Consolidated Financial Statements for the year ended 31 December 1999

Statement of directors' responsibilities

To the Shareholders of JSC "Red October"

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Accounting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management consider that, in preparing the consolidated financial statements set out on pages 4 to 28, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Accounting Standards have been followed.

3. Management have taken action to conserve the working capital position of the Group. Despite a working capital deficit reported in the accompanying financial statements, management believe that the Group has available to it sufficient cash resources, including the possibility of refinancing existing obligation or drawing on additional borrowing resources, to ensure that the Group will continue to finance its working capital needs and to meet its obligations as they fall due for the foreseeable future.

4. Management continued to monitor the company's program for addressing the Year 2000 issue during the period, and will continue to do so during 2000. Management is not aware of any significant adverse effects of the Year 2000 issue on the Group.

5. The consolidated financial statements which are based on the statutory accounting reports restated in accordance with International Accounting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors.

Dr. Anatoly N. Daursky
President
25 October 2000

JSC "Red October"
Bersenevskaya nab., 6,
Moscow
Russian Federation

Auditors' Report to the Shareholders and Board of Directors of JSC "Krasnij Oktyabr"

We have audited the accompanying consolidated balance sheet of JSC "Krasnij Oktyabr" ("the Company") and its subsidiaries (collectively, "the Group") as at 31 December 1999, and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These consolidated financial statements set out on pages 4 to 27 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 1999 and of the consolidated results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion, we draw your attention to Note 2 to the financial statements. The operations of the Group, and those of similar enterprises operating in the Russian Federation, have been affected, and may continue to be affected for the foreseeable future by the continuing regulatory, political and economic uncertainties existing for enterprises operating in the Russian Federation.

PricewaterhouseCoopers
Moscow, Russia
25 October 2000

Consolidated Balance Sheet as at 31 December 1999

	Notes	31 December 1999 Rbl'000	31 December 1998 Rbl'000
ASSETS			
Non current assets			
Property, plant and equipment	6	1,008,603	1,202,359
Goodwill	7	(30,770)	(9,830)
Investments in associates	8	5,645	12,108
Other investments	9	4,735	4,615
Deferred tax	18	49,519	-
Total non-current assets		**1,037,732**	**1,209,252**
Current assets			
Inventories	10	483,549	448,659
Accounts and other receivables	11	107,085	102,019
Prepayments	12	13,012	228,172
Cash and cash equivalents	13	50,423	92,188
Total current assets		**654,069**	**871,038**
Total assets		**1,691,801**	**2,080,290**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	14	163,336	162,864
Share premium		1,054,741	916,784
Cumulative gains and losses on reissuance of treasury shares		43,854	46,391
Treasury shares		(69,181)	(51,780)
Retained earnings		(353,963)	(30.950)
Total capital and reserves		837,787	1,043,309

Minority interest		79,085	54,606
Non-current liabilities			
Interest bearing borrowings	15	-	56,412
Deferred tax	18	8,600	43,519
Post retirement benefits	19	16,367	16,071
Total non-current liabilities		24,967	116,002
Current liabilities			
Interest bearing borrowings	15	357,879	303,057
Other borrowings	16	28,772	118,358
Accounts and other payables		187,600	196,985
Prepayments received	17	16,129	47,072
Current tax liability		88,620	100,028
Dividends payable	25	25,754	61,949
Accruals and deferred income		44,208	38,924
Total current liabilities		**748,962**	**866,373**
Total equity, minority interest and liabilities		**1,691,801**	**2,080,290**

These financial statements were approved by the Board of Directors in their meeting on 25 October 2000.

President
Dr. Anatoly N. Daursky

Consolidated Income Statements for the year ended 31 December 1999

	Notes	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Sales		3,267,025	2,888,224
Cost of sales		(2,708,448)	(2,272,143)
Gross profit		558,577	616,081
Other operating income		14,951	6,293
Distribution costs		(99,122)	(126,139)
General and administration expenses		(329,351)	(326,251)
Goodwill amortisation - net	7	18,151	14,011
Other operating expenses		-	(24,965)
Impairment charge	6	(497,000)	(413,671)
Loss from operations	20	(333,794)	(254,641)
Net interest expense	22	(109,272)	(30,971)
Gain on net monetary position		135,892	170,754
Foreign exchange loss		(116,567)	(475,966)
Income from loan waiver	16	61,436	-
Subsidy from Moscow goverment received	31	10,000	-
Loss before profits tax		(352,305)	(590,824)
Profits tax	23	20,327	(56,529)
Loss after profits tax		(331,978)	(647,353)
Minority interest		8,965	3,983
Net loss		(323,013)	(643,370)
		Rbl'	**Rbl'**
Earnings/(loss) per share			
- basic and diluted	24	(43,36)	(89,15)

Consolidated Statement of Changes in Equity for the year ended 31 December 1999

	No-tes	Issued capital	Share Pre-mium	Cumulative gains and losses on reissuance of Treasure Shares	Treasury Shares	Retained earnings	Total
		Rbl'000	Rbl'000	Rbl'000	Rbl'000	Rbl'000	Rbl'000
Balance at 1 January 1998		162,864	916,784	44,916	(36,714)	662,329	1,750,179
Profit on reissuance of treasure	14	-	-	1,475	-	-	1,475
Net gains/(losses) not recognised in income statement		-	-	1,475	-	-	1,475
Net loss for 1998		-	-	-	-	(643,370)	(643,370)
Dividends		-	-	-	-	(49,909)	(49,909)
Re issuance of treasury shares	14	-	-	-	1,359	-	1,359
Purchase of treasury shares	14	-	-	-	(16,425)	-	(16,425)
Balance at 31 December 1998		162,864	916,784	46,391	(51,780)	(30,950)	1,043,309
Profit/(loss) in reissuance of treasure shares	14	-	-	(2,537)	-	-	
(2,537)							
Net gains/(losses) not recognised in income statement		-	-	(2,537)	-	-	(2,537)
Net loss for 1999		-	-	-	-	(323,013)	(323,013)
New share capital issued	14	472	137,957	-	-	-	(138,429)
Re issuance of treasury shares	14	-	-	-	2,818	-	2,818
Purchase of treasury shares	14	-	-	-	(20,219)	-	(20,219)
Balance at 31 December 1999		163,336	1,054,741	43,854	(69,181)	(353,963)	838,787

Distributable reserves

The published annual statutory accounting report forms of the Company are the basis for profit distribution and other appropriations thereof. As disclosed in the published annual statutory accounting report forms of the Company for the year ended 31 December 1999 the "statutory profit" was Rbl'000 200,708 (1998: Nil).

