Consolidated Financial Statements for the year ended 31 December 1998

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 1998, 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 26 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 1998 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 groups in the Russian Federation, have been significantly affected, and will continue to be affected for the foreseeable future, by the country's unstable economy caused in part by the currency volatility in the Russian Federation.

PricewaterhouseCoopers
Moscow, Russia
14 October 1999

Consolidated Balance Sheet as at 31 December 1998

	Notes	31 December 1998 Rbl'000	31 December 1997 Restated Rbl'000
ASSETS			
Non current assets			
Property, plant and equipment	5	880,269	987,459
Land rights	7	-	-
Goodwill	6	(7,197)	(27,856)
Investments in associates	8	8,864	5,480
Other investments	9	3,379	23,417
Total non-current assets		**885,315**	**988,500**
Current assets			
Inventories	10	328,471	286,489
Accounts and other receivables	11	74,690	92,988
Prepayments	12	167,049	94,720
Cash and cash equivalents	13	67,493	231,678
Total current assets		**637,703**	**705,875**
Total assets		**1,523,018**	**1,694,375**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	14	119,236	119,236
Share premium		671,194	671,194
Paid in capital from treasury shares		33,964	32,884
Treasury shares		(37,909)	(26,879)
Revaluation reserve	15	-	-
Retained earnings		(22,659)	484,903

Total capital and reserves		763,826	1,281,338
Minority interest		39,978	41,901
Non-current liabilities			
Interest bearing borrowings	16	41,300	8,116
Deferred tax	19	31,861	37,220
Post retirement benefits	20	11,766	1,324
Total non-current liabilities		84,927	46,600
Current liabilities			
Interest bearing borrowings	16	221,874	105,732
Other borrowings	17	86,652	-
Accounts and other payables		144,216	64,074
Prepayments received	18	34,462	16,270
Current tax liability		73,232	52,238
Dividends payable	26	45,354	50,550
Accruals and deferred income		28,497	35,612
Total current liabilities		**634,287**	**324,476**
Total equity, minority interest and liabilities		**1,523,018**	**1,694,375**

These financial statements were approved by the Board of Directors in their meeting on 14 October 1999.

President
Dr. Anatoly N. Daursky

Consolidated Income Statements for the year ended 31 December 1998

	Notes	31 December 1998 Rbl'000	31 December 1997 Restated Rbl'000
Sales		2,114,521	1,918,595
Cost of sales		(1,618,659)	(1,395,467)
Gross profit		495,862	523,128
Other operating income		4,607	6,064
Distribution costs		(92,349)	(60,346)
General and administration expenses		(203,172)	(258,217)
Depreciation and amortisation	5, 6, 8	(70,242)	(86,284)
Other operating expenses		(18,277)	(20,688)
Impairment charge	5	(302,856)	-
(Loss)/profit from operations	21	(186,427)	103,657
Finance costs	23	(246,126)	(35,638)
Income from investments:			
• Associates	8	-	863
• Other		-	2,335
(Loss)/profit before profits tax	21	(432,553)	71,217
Profits tax	24	(41,386)	(60,348)
(Loss)/profit after profits tax		(473,939)	10,869
Minority interest		2,916	1,339
Net (loss)/profit		(471,023)	12,208
Dividends proposed	26	(36,539)	(48,687)
Retained loss for the year		(507,562)	(36,479)
		Rbl'	**Rbl'**
Loss per share			
- basic and diluted	25	(65.27)	(0.89)

