

JSC LEBEDYANSKY

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED
FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR THE YEARENDED
31 DECEMBER 2004

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**AUDITORS' REPORT
TO THE SHAREHOLDERS OF JSC LEBEDY ANSKY**

1. We have audited the accompanying consolidated balance sheet of JSC Lebedyansky and its subsidiaries (the "Group") as of 31 Dctmber 2004 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 25 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 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 a" material respects, the financial position of the Group as of 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Moscow, Russian Federation
10 June 2005

JSC Lebedyansky
 Consolidated balance sheet as of 31 December 2004
 (all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2))



	Note	31 December 2004	31 December 2003
ASSETS			
Current assets:			
Cash and cash equivalents	4	1,400	3,522
Available for sale investments	5	730	834
Originated loans	6	-	34
Accounts receivable and prepayments	7	56,078	36,097
Inventories	8	42,087	31,175
Total current assets		100,295	71,662
Non-current assets:			
Property, plant and equipment	9	87,439	53,336
Intangible assets	10	939	280
Prepayment for assets under construction and equipment		1,944	2,566
Total non-current assets		90,322	56,182
Total assets		190,617	127,844
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	11	30,686	24,850
Tax payable	12	1,417	813
Finance leases payable	13	4,651	3,708
Short-term borrowings	14	5,975	4,006
Other current liabilities	15	2,186	-
Total current liabilities		44,915	33,377
Non-current liabilities:			
Finance leases payable	13	8,979	12,476
Long-term borrowings	14	7,160	-
Government grants		78	100
Deferred tax liability	21	5,335	3,650
Other non-current liabilities	15	4,372	-
Total non-current liabilities		25,924	16,226
Total liabilities		70,839	49,603
Minority interest	22	2,948	2,043
Shareholders' equity:			
Share capital	16	449	423
Share premium		34	32
Presentation currency adjustment		10,350	4,393
Retained earnings		105,997	71,350
Total shareholders' equity		116,830	76,198
Total liabilities and shareholders' equity		190,617	127,844

Approved on behalf of the Board of Directors on 10 June 2005

M.B. Tavkazakov
 Executive Director

B.V. Glavnyy
 Finance Director

The accompanying notes are an integral part of the consolidated financial statement

JSC Lebedyansky
Consolidated Statement of Income for the year ended 31 December 2004
(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2))



	Note	Year ended 31 December 2004	31 December 2003
Sales		376,003	272,634
Cost of sales	17	(219,935)	(179,058)
Gross profit		156,068	93,576
Selling and distribution costs	18	(54,504)	(32,412)
General and administrative expenses	19	(18,759)	(13,342)
Other operating expenses, net		(459)	(835)
Operating income		82,346	46,987
Finance expenses, net	20	(5,821)	(1,928)
Net foreign exchange (loss)/gain		(366)	333
Income before taxation		76,159	45,392
Income tax expense	21	(22,041)	(10,672)
Income after taxation		54,118	34,720
Minority interest	22	(751)	(315)
Net income		53,367	34,405
Earnings per ordinary share – basic and diluted, US\$ per share	23	261	168

Approved on behalf of the Board of Directors on 10 June 2005

M.B. Tavkazakov
 Executive Director

D.V. Glavov
 Finance Director

The accompanying notes are an integral part of the consolidated financial statements

JSC Lebedyansky
Consolidated Statement of Cash Flows for the year ended 31 December 2004
(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2))