Russian Joint stock company legislation (article 42) identifies current year "net profit" as eligible for distribution, without precisely defining "net profit". This legislation and related statutory laws and regulations dealing with distribution rights are open to legal interpretation. Accordingly management is of the opinion that it would not be appropriate to disclose an amount as representing distributable reserves in these financial statements.

Consolidated Cash Flow Statement for the year ended 31 December 1999

	Notes	31 December 1999 Rbl'000	31 December 1998 Restated Rbl'000
Cash flow from operating activities			
Loss before profits tax		(352,305)	(590,824)
Adjustments for non-cash transactions:			
Depreciation	6	123,576	109,955
Impairment charge	6	497,000	413,671
Loss on disposal of tangible fixed assets	20	18,946	22,859
Net interest expense	22	109,272	30,971
Monetary and exchange rate effect on non-operating balances		(62,833)	224,920
Loss on disposal of investments	20	236	31,160
Goodwill amortisation - net	7	(18,151)	(14,011)
Income from loan waiver	16	(61,436)	-
Subsidy from Moscow goverment received	31	(10,000)	-
Income from investments in other companies		(53)	-
Operating profit before working capital changes		244,252	228,701
(Increase) / Decrease in trade and other receivables		42,757	65,187
Increase in inventories		1,519	(37,595)
(Decrease) / Increase in trade and other payables, accruals and provisions		58,434	48,891
Cash generated from operations		346,962	305,184
Interest paid		(115,926)	(46,042)
Profit tax paid		(154,302)	(36,898)
Net cash from operating activities		*76,734*	*222,244*
Cash flows from investing activities			

Acquisition of subsidiary, net of cash acquired	5	(3,649)	(2,375)
Purchase of property, plant and equipment		(208,290)	(375,659)
Purchase of non-current investments		-	(6,697)
Proceeds from sale of property, plant and equipment		1,795	-
Proceeds from sale of investments		-	-
Interest received		684	16,463
Dividends received		-	-
Net cash used in investing activities		*(209,460)*	*(368,268)*
Cash flows from financing activities			
Proceeds from issuance of share capital		104,281	34,148
Proceeds from re issuance of treasury stock		281	2,834
Proceeds from borrowings		1,512,377	463,525
Repayment of borrowings		(1,542,397)	(271,055)
Purchase of treasury shares		(20,219)	(25,762)
Dividends paid to the parents shareholders		(36,195)	(57,006)
Subsidy from Moscow goverment	31	(36,195)	(57,006)
Dividends paid to minority interests		-	-
Effects of inflation and foreign exchange differences on financing activities		73,394	(156,251)
Net cash from (used) in financing activities		*(101,522)*	*(9,567)*
Effect of inflation and exchange rate changes on cash and cash equivalents		(10,561)	(68,669)
Net (decrease)/increase in cash and cash equivalents		(41,765)	224,260
Cash and cash equivalents - beginning of the period		92,188	316,448
Cash and cash equivalents - end of the period	13	50,423	92,188

Non-cash transaction

The principal non-cash transactions are the mutual offset and barter transactions executed in the normal course of the groups business. See Note 26.

Notes to the Consolidated Financial Statements for the year ended 31 December 1999

1. DESCRIPTION OF BUSINESS

JSC "Krasnij Oktyabr" ("the Company") was registered in Russia as an open Joint Stock Company on 25 November 1992, in accordance with the Presidential Decree on Privatisation of State Enterprises No. 721 dated 29 January 1992.

The Company, together with its subsidiaries and associates, all incorporated in the Russian Federation, form "the Group". The Group's principal activities are the production of chocolate and confectionery. These are considered to comprise one industry and geographical segment.

The principal office of the Company is located at Bersenevskaya nab. 6, Moscow, Russia.

2. RUSSIAN FINANCIAL CRISIS

The Russian Federation continues to experience economic difficulties following the financial crisis of August 1998. Consequently, the Country's currency continues to devalue, there is continued volatility in the debt and equity market, hyperinflation persists, confidence in the banking sector has yet to be restored and there continues to be general lack of liquidity in the economy. In addition, laws and regulations affecting businesses operating within the Russian Federation continue to evolve.

The Russian Federation's return to economic stability is dependent to a large extent on the effectiveness of the measures taken by the government, decisions of international lending organisations, and other actions, including regulatory and political developments, which are beyond the Group's control.

The Group's assets and operations could be at risk if there are any further significant adverse changes in the political and business environment. Management is unable to predict what effect those uncertainties might have on the future financial position of the Group. No adjustments related to these uncertainties have been included in the accompanying financial statements.

3. ACCOUNTING POLICIES

The Group has a net working capital deficiency of Rbl'000 95,000 at 31 December 1999. This includes the bank loan obligations described in Note 15, of Rbl'000 358,000, which are all classified as current liabilities as the original terms of all loans are for one year or less. It is the Group's policy to finance part of its non-current assets with short-term borrowings so that more favourable terms can be obtained. These borrowings are regularly prolonged or refinanced, and, in management opinion, the Group will be able to continue to do so for the foreseeable future, and so meet its short-term liabilities as they fall due. Further, management has taken other actions to conserve the working capital position, and the Group has available to it further borrowing resources. Thus management believes that the Group will continue to finance its working capital needs and to meet its obligations as they fall due, as a result these financial statements are presented on a going concern basis.

4. ACCOUNTING POLICIES

Basis of presentation

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory accounting reports have been restated through adjustments and reclassifications to present these consolidated financial statements in accordance with International Accounting Standards ("IAS") promulgated by the International Accounting Standards Committee, with which they comply.

