the useful life of this asset.

Goodwill (negative goodwill) amount was computed as follows:

	49% shares	26% shares
Total acquisition cost	1,695	2,202
Group's share in fair value of assets and liabilities at acquisition date	2,419	1,652
(Negative goodwill)/Goodwill	(724)	550

Assets and liabilities of companies acquired amounted to:

	49% shares	26% shares
Cash and cash equivalents	76	190
Property, plant and equipment (Note 8)	8,606	7,771
Intangible assets (Note 9)	189	204
Long-term investments	96	-
Inventory	2,839	3,586
Accounts receivable	1,474	2,123
Short-term investments	15	87
Accounts payable	(4,024)	(4,467)
Borrowings	(2,390)	(1,845)
Net deferred tax liability (Note 20)	(1,945)	(1,295)
Fair value of net assets	4,936	6,354
Group share in fair value of net assets acquired	**2,419**	**1,652**
(Negative goodwill)/Goodwill	(724)	550
Total acquisition cost	**1,695**	**2,202**
Less:		
Cash and cash equivalents of acquired company	(76)	(190)
Cash (outflow)/inflow on acquisition	(1,619)	190

In the year to 31 December 2003 acquisition of OAO Progress contributed US$ 11,964 to the sales and US$ 1,262 to the net profit of the Group.

24. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2003 are detailed below.

i OOO Pervomayskoe

OOO Pervomayskoe is a company controlled by the shareholders of the Group. In 2003 the Group purchased 1,865 thousand kg apricots, 1,574 thousand kg carrots and 6,766 thousand kg beetroots and other vegetables and materials from OOO Pervomayskoe in the total amount of US$ 1,418. In 2002 purchases from OOO Pervomayskoe were US$ 91. The Group sold to OOO Pervomayskoe finished goods in the amount of US$ 59 and US$ 81 in 2003 and 2002 respectively. The Group had trade payable to OOO Pervomayskoe amounted US$ 10 at 31 December 2003 and trade receivable from OOO Pervomayskoe amounted US$ 2 at 31 December 2002.

The Group made an unsecured and interest free Russian rouble denomintaed loan to OOO Pervomayskoe in 2002. The amount of loan outstanding at 31 December 2002 was US$ 77. The loan was repaid in 2003.

The Group acquires promissory notes of OOO Pervomayskoe at par value. The notes are interest free and payable upon demand. The Group had US$ 637 and US$ 224 of promissory notes issued by OOO Pervomayskoe at 31 December 2003 and 31 December 2002 respectively.

ii OAO Progress

At 31 December 2002 the Group had 49% in OAO Progress, a juice plant located in the Lipetsk region, and accounted it as an associated undertaking (Note 10). The Group purchased juice concentrate from OAO Progress in the amount of US$ 3,412. At 31 December 2002 the Group had trade payable to OAO Progress amounted to US$ 538. In January 2003 the Group acquired control over OAO Progress (Note 23).

iii Transactions with shareholders

In 2003 the Group issued 84 shares to shareholders (Note 15).

In 2003 the Group acquired a motor vehicle from one of the shareholders for US$ 10. The amount is payable in full at 31 December 2003.

In 2002 the Group sold treasury shares to one of the shareholders for US$ 30. The amount is payable in equal instalments up to 31 March 2006. The Group had receivables from the shareholders in the amount of US$ 30 at 31 December 2003 and 31 December 2002.

iv Directors' compensation:

Compensation paid to directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results.

Discretionary bonuses are also payable to directors, which are approved by the shareholders, provided the Group has profit for the year.

Total compensation of key management personnel including discretionary bonuses recorded in general and administrative expenses amounted to US$ 1,390 and US$ 563 for the year ended 31 December 2003 and 31 December 2002 respectively.

25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

i Contractual commitments and guarantees

At 31 December 2003 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for US$ 5,998 (2002: US$ nil).

ii Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

At 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

iii Insurance policies

The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering equipment leased under finance lease agreements and motor vehicles.

iv Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

v Legal proceedings

During the year, the Group was involved in a number of court proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

vi Operating environment of the Group

The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

26. FINANCIAL RISKS

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

ii Foreign exchange risk

The Group consumes supply materials with US$ and Euro denominated prices and exports production to CIS countries (Ukraine, Kazakhstan) and thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 7) and liabilities (see Note 11,13 and 14) give rise to foreign exchange exposure. The Group's finance leases payable is denominated in US$ and Euro (Note 13).

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

iii Interest rate risk

The Group is exposed to interest rate risk through fluctuations of market interest rates (LIBOR) to which finance lease liabilities (Note 13) are linked. The interest rates on short-term borrowings are fixed, these are disclosed in Note 14. The Group has no significant interest-bearing assets.

iv Fair values

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

27. SUBSEQUENT EVENTS

In January 2004 91 shares with a nominal value RR 2,243 per share were split into 20,411,300 shares with a nominal value RR 0.01 per share (Note 15). In March 2004 the Group declared dividends in the amount of US$ 6,834 (US$ 0.0003 per share).

At 30 September 2004 management has established an impairment provision against promissory notes of OOO Pervomayskoe (Note 5, 24).