	Note	Year ended	
		31 December 2004	31 December 2003
Cash flows from operating activities			
Income before taxation and minority interest		76,159	45,392
Adjustments for:			
Depreciation	9	7,937	5,351
Amortisation	10	27	(18)
Provision for impairment of receivables	19	322	982
Allowance for obsolete inventory		83	(1)
Deferred income	15	(526)	-
Loss on disposal of property, plant and equipment		667	479
Interest income, expense and finance lease charges	20	324	1,928
Gain on forgiveness of interest payable	20	(1,314)	-
Provision for impairment of promissory notes and available for sale investments	20	6,811	-
Effect of foreign exchange on non-operating balances		587	(593)
Operating cash flows before working capital changes		91,077	53,520
Increase in accounts receivables and prepayments		(20,391)	(10,832)
Increase in inventories		(8,750)	(6,013)
Increase in accounts payable and accrued expenses		4,901	7,058
Decrease in taxes payable		(616)	(3,087)
Cash provided from operations		66,221	40,646
Income taxes paid		(16,985)	(7,563)
Interest paid		(767)	(1,410)
Net cash provided from operating activities		48,469	31,673
Cash flows from investing activities:			
Purchase of property, plant and equipment and prepayment for assets under construction and equipment		(30,786)	(9,988)
Purchase of intangible assets		(600)	-
Proceeds from sale of property, plant and equipment		135	-
Loans given		(6,135)	-
Receipts from repayment of loans		824	47
Interest received		582	-
Acquisition of subsidiaries		-	190
Net cash used in investing activities:		(35,980)	(9,751)
Cash flows from financing activities:			
Proceeds from borrowings		28,210	57,760
Repayment of borrowings		(20,452)	(75,659)
Repayment of finance lease liability		(3,348)	(2,944)
Payment of dividends net of withholding tax		(17,988)	-
Change in promissory notes		(1,163)	345
Net cash used in financing activities		(14,741)	(20,498)
Net increase/(decrease) in cash and cash equivalents		(2,252)	1,424
Cash and cash equivalents at the beginning of the year		3,522	1,868
Net (decrease)/ increase in cash and cash equivalents		(2,252)	1,424
Presentation currency adjustment (Note 2)		130	230
Cash and cash equivalents at the end of the year	4	1,400	3,522

Approved on behalf of the Board of Directors on 10 June 2005

M.B. Tavkazakov
 Executive Director

D.V. Glaynov
 Finance Director

The accompanying notes are an integral part of the consolidated financial statements

JSC Lebedyansky
Consolidated Statement of Changes in Shareholders' Equity
for the year ended 31 December 2004
(all items are measured in Russian Roubles and presented in thousands of US Dollars (Note2))



	Share capital	Share premium	Presentation currency adjustment (Note 2)	Retained earnings	Total shareholders' equity
Balance at 1 January 2003	386	29	-	36,951	37,366
Issuance of shares	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
Balance at 1 January 2004	423	32	4,393	71,350	76,198
Net income for the year	-	-	-	53,367	53,367
Dividends	-	-	-	(18,720)	(18,720)
Presentation currency adjustment (Note 2)	26	2	5,957	-	5,985
Balance at 31 December 2004	449	34	10,350	105,997	116,830

Approved on behalf of the Board of Directors on 10 June 2005

M.B. Tavkazakov
 Executive Director

D.V. Glaznov
 Finance Director

The accompanying notes are an integral part of the consolidated financial statements

1. LEBEDYANSKY GROUP AND ITS OPERATIONS

Joint Stock Company 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 the brands Ya, Tonus, Fruktovy Sad, Frustail, Privet and Vitamin, baby food juices are distributed under the brands Frutonyanya and Malysham and baby food purees under the brand Frutonyanya. The Group’s manufacturing facilities are primarily based in the Lipetsk region, Russian Federation. The parent company, JSC Lebedyansky (“the Company” or “Lebedyansky”) was incorporated as an open joint stock company in the Russian Federation in 1992. The Company is ultimately controlled by individuals.

In March 2005 shareholders of the Company placed through an offering to the public under an open subscription 4,061,850 existing ordinary shares (RR 0.01 par value) at RR 1,016 per share. The shares have been admitted to placement and listing on the RTS Stock Exchange (“RTS”) and subsequently on the Moscow Interbank Currency Exchange (“MICEX”).

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

Entity	Country of Incorporation	Activity	% share at	
			31 December 2004	31 December 2003
JSC Progress	Russia	Juice production	75%	75%
DP Sandance	Ukraine	Juice distribution	100%	100%
Sandance Kazakhstan	Kazakhstan	Juice distribution	100%	100%

At 31 December 2004 the Group employed 4,439 employees (at 30 September 2003: 3,432).

The registered office of the Company is ul. Matrosova 7, Lebedyan, Lipetsk region, Russian Federation.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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 International Accounting Standard (“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.

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

These consolidated financial statements have been measured in Russian Roubles, 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 2004 (RR 27.7487 for US\$1) and at 31 December 2003 (RR 29.4545 for US\$1), respectively. Income and expense items 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. Management believes that presentation of these 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 1 January 2003 are treated as the basis for the carrying amounts in these financial statements.

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 policies, 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 operations 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 the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the 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 operations. 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:

	<u>Number of years</u>
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 consolidated 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 operations 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 operations 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 operations 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 2004, 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.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (US\$) 1=RR 27.7487 at 31 December 2004 and US\$1= 29.4545 at 31 December 2003. 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.