The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation and modified by the initial valuation of property, plant and equipment. Property, plant and equipment are stated at cost or valuation. The reporting currency for these financial statements, is the Russian Rouble.

The presentation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and operating costs during the reporting period. The most significant estimates relate to realisation and depreciable lives of property, plant and equipment, of inventories, investments, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted to reflect a revision in classification of certain items in the income statement (see Note 20).

Further, where necessary, the comparatives have been adjusted or extended to take into account the requirements of IAS 10 (revised 1999) ("Events after the Balance Sheet Date") which the Group has implemented in 1999, in advance of its effective date (see note 4.21). The Group adopted IAS 16 (revised 1998) "Property, Plant and Equipment", IAS 22 (revised 1998) "Business Combinations", IAS 36 "Impairment of Assets", IAS 37 "Provision, Contingent, Liabilities and Contingent Assets", IAS 38 "Intangible Assets" in 1998 in advance of their effective date.

Accounting for the effects of inflation

IAS 29 "Financial Reporting in Hyperinflationary Economies" requires that financial statements prepared on a historic cost basis be adjusted to take account of the effects of inflation, for entities reporting in hyperinflationary economies. All Group companies operate in such an economy, principally defined as one in which the cumulative inflation rate in the last three calendar years exceeded 100%. Consequently, these financial statements have been restated so that all figures are expressed in terms of the measuring unit current at the most recent balance sheet date.

Management believes that indices derived from the Russian Federation Consumer Price Index ("the index") published by the Russian State Committee on Statistics ("Goskomstat"), set out below, provide the most appropriate measure of inflation in the Russian economy (based on 1 January 1989 = 100):

Date	Index	Conversion Factor
1 January 1996	487,575	3.4
1 January 1997	594,110	2.8
1 January 1998	659,403	2.5
1 January 1999	1,216,400	1.4
1 January 2000	1,661,481	1.0

These have been applied to the historic cost values of transactions and balances as follows:

- All comparative figures including monetary assets and liabilities, and other disclosures in respect of prior years, are restated by applying the change in the index during the current year.
- All items of the imcome statement are restated by applying the change in the index from the approximate date of the transaction to the balance sheet date.
- Monetary assets and liabilities at the latest balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- The gain or loss on net monetary position, which shows the effects of holding net monetary assets or liabilities, is shown as a separate item in the consolidated income statement.
- Non monetary assets and liabilities are restated by applying the change in the index from the date of the transaction, or if applicable from the date of their initial valuation, to the latest balance sheet date, and are reduced to net realisable value, estimated recoverable value, or market value as necessary.

Consolidation

Subsidiary undertakings, which are those companies in which the Group has power to exercise control over the operations, usually evidenced where, directly or indirectly, the Group has an interest of more than one half of the voting rights, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests.

A listing of the Group's principal subsidiaries and the financial effect of the acquisition of subsidiaries are shown in Note 5.

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group has the power to exercise significant influence, but which it does not control. Significant influence is usually evidenced by the Group having an interest of between 20% and 50% of the voting rights. Provisions are recorded for long term impairment in value.

Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on acquisition.

A listing of the Group's principal associated undertakings is set out in Note 5. The financial effect of the acquisition of associates is shown in Note 8.

Foreign currencies

Transactions denominated in foreign currencies are recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Outstanding foreign currency monetary items at the balance sheet date are reported at the closing exchange rate. Non-monetary items which are carried in terms of historical cost or initial valuation that is denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recognised as income or expenses of the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in the Group's reporting currency by applying to the foreign currency amount the exchange rate at the date of the cash flow for the period when there has been significant exchange rate fluctuation. For all other periods weighted average exchange rate for the year is used if it approximates the actual rate.

Financial instruments and fair value

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Disclosures about financial instruments to which the Group is a party are provided in Note 27.

Property, plant and equipment

For the purpose of determining the opening January 1, 1995 balance sheet, the Company commissioned independent appraisers to assist the Company in performing a valuation of property, plant and equipment as historical cost information was not available. Current replacement cost was used as the basis of this valuation for all categories of property, plant and equipment, except assets in the course of construction where indexed historic cost was used. Accumulated depreciation at the date of valuation was calculated on a straight line basis using the actual age of the assets and the expected useful lives. Subsequent additions in property, plant and equipment are accounted for at cost.

Maintenance, repairs and minor renewals are charged to expense as incurred.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation (if any). Any gain or loss resulting from such retirement or disposal is included in current income.

	Years
Buildings	25-70
Motor vehicles	5
Plant and machinery	10
Non productive assets	4

At each balance sheet date an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognised immediately as an expense in the income statement. Any subsequent increase in the recoverable amount of the assets would be written back when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The recoverable amount is determined as the higher of the assets' net selling price and value in use. The value in use of the assets is estimated based on forecast future cash inflows and outflows to be derived from continuing use of the assets and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

Goodwill

Goodwill arising on acquisition represents the difference between the fair value of the purchase consideration and the acquirer's interest in the aggregate of the fair values of the identifiable assets and liabilities acquired. Goodwill, whether positive or negative, is capitalised at the date of acquisition. Positive goodwill is amortised on a systematic basis over the assets useful life not exceeding a period of five years.

Whenever a cash-generating unit is tested for impairment, any goodwill that is associated with the future cash flows to be generated by the cash-generating unit is considered. The impairment loss is first allocated to the goodwill allocated to the cash-generating unit (if any) and then to the other assets of the unit.

The period, or other basis, of amortisation of negative goodwill is established by reference to the reasons for its existence. As it relates to an expectation of future losses and expenses of the entity acquired, negative goodwill is amortised to income when the related losses and expenses are recognised. In all other circumstances or if future losses and expenses are not recognised then the excess of negative goodwill over the fair value of the non monetary assets acquired are released to income immediately and the remaining balance is amortised over the remaining weighted average useful life of the depreciable and amortisable assets acquired of each subsidiary.