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 operations on a straight-line basis over the period of the lease.

3.16 Government grants

Government grants are recognized at fair value 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:

	<u>31 December 2004</u>	<u>31 December 2003</u>
RR denominated cash on hand and balances with banks	1,310	3,122
Foreign currency denominated balances with bank (Ukrainian hryvna)	60	359
Foreign currency denominated balances with bank (Kazakhstan tenge)	30	41
	<u>1,400</u>	<u>3,522</u>

Cash balance with banks bears interest from 0.5 to 6.35% per annum depending on the level of daily balances.

5. AVAILABLE FOR SALE INVESTMENTS

	<u>31 December 2004</u>	<u>31 December 2003</u>
OOO Pervomayskoe promissory notes (Note 25)	1,362	637
Impairment reserve for OOO Pervomayskoe promissory notes (Note 25)	(1,362)	-
OOO Pharma Trade promissory notes (Note 25)	541	-
Other	189	197
	<u>730</u>	<u>834</u>

Promissory notes issued by OOO Pervomayskoe and OOO Pharma Trade are interest free and redeemable upon demand.

Management believes that the fair value of these notes is not materially different from their carrying amounts, except for OOO Pervomayskoe promissory notes which were impaired at 31 December 2004.

6. ORIGINATED LOANS

	<u>31 December 2004</u>	<u>31 December 2003</u>
Loan issued to OOO Orisfey (Note 25)	5,600	-
Impairment reserve for loan granted to OOO Orisfey (Note 25)	(5,600)	-
Other	-	34
	<u>-</u>	<u>34</u>

In 2004 the Group provided the RR denominated loan to OOO Orisfey, a related party (Note 25). The loan bears interest at 2% and is payable on demand. At 31 December 2004 management recognised an impairment provision against the principal amount of the loan and interest receivable.

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable and prepayments comprise the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Trade receivables (net of provision for impairment of receivables of US\$ 1,849 and US\$ 1,469 at 31 December 2004 and 31 December 2003, respectively)	33,219	19,797
VAT recoverable	15,206	12,858
Advances to suppliers and other receivables	7,483	3,347
Profit tax advance	170	95
	<u>56,078</u>	<u>36,097</u>

US\$ 881 and US\$ 449 of net trade receivables are denominated in foreign currency, mainly Ukrainian hryvna, at 31 December 2004 and 31 December 2003, respectively.

8. INVENTORIES

Inventories comprise the following:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Raw materials	26,803	21,167
Work in progress	3,281	913
Finished products	12,159	9,160
Less obsolescence provision	(156)	(65)
	<u>42,087</u>	<u>31,175</u>

Inventories with carrying value of US\$ nil and US\$ 2,951 in its statutory accounting reports were pledged as security for borrowings at 31 December 2004 and 31 December 2003 respectively (Note 14).

The Group also pledged inventories with carrying value of US\$ 2,418 in its statutory accounting reports at 31 December 2004 for bank loans raised by OOO Pervomayskoe (Note 25).

9. PROPERTY, PLANT AND EQUIPMENT

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

Cost	Buildings and constructions	Machinery and equipment	Computer hardware	Motor vehicles	Other	Assets under construction and equipment for installation	Total
Balance at 31 December 2003	11,866	47,128	758	3,501	1,491	5,288	70,032
Additions	115	8,239	91	432	87	29,786	38,750
Disposals	(113)	(805)	(50)	(374)	(56)	(474)	(1,872)
Internal movements	6,142	18,844	513	2,538	434	(28,471)	-
Presentation currency adjustment (SIC 30)	963	3,897	71	314	107	357	5,709
Balance at 31 December 2004	18,973	77,303	1,383	6,411	2,063	6,486	112,619
Accumulated Depreciation							
Balance at 31 December 2003	(1,568)	(12,737)	(310)	(1,367)	(714)	-	(16,696)
Depreciation charge	(1,279)	(5,155)	(312)	(1,023)	(168)	-	(7,937)
Disposals	40	316	46	258	61	-	721
Presentation currency adjustment (SIC 30)	(210)	(938)	(11)	(97)	(12)	-	(1,268)
Balance at 31 December 2004	(3,017)	(18,514)	(587)	(2,229)	(833)	-	(25,180)
Net Book Value							
Balance at 31 December 2003	10,298	34,391	448	2,134	777	5,288	53,336
Balance at 31 December 2004	15,956	58,789	796	4,182	1,230	6,486	87,439

Leased assets included in the table above, where the Group is a lessee under a finance lease arrangements, comprise machinery and equipment:

	30 December 2004	31 December 2003
Cost: capitalised finance leases	35,771	26,019
Accumulated depreciation	(6,888)	(3,918)
Net book amount	28,883	22,101

The additions of finance leases in the year ended 31 December 2004 and 31 December 2003 amounted to US\$ 7,853 and US\$ 3,301 respectively.

10. INTANGIBLE ASSETS

	Negative Goodwill	Goodwill	Other	Total
Cost				
Balance at 31 December 2003	(664)	594	334	264
Additions	-	-	635	635
Disposals	-	-	(33)	(33)
Presentation currency adjustment (SIC 30)	(41)	36	95	90
Balance at 31 December 2004	(705)	630	1,031	956
Accumulated Amortisation				
Balance at 31 December 2003	78	(54)	(8)	16
Amortisation charge	80	(61)	(46)	(27)
Disposals	-	-	-	-
Presentation currency adjustment (SIC 30)	8	(11)	(3)	(6)
Balance at 31 December 2004	166	(126)	(57)	(17)
Net Book Value				
Balance at 31 December 2003	(586)	540	326	280
Balance at 31 December 2004	(539)	504	974	939

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2004	31 December 2003
Trade payables	25,838	21,162
Accrued salaries and bonuses to personnel	3,185	1,543
Advances received	490	399
Payable for property, plant and equipment	1,173	461
Accrued liabilities and other creditors	-	1,285
	30,686	24,850

US\$ 20,404 and US\$ 16,758 of trade payables are denominated in foreign currency, mainly US Dollar and Euro and Swedish Krona at 31 December 2004 and 31 December 2003, respectively.

US\$ 801 and US\$ 461 of payables for property, plant and equipment are denominated in foreign currency, mainly US Dollar and Euro 31 December 2004 and 31 December 2003, respectively.

12. TAX PAYABLE

	31 December 2004	31 December 2003
Income tax	350	-
Payroll taxes	919	560
Property tax	110	226
Other taxes	38	27
	1,417	813

The Group settled income tax liability in the amount of US\$ 3,392 against VAT recoverable for in 2004.

13. FINANCE LEASES PAYABLE

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

	<u>31 December 2004</u>	<u>31 December 2003</u>
Finance leases liabilities – minimum lease payments		
Not later than 1 year	5,132	4,216
Later than 1 year and not later than 5 years	7,236	10,739
Later than 5 years	2,706	2,537
	<u>15,074</u>	<u>17,492</u>
Future finance charges on finance leases	(1,444)	(1,308)
Present value of finance leases liabilities	<u>13,630</u>	<u>16,184</u>
Not later than 1 year	4,651	3,708
Later than 1 year and not later than 5 years	6,382	10,028
Later than 5 years	2,597	2,448
	<u>13,630</u>	<u>16,184</u>

The Group leases machinery and equipment for a period of 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 of 1.65% - 4.5%.

14. SHORT-TERM AND LONG-TERM BORROWINGS

Borrowings by principal lender and period to maturity may be analysed as follows:

	<u>31 December 2004</u>	<u>31 December 2003</u>
Short-term borrowings		
Loan from Sberbank	190	-
Loan from Alfa Bank	4,126	4,001
Loan from Lipetsk regional government	3	5
Current portion of loan from BCEN-Eurobank	1,656	-
Total short-term borrowings	<u>5,975</u>	<u>4,006</u>
Long-term borrowings		
Loan from BCEN-Eurobank	7,160	-
Total long-term borrowings	<u>7,160</u>	<u>-</u>

The loan obtained from Sberbank in 2004 was denominated in RR, non-secured and bore interest at the rate of 13% per annum. The loan was repaid in January 2005. Under a special government program two-thirds of the interest rate was compensated by Lipetsk regional government as loan was used to purchase agriculture products.

The credit line opened with Alfa Bank in 2004 was denominated in RR, non-secured and bore interest at the rate of 10% per annum.

The loan obtained from Alfa Bank in 2003 was denominated in USS, 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 Lipetsk regional government in 2002 was denominated in RR, non-secured and interest free.