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

Computer software development costs

Costs associated with the maintenance of existing computer software programmes and for modifications for the Year 2000 are expensed as incurred.

Long term investments

Investments intended to be held for more than one year (other than subsidiaries, associates and joint ventures) are stated at cost and provision is only made where, in the opinion of the Directors, there is a permanent diminution in value. The provision is charged to income.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated by weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

Accounts receivable

Trade receivables are carried at anticipated realisable value after an allowance for doubtful debts.

Current investments

Investments held for the short term are stated at the lower of cost and market value determined on an individual investment basis.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and deposits held at call with banks, and highly liquid investments with original maturities of three months or less at the date of acquisition with insignificant risk of changes in value.

Provisions

Provisions (including those related to the environment) are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Taxes

Deferred taxation is provided using the balance sheet liability method based upon the concept of temporary differences. Under this method deferred taxes are required to be recognised for all temporary differences with certain specific exceptions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realised or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets should be recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

Revenue recognition

Sales are recognised upon delivery of products, net of sales taxes and discounts, and after eliminating sales within the Group.

Borrowing costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

Non cash transactions

The fair value of the costs and revenues attributed by the Group to non-cash transactions in goods and services are accounted for as an addition to the Group's assets or inventory, a reduction in its liabilities, or charged or credited to income depending upon the nature of the goods or services supplied by the other party to the transaction.

Retirement benefit obligations

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to income so as to spread the regular cost over the service lives of employees in accordance with the terms of the plan. The pension obligation should be measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability. However, given the lack of Russian government bonds with sufficient maturity, management have derived the interest rate from assumed real interest rates on comparable foreign government bonds and projected rouble inflation rates. That part of the Aactuarial gains and losses, exceeding 10% of the defined benefit obligation, will be amortised over the remaining service life of the Company employees, starting from the next reporting year.

Contributions are made to the Government's social and medical insurance, retirement benefit and unemployment schemes at statutory rates in force during the year. The costs of these benefits are recognised in the income statement as incurred.

Dividends

During 1999, the IASC published IAS 10 (revised). IAS 10 (revised) becomes applicable for accounting periods beginning on or after January 1, 2000. The Group has chosen to adopt IAS 10 (revised) for preparation of these financial statements for the year ended 31 December 1999. As a result, in 1999, the Management changed its accounting policy with respect to the recognition of the liability for dividends declared. Since 1999, dividends are recognised as a liability in the year in which they are proposed and declared. However, the opening balance of retained earnings has not been restated for the effect of the change in accounting policy (see note 25).

5. GROUP STRUCTURE

In February 1999 the Group acquired 24,5% of the shares of JSC "Penza Confectionery Factory", increasing its share from 35,5% to 60%.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	**Rbl'000**
Cash paid to acquire associate share in 1998	5,663
Cash paid to increase the share to a subsidiary	4,559
Total purchase consideration	10,222
Fair value of share of net assets acquired at the date of becoming associate	29,683
Fair value of share of net assets acquired at the date of becoming subsidiary	20,483
Fair value of net assets acquired	50,166
Total negative goodwill	39,944
Less: negative goodwill generated on acquisition of associate in 1998	(24,020)
Negative goodwill generated on acquisition of controlling interest (Note 7)	15,924

Other than for land and buildings no fair value adjustments were made to the book value of net assets acquired and no plant closure or other restructuring provisions were created.

The assets and liabilities arising from the acquisition are as follows:

	Rbl'000
Cash and cash equivalents	910
Property, plant and equipment (Note 6)	55,376
Other non-current investments	356
Inventories	36,409
Receivables	13,413
Payables	(22,574)
Borrowings	(280)
Minority interests	(33,444)
Fair value of net assets	50,166
Negative goodwill	(15,924)
Total purchase consideration	10,222
Less:	
Cash paid to acquire associate share in 1998	(5,663)
Cash and cash equivalents in subsidiary acquired	(910)
Cash outflow on acquisition	3,649

On 1 December 1998 the Group acquired 99,9% of the share capital of JSC Kraft Jacobs Suchard Petrokonf. The name was subsequently changed to JSC "Confectionery factory named after K. Samoilova".

On 23 April 1998 the Group acquired 75.2% of the share capital of JSC "Konditer".

A listing of significant subsidiaries and associates is as follows:

Name	Country of Incorporation	Ownership, %		Activity
		1999	1998	
Subsidiaries				
JSC "Confectionery factory named after K. Samoilova (St. Petersburg)	Russia	99.9	99.9	Confectionery production
JSC TAKF (Tambov)	Russia	53.4	53.4	Confectionery production
JSC TKF "Yasnaya Polyana" (Tula)	Russia	50.2	50.2	Confectionery production
JSC "Penza confectionery factory"	Russia	60.0		Confectionery production
JSC "Konditer" (Ioshkar-Ola)	Russia	75.2	75.2	Confectionery production
JSC "Yanus"	Russia	62.5	62.5	Dairy production
Associates				
JSC "Penza confectionery factory"	Russia		35.5	Confectionery production

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings Rbl'000	Plant and equipment Rbl'000	Non operating property Rbl'000	Motor vehicles Rbl'000	Total Rbl'000
Cost or valuation					
At 1 January 1999	2,166,395	1,749,406	276,970	53,711	4,246,482
Acquisition through business combinations	53,449	32,698	-	-	86,147
Additions in the year	25,126	360,412	2,194	4,453	392,185
Disposals in the year	(615)	(77,098)	-	(3,092)	(80,805)
At 31 December 1998	2,244,335	2,065,418	279,164	55,072	4,644,009
Accumulated depreciation					
At 1 January 1999	1,670,815	1,049,795	276,970	46,543	3,044,123
Acquisition through business combinations	10,068	20,703	-	-	30,771
Charge for the year	28,267	91,654	-	3,655	123,576
Impairment charge	158,477	336,213	2,194	116	497,000
Eliminated on disposals	(86)	(57,376)	-	(2,602)	(60,064)
At 31 December 1999	1,867,541	1,440,989	279,164	47,712	3,635,406
Net book value					
At 31 December 1999	376,814	624,429	-	7,360	1,008,603
At 31 December 1998	495,580	699,611	-	7,168	1,202,359

Impairment charge

IAS 36 requires an impairment loss to be recognised immediately in the statement of operations whenever the carrying amount of an asset exceeds its recoverable amount.