The loan obtained from BCEN-Eurobank in 2004 is denominated in Euro, unsecured and bore interest at the rate of three months EURIBOR plus 1% per annum. Under the terms of the agreement the loan should be used for acquisition of juice production equipment. The loan is due in March 2010 and repayable as follows:

	<u>31 December 2004</u>
1 to 2 years	1,656
2 to 3 years	1,656
3 to 4 years	1,656
4 to 5 years	1,656
Over 5 years	536
	<u>7,160</u>

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

In June 2004 the Group signed a loan agreement with International Finance Corporation (“IFC”). Under the terms of the agreement IFC grants the Group up to USS 35 mln. at the rate of LIBOR plus 3.5% to finance part of the Group’s investment program, the first tranche of the loan to be requested by the Group by 30 June 2005. At the date when these consolidated financial statements were approved the Group did not drawn this facility.

15. OTHER CURRENT AND NON-CURRENT LIABILITIES

In 2004 the Group received a compensation for planned increase in supply materials prices. The Group recognized a discount amounted to USS 6,748 as deferred income, which is written to consolidated statement of income on a straight-line basis till 2007, the date when supply materials purchase agreement expires. The deferred income recognised in the consolidated income statement for the year ended 31 December 2004 amounted to USS 526.

16. SHAREHOLDERS' EQUITY

	Number of shares	Share Capital	Share Premium	Total
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
At 1 January 2004	91	423	32	455
Conversion of shares	20,411,209	-	-	-
Presentation currency adjustment	-	26	2	28
At 31 December 2004	20,411,300	449	34	483

The issued share capital value was US\$ 423 at 31 December 2003 (nominal value was RR 204,112). 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 converted to 20,411,300 shares with a nominal value RR 0.01 per share. The total nominal value of share capital did not change as a result of this transaction.

The Group declared dividends for the year ended 31 December 2003 in the amount of US\$ 6,957 (RR 9.82 per ordinary share) in March 2004 and interim dividends in the amount of US\$ 11,763 (RR 16.6 per ordinary share) in November 2004. The dividends were fully paid in 2004.

The issued share capital value was US\$ 449 at 31 December 2004 (nominal value was RR 204,112). The authorized and issued number of ordinary shares was 20,411,300 at 31 December 2004 with a nominal value per share of RR 0.01. All the shares were fully paid up at 31 December 2004.

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 2004 net statutory profit for the Company as reported in the statutory accounting reports was US\$ 58,732 at average exchange rate of RR 28.81 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.

17. COST OF SALES

The components of cost of sales were as follows:

	For the year ended	
	31 December 2004	31 December 2003
Materials and components used	197,237	161,911
Labour costs	8,853	6,565
Production overheads	7,408	6,254
Depreciation	6,437	4,328
	219,935	179,058

18. SELLING AND DISTRIBUTION COSTS

Selling and distribution costs comprise:

	For the year ended	
	31 December 2004	31 December 2003
Transportation	15,534	9,702
Advertising	17,925	11,266
Labour costs	13,644	7,197
Warehousing	5,255	3,519
Other	2,146	728
	54,504	32,412

19. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise:

	For the year ended	
	31 December 2004	31 December 2003
Labour costs	8,903	4,797
Depreciation and amortisation	1,527	1,005
Taxes (mainly property tax)	454	900
Provision for impairment of receivables	322	982
Other	7,553	5,658
	18,759	13,342

20. FINANCE INCOME/(EXPENSE)

The components of finance income/(expense) were as follows:

	For the year ended	
	31 December 2004	31 December 2003
Interest expense on bank loans, net of compensation received from Government of Lipetsk region (Note 14)	(297)	(1,283)
Interest income on originated loans and bank deposits	656	-
Finance lease charge	(683)	(645)
Impairment of loan granted to OOO Orisfey (Note 6, 25)	(5,499)	-
Impairment of promissory notes of OOO Pervomayskoe and other investments (Note 5, 25)	(1,312)	-
Gain due to forgiveness of interest payable to Tetra Laval	1,314	-
	(5,821)	(1,928)

Under an agreement signed in 2004 Tetra Laval cancelled interest payable accrued on liability of JSC Progress, a subsidiary of the Group.

21. INCOME TAX EXPENSE

The components of income tax expense were as follows:

	For the year ended	
	31 December 2004	31 December 2003
Income tax expense – current	20,597	10,744
Deferred tax expense/(income) – origination and reversal of temporary differences	1,224	(72)
Deferred tax expense – effect of change in the effective tax rate	220	-
Income tax expense	22,041	10,672

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

	For the year ended	
	31 December 2004	31 December 2003
Income before taxation	76,159	45,392
Theoretical tax charge at statutory rate of 24%	18,278	10,894
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	253	248
Non-production unit expenses	132	143
Advertising	306	-
Penalties	7	68
Provision against promissory notes and available for sale investments	1,634	-
Other	1,331	694
Change in the effective tax rates	225	-
Statutory tax concession	(125)	(1,147)
Investment in associated companies	-	(228)
Consolidated tax charge	22,041	10,672

While most companies of the Group were subject to tax rates of 24% on taxable profits for the year ended 31 December 2004 and 2003, the Company had a statutory profits tax concession, which was fully utilised in 2004. Profit derived from the sale of finished goods produced on equipment purchased during 2003 were taxed at 20%, all other profit derived was taxed at 24%.

Deferred tax assets/liabilities were measured at the effective rate of 22% at 31 December 2003, as this was the rate, that was expected to apply to the period, when the asset was realised or the liability was settled. In 2004 the statutory profits tax concession was fully utilized and deferred tax assets/liabilities were measured at the statutory tax rate of 24%.

The net effect of the changes on deferred tax balances recognised at 31 December 2004 and 31 December 2003 are reflected in the consolidated statements of income for the year ended 31 December 2004 and 2003, respectively.

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\$ 1,133 and US\$ 539 at 31 December 2004 and 31 December 2003 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\$ 2,425 and US\$ 2,623 at 31 December 2004 and 31 December 2003 respectively is expected to be settled after more than 12 months from balance sheet dates.

21. INCOME TAX EXPENSE (continued)

	31 December 2003	Effect of change in tax rate	31 December 2003	Differences recognition and reversals	Presentation currency adjustment	31 December 2004
Tax effects of deductible temporary differences:						
Provision for impairment of receivables	138	8	146	(149)	3	-
Accounts payable	5,139	439	5,578	1,076	384	7,038
Inventories	-	-	-	63	2	65
Tax effects of taxable temporary differences:						
Property, plant and equipment	(8,287)	(611)	(8,898)	(1,744)	(569)	(11,211)
Other	(640)	(56)	(696)	(470)	(61)	(1,227)
Total net deferred tax (liability)/assets	(3,650)	(220)	(3,870)	(1,224)	(241)	(5,335)

22. MINORITY INTEREST

	2004	2003
Balance at 1 January	2,043	-
Acquired in a business combination	-	1,588
Share of net income of subsidiaries	751	315
Presentation currency adjustment	154	140
Balance at 31 December	2,948	2,043

23. EARNINGS PER SHARE

Earnings per share is 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 number of ordinary shares for the year ended 31 December 2003 was adjusted for the effect of shares conversion (Note 16) that has changed the number of ordinary shares outstanding without a corresponding change in resources.

	31 December 2004	31 December 2003
Weighted average number of ordinary shares outstanding	20,411,300	20,411,300
Net income	53,367	34,405
Basic and diluted earnings per share	US\$ 261	US\$ 168

24. ACQUISITION OF JSC PROGRESS

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

In January 2003 the Company acquired a further 26% of issued share capital of JSC Progress for US\$ 2,202. The Group's share in share capital of JSC 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 management as the useful life of this asset.

24. ACQUISITION OF JSC PROGRESS (continued)

Goodwill (negative goodwill) 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
Goodwill	(724)	551

Assets and liabilities of companies acquired amounted to:

	49% shares	26% shares
Cash and cash equivalents	76	190
Property, plant and equipment (Note 9)	8,606	7,771
Intangible assets (Note 10)	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	(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

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

25. 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 2004 are detailed below.

i OOO Pervomayskoe

OOO Pervomayskoe is a company controlled by the majority shareholders of the Group. In the year ended 31 December 2003 the Group purchased 1,865 thousand kg apricots, 1,574 thousand kg carrots, 4,018 thousand kg apples and 6,766 thousand kg beetroots and other vegetables and materials in the amount of US\$ 1,418. The Group purchased fruits and other materials from OOO Pervomayskoe in the amount of US\$ 47 for the year ended 31 December 2004. The Group had trade payable to OOO Pervomayskoe amounting to US\$ nil and US\$ 10 at 31 December 2004 and 31 December 2003 respectively.