IAS 36 requires recoverable amount to be measured as the higher of net selling price and value in use:

a. net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs; and

b. value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In determining an asset's value in use, IAS 36 requires that an enterprise should use, among other things:

a. cash flow projections based on reasonable and supportable assumptions that:
- reflect the asset in its current condition; and
- represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset; and

b. a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flows have been adjusted.

Recoverable amount should be estimated for an individual asset. If it is not possible to do so, IAS 36 requires an enterprise to determine recoverable amount for the cash-generating unit to which the asset belongs.

All of the assets of each production site of the Group are considered to be interdependent and each production site operates as a single revenue generating entity. The Company and each of the subsidiaries, as listed in Note 5 form a separate production site. Given the nature of the Group's activities it is not practicable to relate individual revenues to specific assets or classes of assets within one production site. In the opinion of management, having regard to the nature and distribution of the Groups assets, and the nature of its revenue, all of the property, plant and equipment at each production site, should be considered as one single cash generating unit.

As disclosed in Note 2 to these financial statements, during 1998 and subsequently, the economy of the Russian Federation has suffered severe financial difficulty. The macro economic factors present in Russia currently have led to the necessity to recognise an impairment charge of Rbl'000 413,671 in the income statement of operations for the year ending 31 December 1998, having regard to the carrying values and estimated recoverable amounts of the Group's property, plant and equipment as at 31 December 1998. Net book value of tangible fixed assets as at 31 December 1998 is stated after deducting an impairment provision as follows:

	Rbl'000
Bulidings	121,635
Plant and equipment	169,046
Non operating property	122,990
Motor vehicles	-
Total	413,671

During the year ended 31 December 1999 the Company has made additional capital investments in production fixed assets. However, following the financial crisis of 1998 the recovery of demand for the Group's products was not as fast as expected. Consequently utilisation of the Group's production capacity has not increased as expected, and projected cash flows are insufficient to support the carrying values of the fixed assets, indexed for inflation. This has led to a necessity to recognise a further impairment charge of Rbl'000 497,000 in the income statement for the year ended 31 December 1999.

The carrying value of the property plant and equipment in these financial statements being Rbl'000 1,008,603 is the estimated recoverable amount of the underlying assets based on their value in use. The pre-tax discount rate applied by the Company in the assessment of value in use was 26,1% per annum in real terms. This pre tax rate is based on the post tax rate of 18%.

The principal assumptions made by the Group in the assessment of value in use are as follows for the years 2000 to 2004 respectively:

- devaluation of the Russian Rouble against the USD is in line with changes in the general price index;
- increase in selling prices is in line with the general price index;
- increase in purchase prices for imported materials are in line with the Russian Rouble devaluation;
- increase in purchase prices for domestic materials are in line with changes in the general price index;
- average wage per employee in years 2001 - 2004 in real terms are: 102.2%, 108.7%, 121.7%, 130.4% in these years accordingly (2000 - 100%)

Assets in the course of construction

Assets in the course of construction included in tangible fixed assets amounted to Rbl'000 208,398 (1998: Rbl'000 179,509) after deducting impairment provision of Rbl'000 131,528 (1998: 51,929).

Land Rights

The Group has a 49 year agreement with the City of Moscow for the use of land which the property of the City of Moscow on which the factory is constructed, entered into in 1993. The property is considered to be prime property located on the bank of the river Moskva, in the centre of the city. During 1999 the Group made an annual payment in the amount of Rbl'000 12,900 in the form of land tax (paymnets in 1998 were denominated in ECU and amounted to approximately ECU 722,000). Land Rights are not recognised as an asset in these financial statements.

7. GOODWILL

	Negative Goodwill Rbl'000	Positive Goodwill Rbl'000	Total Rbl'000
Cost or valuation			
At 1 January 1998	(72,990)	22,045	(50,945)
Disposal of subsidiaries	134	-	134
Acquisition of subsidiaries			
- amount reclassified from associate upon acquisition of controlling interest (Notes 5,8)	(24,020)	-	(24,020)
- goodwill generated (Note 5)	(15,924)	-	(15,924)
At 31 December 1999	(112,800)	22,045	(90,755)
Accumulated amortisation:			
At 1 January 1998	(42,501)	1,386	(41,115)
Disposal of subsidiaries	81	-	81
Acquisition of subsidiary - amount reclassified from associate upon acquisition of controlling interest (Notes 5,7)	(800)	-	(800)
Amortisation charge	(22,560)	4,409	(18,151)
At 31 December 1999	(65,780)	5,795	(59,985)
Net book value:			
At 31 December 1999	(47,020)	16,250	(30,770)
At 31 December 1998	(30,489)	20,659	(9,830)

8. INVESTMENTS IN ASSOCIATES

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Balance at 1 January	12,108	7,485
Investments acquired	-	30,721
Negative goodwill on acquisition of associate	-	(24,020)
Goodwill amortisation	-	800
Share of net assets reclassified as subsidiary on acquisition of controlling interest	(29,683)	-
Negative goodwill reclassified on acquisition of controlling interest (Note 7)	24,020	-
Accumulated amortisation on negative goodwill reclassified on acquisition of controlling interest (Note 7)	(800)	-
Investment written off	-	(2,878)
Equity earnings	-	-
Balance at 31 December	5,645	12,108

9. OTHER INVESTMENTS

Other investments of Rbl' 4,735 (1998: Rbl'000 4,615) represent investments in companies which are not publicly traded.