The Group sold to OOO Pervomayskoe equipment and semi-finished products in the amount of US\$ 553 for the year ended 31 December 2004. Receivable from OOO Pervomayskoe were US\$ 639 at 31 December 2004 and US\$ nil at 31 December 2003.

The Group acquires promissory notes of OOO Pervomayskoe at par value. The notes are interest free and payable upon demand. The Group held US\$ 1,362 and US\$ 637 of promissory notes issued by OOO Pervomayskoe at 31 December 2004 and 31 December 2003 respectively. At 31 December 2004 management recognised impairment loss in the amount of US\$ 1,362 in income statement against promissory notes of OOO Pervomayskoe (Note 5, 20).

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

i OOO Pervomayskoe (continued)

The Group also pledged inventories with carrying value US\$ 2,418 at 31 December 2004 for bank loans raised by OOO Pervomayskoe (Note 8).

ii OOO Orisfey

OOO Orisfey is a company engaged in the production and sale of low alcoholic cocktails and is controlled by one of the Group's shareholders.

In April 2004 the Group and OOO Orisfey entered into a licensing agreement, pursuant to which OOO Orisfey acquired the right to use the Company's registered trademark "Trex Trax" for a period of two years for its products. The amount payable to the Company under the licensing agreement is RUR 10,000 per year.

In 2004 the Group provided OOO Orisfey with a RR denominated loan in the amount of US\$ 6,135 for the acquisition of equipment and maintaining working capital. The loan bears interest of 2% per annum and is payable 31 December 2005. The Group recognized interest income in the amount of US\$ 48 in the year ended 31 December 2004. In the year ended 31 December 2004 OOO Orisfey repaid US\$ 789 of the loan. The amount of loan principle due from OOO Orisfey was US\$ 5,552 at 31 December 2004 (Note 6). At 31 December 2004 management recognised an impairment loss in the amount of US\$ 5,600 in the consolidated income statement against this loan (Note 6, 20). The amount of interest receivable from OOO Orisfey included in originated loans balance (Note 7) was US\$ 48 at 31 December 2004.

The Group incurred advertising and marketing expenses in the amount of US\$ 1,344 on behalf of OOO Orisfey and recharged these expenses to OOO Orisfey at cost. At 31 December 2004 US\$ 1,344 was due from OOO Orisfey. The amount is included in advances to suppliers and other receivables balance (Note 7). At 31 December 2004 management recognised an impairment loss in the amount of US\$ 109 in the consolidated income statement against this receivable (Note 7, 20).

The Group sold to OOO Orisfey equipment, finished products and rendered services in the amount of US\$ 66 for the year ended 31 December 2004. Receivable from OOO Orisfey was US\$ 77 at 31 December 2004.

iii OOO Pharma Trade

OOO Pharma Trade is a company owned by OOO Orisfey and is engaged in the production and sale of oxygenated cocktails. In 2004 the Group acquired RR denominated, interest free and payable upon demand promissory notes of OOO Pharma Trade at par value US\$ 541 (Note 5).

The Group purchased oxygenated cocktails from OOO Pharma Trade in the amount of US\$ 37 and services in the amount of US\$ 12 for the year ended 31 December 2004. The Group had trade payable to OOO Pharma Trade amounting to US\$ 49 at 31 December 2004.

iv OOO Assol

OOO Assol is a company engaged in the distribution of the Group's products (representing 18% of total sales during 2004, until the Group ceased distribution contract) and a supplier to the Group of granulated sugar and corrugated cardboard products. In June 2004 shareholders of OOO Assol acquired a stake in the Company and shareholders of the Company acquired a stake in OOO Assol. As a result OOO Assol became a related party of the Group. In January 2002, the Group and OOO Assol entered into a distribution agreement, pursuant to which OOO Assol became a distributor of juices and baby food produced by the Group to 24 regions of the Russian Federation. Pursuant to the distribution agreement, the Group may grant to its distributor a commercial credit in the form of deferral or instalment payments and discounts based on volume of products sold. The distribution agreement was concluded for a term of up to one year and was further extended to 31 December 2004. For the period from July 2004 till 31 December 2004 the Group has sold to OOO Assol juices in the amount of US\$ 5,587, net of discount in the amount of US\$ 338, and other materials juices in the amount of US\$ 10. The Group has ceased shipments of goods to OOO Assol since August 2004, as contracts with final customers have been transferred from OOO Assol to the Group.