10. INVENTORIES

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Raw materials	349,858	334,985
Work in progress and semi-finished goods	46,241	49,414
Finished goods and goods for resale	87,450	64,260
	483,549	448,659

11. ACCOUNTS AND OTHER RECEIVABLES

	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Accounts receivable - trade, net of provision for doubtful debts of Rbl'000 21,422 (1998: Rbl'000 13,525)	70,132	43,761
Taxation recoverable	18,911	7,660
Receivable from associates	-	7,672
Other receivables	18,042	42,926
	107,085	102,019

Included in Other receivables as at 31 December 1998 is an amount of Rbl'000 16,572 paid by the Company in advance for treasury stock purchased in January 1999.

12. PREPAYMENTS AND ACCRUED INCOME

Included in prepayments and accrued income are deposits for tangible fixed assets of Rbl'000 726 (1998: Rbl'000 184,621).

13. CASH AND CASH EQUIVALENTS

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Cash in hand	470	509
Cash at bank in local currency	48,657	86,476
Cash at bank in foreign currency	1,296	5,203
	50,423	92,188

14. SHARE CAPITAL

	Number of shares		
	Issued	Treasury	Outstanding
Ordinary shares			
At 1 January 1998	8,355,775	(242,838)	8,112,937
Issue during the year	-	-	-
Repurchased	-	(778,583)	(778,583)
Resold	-	18,017	18,017
At 31 December 1998	8,355,775	(1,003,404)	7,352,371
Issue during the year	417,789	-	417,789
Repurchased	-	(74,989)	(74,989)
Resold	-	(29,518)	(29,518)
At 31 December 1999	8,773,564	(1,048,875)	7,724,689

Preference shares			
At 1 January 1998, 31 December 1998 and 1999	1,474,549	-	1,474,549

The total authorised number of ordinary shares is 8,773,564 shares (1998 8,355,779 shares) with a par value of one Rouble (1998 one Rouble) each. The total authorised number of preference shares is 1,474,549 shares (1998 1,474,549 shares) with a par value of one Rouble (1998 one Rouble) each. All shares are fully paid.

Total issued share capital comprises:

Type of shares	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Ordinary share capital	3,767	3,767
Preference share capital	159,569	159,097
	163,336	162,864

Movements in the year

During 1999 the Company has issued 417,789 new ordinary shares with a par value of one Rouble to the Moscow government. An amount of Rbl'000 138,429 was received by the Company for the issue.

In addition, during 1999, the Company repurchased 74,989 ordinary shares (1998: 778,583) at a value of Rbl'000 20,219 (1998: Rbl'000 16,425) and 29,518 ordinary shares (1998: 18,017) have been sold for a consideration of Rbl'000 281 (1999: Rbl'000 2,834).

Ownership rights

The Company's ordinary shares carry voting rights, but have no guarantee of dividends becoming payable.

Holders of the Preference shares are entitled to receive dividends in preference to any dividend on the ordinary shares, when, as and if recommended by the Board of Directors and declared payable by the holders of the ordinary shares at the annual general meeting. The preference dividend for 1998 declared at the 1999 annual general meeting is an amount equal to US$ 1.2 per share (payable in Roubles), and in each subsequent year, in the amount per share recommended by the Board of Directors and declared payable by the holders of the ordinary shares at the annual general meeting, which amount shall in no event be less than 130% of the annual dividend per share declared on the ordinary shares. The holders of the preference shares are entitled to vote only on:

a. any proposed reorganisation or liquidation of the Company,

b. any proposed amendments to the Charter that limit the rights of the preference shares and

c. any proposals upon which the holders of preference shares are entitled to vote pursuant to the law of the Russian Federation.

Where no dividends are declared in respect of the preference share in any year, preference shares also carry voting rights equal to those of ordinary shares.

The preference shares are not convertible into ordinary shares and do not have rights to cumulative dividend.

15. INTEREST BEARING BORROWINGS

Source of credit line	Maximum amount of credit line and denomination	Expiry of credit line	Length of each tranche	Interest rate	Security	31 December 1999 Rbl'000	31 December 2000 Rbl'000
Current							
Russian bank	US$'mln 10	6 May 1999	1 year	Libor + 3,5%	No	-	282,059
Russian bank	Rbl'000 75,125	18 June 1999	6 months	63%	Stocks of raw materials	-	75,060
Russian bank	Rbl'000 150,000	22 November 2000	1 year	37%	Stocks of raw materials and finished goods and production equipment (carrying amount Rbl'000 122,478)	150,000	-
Russian bank	Rbl'000 100,000	7 December 2000	1 year	37%	Production equipment (carrying amount Rbl'000 65,538) and buildings (carrying amount Rbl'000 27,585)	100,000	-
Russian bank	Rbl'000 196,800	22 June 2000	1 year	45%	Production equipment (carrying amount Rbl'000 138,771)	96,800	-
Other						11,079	2,350
							359,469
Less: amount reclassified to long term interest bearing borrowings						-	(56,412)
						357,879	303,057
Non-current							
Amount reclassified to long term interest bearing borrowings (above)						-	56,412
						-	56,412

As at 31 December 1999 and 1998 in the opinion of management, interest rates available on new borrowing facilities were not materially different from the rates applicable to current borrowings disclosed above. Therefore carrying amounts were not significantly different from their fair value. In April 2000 interest rates on the above loans reduced to 30% from 37% and 45% resptctively.

Though the terms of the loan agreements are for periods of not more than one year, management consider some debt to rollover into new tranches and have classified these as long term borrowings, not withstanding the debt legally becomes repayable in a period of less than one year from the balance sheet date. The amounts classified as long term were rolled over prior to the issuance of these financial statements.

It is the Group's policy to finance part of its non-current assets with short-term borrowings so that more favourable terms can be obtained. This results in a net current liabilities position. These borrowings are regularly prolonged or refinanced, and, in management's opinion, the Group will be able to continue to do so for the foreseeable future, and so meet its short-term liabilities as they fall due.

The Group does not utilise financial instruments to hedge against its exposure to fluctuations in interest and foreign exchange rates.

16. OTHER BORROWINGS

Other borrowings represent:

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Loan from Kraft Foods International, Inc.	12,960	118,358
Loan from a non-budgetary fund	14,812	-
	28,772	118,358

The loan from Kraft Foods International, Inc. is the balance of an unsecured interest free loan to JSC "Confectionery Factory named after K.Samoilova" of USD 480,000 (1998: USD 4,196,200). In October 1999 an agreement was reached on forgiveness of a part of the loan in the amount of USD 2,320,000 giving rise to a credit in the income statement in the amount of Rbl'000 61,436. The balance is repayable in 2000.

The loan from a non-budgetary fund is interest free and was received for development of production in the Krasnoyarsk region. Under initial repayment schedule the total amount was repayable by tranches in February - December 2000. Repayment of Rbl'000 2,950 was extended till February - June 2001. The management believes that the repayment of the remaining Rbl'000 12,862 will be extended till July - December 2001. Management is presently negotiating to convert the total amount of the loan to non-repayable financing. See also note 30.

17. PREPAYMENTS RECEIVED

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Prepayments from customers	16,129	12,924
Prepayment from the City of Moscow for the forthcoming share issue (see Note 14)	-	34,148
	16,129	47,072

18. DEFERRED TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (1998 35%).

The movements in net deferred income tax during the years ended 31 December 1999 and 1998, were as follows:

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
At beginning of year	43,519	50,839
Income statement credit (Note 23)	(84,438)	(7,320)
At end of year	(40,919)	43,519

As there is no legal right of set off between Group companies the net deferred tax assets or liabilities position of each entity is shown gross in the consolidated balance sheet:

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Deferred tax assets	(49,519)	-
Deferred tax liabilities	8,600	(43,519)
	(40,919)	43,519

Deferred tax assets and liabilities and deferred tax charge/(credit) in the income statement are attributable to the following items:

	31 December 1998 Rbl'000	**Charged/ (credited) to income Rbl'000**	**31 December 1999 Rbl'000**
Deferred tax assets			
Difference arising on deposits for fixed assets	(47,076)	47,076	-
Property, plant and equipment differences	-	(27,080)	(27,080)
Differences arising on accruals	(9,381)	(1,097)	(8,284)
Difference arising on bad debts provision	(7,006)	(746)	(7,752)
Other	(16,034)	(7,675)	(8,359)
	(79,497)	(28,022)	(51,475)
Deferred tax liabilities			
Property, plant and equipment differences	109,278	(109,278)	-
Other	(13,738)	(3,182)	(10,556)
	123,016	(112,460)	10,556
Net deferred tax liability/(asset)	43,519	(84,438)	(40,919)

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Taxable profits calculated under Russian tax legislation differ significantly from the result of the Group under International Accounting Standards. The Group has generated taxable profits for a number of years including 1999. The management believes that taxable profits will be generated by the Group in the future. Therefore deferred tax assets are recognised in these financial statements.

	31 December 1998 Rbl'000	**31 December 1999 Rbl'000**
Aggregate temporary differences associated with investment in subsidiaries not recognised	87,305	83,917

The temporary differences associated with investment in subsidiaries are not recognised as the management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

As a result of a change in Russian tax legislation, a profit tax rate of 30% has been enacted starting from 1 April 1999. The effect of the change is reflected in these financial statements as a credit of Rbl'000 6,217 to the tax charge in the income statement in the current year.

19. POST RETIREMENT BENEFITS

The Group provides post retirement benefits in the form of monthly cash payments to their retirees who are also the shareholders of the Company or have sold their shares to the Company. The benefit amount is determined in absolute terms by the management in consultation with the veterans committee. The entitlement to benefits (cash payments) ceases if the retirees sell their shares to a party other than the Company. To date it has been an unfunded plan, with no assets specifically allocated to cover the scheme liabilities. The method of accounting for these unfunded obligations is substantially similar to those typically existing under a defined benefit pension scheme.

The scheme's retirement age is the State retirement age (55 for females and 60 for males).

Principal actuarial assumptions used:

	31 December 1999 Rbl'000	**31 December 1998 Rbl'000**
Mortality rates	Based on Goskomstat mortality table for Moscow population (1996)	
Lapse rate (probability of a participant to leave the Company)	5%	5%
Weighted average real discount rate used in determining present values	3%	4%
Annual real rate of increase in future compensation levels	0%	0%

The last actuarial valuation was performed in June 2000, with measurement date 31 December 1999. The valuation was performed by management and reviewed by independent actuaries. The liability in the balance sheet is as follows:

	31 December 1999 Rbl'000	**31 December 1998 Rbl'000**
Actual value of unfunded defined benefit obligations	21,189	16,071
Deffered actuarial losses	(4,822)	-
Liability in the balance sheet	16,367	16,071

The amounts recognised in the income statement are as follows:

	31 December 1999 Rbl'000	**31 December 1998 Rbl'000**
Current service cost	492	13,796
Interest cost	645	467
Total included in staff costs (Note 21)	1,137	14,263

Deferred actuarial losses will be amortised over the employees' average remaining working life of 9.6 years.

Movements in the deferred benefit obligation are as follows:

	31 December 1999	**31 December 1998**

	Rbl'000	Rbl'000
At beginning of year	16,071	1,808
Total expense as above	1,137	14,263
Contributions paid	(841)	-
At end of year	16,367	16,071
Deferred actuarial losses	4,822	-
Actual value of unfunded defined benefit obligation	21,189	16,071

20. PROFIT FROM OPERATIONS

The following items have been charged (credited) in arriving at profit from operations, among others:

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Depreciation on property, plant and equipment (Note 6)	123,576	109,955
Amortisation of goodwill (Note 7)	(18,151)	(14,013)
Impairment charge relating to property, plant and equipment (Note 6)	497,000	413,670
Repair and maintenance expenditure	62,385	61,272
Loss on disposals of fixed assets	18,946	22,859
Other Russian taxes and associated penalties	161,864	152,895
Loss on disposal of investments	236	31,160
Staff costs (Note 21)	330,290	385,268
Costs of providing social welfare	48,980	52,735

The Company currently presents depreciation on property, plant and equipment within cost of sales and general and administrative expenses as management believes this format to be a more appropriate presentation. This resulted in the reclassification of Rbl'000 61,217 and 48,738 of depreciation expense as previously presented in amortisation and depreciation in 1998 to cost of sales and general and administrative expenses accordingly.