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

i OOO Assol (continued)

In 2003 the Group and OOO Assol entered into a supply contract, pursuant to which OOO Assol had to deliver granulated sugar in amounts to be specified in the future up to a total amount of RR 300 mln. The term of the supply contract expires on 31 December 2005 (with the right of further extension for an additional year).

In January 2004 the Group and OOO Assol entered into a supply contract, pursuant to which OOO Assol had to deliver corrugated cardboard products in amounts and at a price to be specified by the parties in the future. The contract expires on 31 December 2004 (with the right of further extension for an additional year).

For the period from June 2004 till 31 December 2004 the Group has purchased from OOO Assol 12,101 thousand kg sugar in the amount of US\$ 6,057, package materials in the amount of US\$ 3,561, other materials in the amount of US\$ 21, furniture, computers and transport vehicles in the amount of US\$ 67 and services in the amount of US\$ 118.

The Group's accounts receivable from OOO Assol were US\$ 2 and accounts payable to OOO Assol were US\$ 1,437 at 31 December 2004.

v Transactions with shareholders

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. Shareholders settled the amount in 2004. The Group had receivables from shareholders in the amount of US\$ nil at 31 December 2004 and US\$ 30 at 31 December 2003.

In the year ended 31 December 2003 the Group acquired a motor vehicle from one of the shareholders for US\$ 10. The amount was settled in 2004.

vi 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 discretionary bonus depending on operating results.

Discretionary bonuses are 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 in the consolidated statement of income amounted to US\$ 2,274 and US\$ 1,390 for the year ended 31 December 2004 and 31 December 2003 respectively.

26. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

i Contractual commitments and guarantees

The Group had contractual commitments for the purchase of property, plant and equipment from third parties for US\$ 17,211 and US\$ 5,998 at 31 December 2004 and 31 December 2003.

ii Operating leases

The Group's future minimum lease payments under non-cancellable operating leases comprised US\$ 1,602 at 31 December 2004. Operating leases mainly represent rent of office and warehouse premises with fixed monthly charges. There were no non-cancellable operating lease obligations at 31 December 2003. The maturity of operating lease liabilities (minimum lease payments) is as follows:

	31 December 2004	31 December 2003
Committed to pay		
Not later than 1 year	728	-
Later than 1 year and not later than 5 years	874	-
Later than 5 years	-	-
Total non-cancellable operating lease liabilities	1,602	-

26. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (continued)

iii 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, and it is possible that transactions and activities that have not been challenged in the past may be challenged. 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 2004 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.

iv Insurance policies

The Group holds no insurance policies in relation to its assets or 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. Under the loan agreement with IFC (Note 14) the Group insured buildings, equipment and inventory for the annual period beginning from August 2004, but under terms of insurance policy IFC is a beneficiary.

v 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.

vi 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.

vii 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.

27. FINANCIAL RISKS

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables, available for sale investments and originated loans. 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), originated loans and available for sale investments 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.

27. FINANCIAL RISKS (continued)

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 (EURIBOR, LIBOR) to which interest-bearing long-term borrowings (Note 14) and 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

The fair value of publicly traded trading and available-for-sale securities is based on quoted market prices at the balance sheet date. 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.

28. SUBSEQUENT EVENTS

Listing on stock exchange

In March 2005 shareholders of the Company placed through an offering to the public under an open subscription 4,061,850 existing ordinary shares (RR 0.01 par value) at RR 1,016 per share. The shares have been admitted to placement and listing on the RTS Stock Exchange ("RTS") and subsequently on the Moscow Interbank Currency Exchange ("MICEX").

Purchase of treasury shares

In April 2005 the Group acquired from one of the Company's shareholders 122,468 ordinary shares of Lebedyansky for US\$ 4,499 at RR 1,022.47 per share (market price at the date of agreement was RR 1,092 per share). The Company intends to use these shares for a share option program for key management.

Share options

In March 2005 the Company granted key management with options to acquire 76,000 of the Company's ordinary shares at par value. The options are exercisable after the Company publishes its financial results for the fourth quarter of 2007 (vesting date), subject to a certain conditions, including remaining employment in the Group of the holder of the options at the vesting date. The number of options is adjustable upon achievement of targeted market capitalization at the vesting date. Management is allowed to exercise options before vesting date, in the event that present shareholders cease control over the Company. The amount of the Company's shares granted to the employees under this option program should not exceed 122,468.