21. STAFF COSTS

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Wages and salaries	236,805	267,790
Social security costs	92,348	103,215
Post retirement benefits (Note 19)	1,137	14,263
	330,290	385,268
Average number of persons employed by the group during the year:	7,017	5,550

22. NET INTEREST EXPENSE

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Interest income	685	16,463
Interest expense - bank borrowings	(109,957)	(47,434)
	(109,272)	(30,971)

23. TAXES

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Current profits tax expense	64,111	63,849
Equity share of profits tax of associates	-	-
Deferred tax credit relating to the origination and reversal of temporary differences	(84,438)	(7,320)
Profits tax (credit)/expense for the year	*(20,327)*	*56,529*
Explanation of the relationship between profits tax expense and profit before tax:		
(Loss) before profits tax	(352,305)	(590,824)
Profit tax: calculated at 30.1% (1998 - 35%)	(106,195)	(206,789)
Tax relief for capital investment	(37,081)	(39,561)
Other statutory tax concessions	(5,909)	(7,997)
Tax effect of:		
Change in tax rate	(6,217)	-
Income not assessable to tax	(4,036)	(9,610)
Expenses not deductible for tax purposes	58,601	45,949
Non temporary elements of monetary gains and losses	92,168	297,816
Inflation effect on deferred tax balance at the beginning of the period	(11,658)	(23,279)
	(20,327)	56,529

24. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the company and held as treasury shares (see Note 14).

	31 December 1999 Rbl'000	31 December 1998 Rbl'000
Net loss attributable to ordinary shareholders (Rbl'000)	(323,013)	(693,279)
Weighted average number of ordinary shares in issue	7,449,677	7,776,014
Basic and diluted earnings/(loss) per share (Rbl)	(43.36)	(89.15)

25. DIVIDENDS PER SHARE

The Board of Directors proposed a dividend, which was approved by the annual general meeting on 29 April 2000, of 1 Rouble per ordinary share and 1.3 Roubles per preference share payable to shareholders on the register on 14 March 2000 for the year ended 31 December 1999. Based on the results to 31 December 1998, dividends were declared in the amount of Nil per ordinary share and 1.2 US Dollars per preference share, which were not fully paid in 1998. Included in dividends payable as at 31 December 1999 is the amount of Rbl'000 9,190 (1998: Rbl'000 12,040) related to 1997.

In 1999, as a result of implementation of IAS 10 (revised) the management changed its accounting policy with respect to the recognition of the liability for dividends declared. Since 1999, dividends are recognised as a liability in the year in which they are proposed and declared. However, the opening balance of retained earnings has not been restated for the effect of the change in accounting policy as dividends declared in 1999 of Rbl'000 49,909 were accrued in 1998. Furthermore, the statement of equity has not been restated for dividends of Rbl'000 66,502 which were declared in 1998 and accrued in 1997. If the current accounting policy had been applied in past years, the opening retained earnings as of 31 December 1997 and 31 December 1998 would have been increased by Rbl'000 66,502 and Rbl'000 49,909 respectively.

26. SIGNIFICANT NONCASH TRANSACTIONS

Included in sales are barter transactions amounting to Rbl'000 550,767 (1998: Rbl'000 203,997). These transactions have been valued at fair value for the goods and services exchanged. The transactions represent mainly sale of products in exchange of raw materials and services.

27. FINANCIAL INSTRUMENTS

Fair values

The fair values of financial instruments are determined with reference to various market information and other valuation methods as considered appropriate. At 31 December 1999 and 1998, the fair values of financial instruments other than long-term investments, trade receivables and trade payables did not materially differ from their carrying value. These financial instruments are not traded on the Russian financial market and an objective estimate of fair value is not, therefore, available.

Interest rate and commodity price hedging

The Company and the Group have no financial instruments that are used to hedge interest rates or commodity prices, and are thus exposed to changes in market rates.

Credit risk

Credit risk with respect to trade accounts receivable is dispersed due to the Group's large customer base.

The Group makes provisions against receivables that remain unpaid at the date of issuing its financial statements at rates ranging from 50% to 100%.

Cash and cash equivalents are deposited with various financial institutions considered by management to be subject to minimal risk of default and temporary or permanent loss of availability of funds.

28. CONTINGENT LIABILITIES

Taxation environment

Russian tax legislation is subject to varying interpretations and constant changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax authorities for three years.

Insurance

The Group does not carry insurance on its assets except raw materials and those assets pledged as security for bank loans, where prescribed by the relevant security agreements. Risks such as public liability are not insured.

Legal proceedings

The Group is subject to a number of proceedings arising out of the normal conduct of its business. The management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations on the financial position of the Group.

29. COMMITMENTS

Capital commitments

As at 31 December 1999 the Group had commitments for future capital construction expenditure in the amount of Rbl'000 125,500 (1998: Rbl'000 148,976).

30. POST BALANCE SHEET EVENTS

After 31 December 1999 the Group received a government grant in the amount of Rbl'000 40,000 under the Regional development programme of the Ministry of Finance for capital investment in Krasnoyarsk region. The loan obligations disclosed in Note 16 are unaffected.

31. RELATED PARTY TRANSACTIONS

The Moscow City Government as a shareholder

The Moscow City Government is a major shareholder of the Company, holding 20% of total issued share capital.

In December 1999 the Company has received special financing from the Department of Science and Production Policy of the Government of the City of Moscow in the amount of Rbl'000 10,000. The financing was used for the purpose of payment of interest on outstanding loan obligations.

In addition, the Company has 49 year lease with Moscow Government for the land on which the factory is constructed. Refer to Note 6 to the accounts for details of this transaction.

Transactions with associates

During part of 1998 and 1999 JSC "Penza Confectionery Factory" was an associated entity of the Group (see note 4). During this period in 1999 sales to and purchases from JSC "Penza Confectionery Factory" amounted to Rbl'000 1,725 (1998: Rbl'000 16,207) and 4,762 (1998: Rbl'000 8,232) respectively.