Consolidated Statement of Changes in Equity for the year ended 31 December 1998

	No-tes	Issued capital	Share Pre-mium	Paid in capital from Tre-asury Shares	Treasury Shares	Reva-luation reserve	Retained earnings	Total
						Restated	Restated	Restated
		Rbl'000	Rbl'000	Rbl'000	Rbl'000	Rbl'000	Rbl'000	Rbl'000
Balanceat 1 January 1997		116,478	426,417	32,773	(14,661)	420,097	325,213	1,306,317
Prior year adjustments	7,15	-	-	-	-	(420,097)	196,169	(223,928)
As restated		116,478	426,417	32,773	(14,661)	-	521,382	1,082,389
Profit on resale of treasury shares	14	-	-	111	-	-	-	111
Net gains/(losses) not recognised in income statement		-	-	111	-	-	-	111
Net profit for 1997		-	-	-	-	-	12,208	12,208
Dividends		-	-	-	-	-	(48,687)	(48,687)
Issue ofshare capital	14	2,758	244,777	-	-	-	-	247,535
Re issuance of treasury shares	14	-	-	-	145	-	-	145
Purchase of treasury shares	14	-	-	-	(12,363)	-	-	(12,363)
Balance at 31 December 1997, restated		119,236	671,194	32,884	(26,879)	-	484,903	1,281,338
Profit onresale of treasury shares	14	-	-	1,080	-	-	-	1,080
Net gains/(losses) not recognised		-	-	1,080	-	-	-	1,080

in income statement								
Net loss for 1998		-	-	-	-	-	(471,023)	(471,023)
Dividends		-	-	-	-	-	(36,539)	(36,539)
Re issuance of treasury shares	14	-	-	-	995	-	-	995
Purchase of treasury shares	14	-	-	-	(12,025)	-	-	(12,025)
Balanceat 31 December 1998		119,236	671,194	33,964	(37,909)	-	(22,659)	763,826

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 1998 the "statutory profit" was 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 Statement of Changes in Equity for the year ended 31 December 1998

	Notes	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Cash flow from operating activities			
(Loss)/profit before profits tax		(432,553)	71,217
Adjustments for non-cash transactions:			
Depreciation	5	80,500	95,111
Impairment charge	5	302,856	-
Loss on disposal of tangible fixed assets	21	16,736	17,091
Net interest expense	23	22,674	7,058
Monetary and exchange rate effect on non-operating balances		164,668	28,580
Loss on disposal of investments	21	22,813	20,688
Amortisation of negative goodwill	6,8	(10,258)	(8,827)
Income from investments in associate companies	8	-	(863)
Income from investments in other companies		-	(2,335)
Operating profit before working capital changes		167,436	227,720
(Increase) / Decrease in trade and other receivables		47,725	(18,290)
Increase in inventories		(27,524)	(58,462)
(Decrease) / Increase in trade and other payables, accruals and provisions		35,794	(8,923)
Cash generated from operations		223,431	142,045
Interest paid		(33,708)	(18,906)
Profit tax paid		(27,014)	(39,093)
Net cash from operating activities		162,709	84,046
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	4	(1,739)	(3,944)
Purchase of property, plant and equipment		(275,027)	(221,834)
Purchase of non-current investments		(4,903)	(1,810)
Proceeds from sale of property, plant and equipment		-	5,840
Proceeds from sale of investments		-	2,608
Interest received		12,053	13,603
Dividends received		-	-
Net cash used in investing activities		(269,616)	(205,537)
Cash flows from financing activities			
Proceeds from issuance of share capital and re issuance of		27,075	247,804

treasury stock			
Proceeds from borrowings		339,355	50,520
Repayment of borrowings		(198,444)	-
Purchase of treasury shares		(18,861)	(12,374)
Dividends paid to the parent's shareholders		(41,735)	(27,375)
Dividends paid to minority interests		-	-
Effects of inflation and foreign exchange differences on financing activities		(114,394)	10,864
Net cash from (used) in financing activities		(7,004)	269,439
Effect of inflation and exchange rate changes on cash and cash equivalents		(50,274)	(17,716)
Net (decrease)/increase in cash and cash equivalents		(164,185)	130,232
Cash and cash equivalents - beginning of the period		231,678	101,446
Cash and cash equivalents - end of the period	13	67,493	231,678

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 27.

Notes to the Consolidated Financial Statements

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.

2. RUSSIAN FINANCIAL CRISIS

During the year ended 31 December 1998, the economy of the Russian Federation entered a period of economic instability. The impact includes, but is not limited to: a steep decline in prices of domestic debt and equity securities, a severe devaluation of the currency, a moratorium on foreign debt repayments, an increasing rate of inflation and increasing rates of interest on government and corporate borrowings. The return to economic stability is dependent to a large extent on the effectiveness of the fiscal measures taken by government and other actions beyond the Group's control. The operations of the Group, and those of similar companies in the Russian Federation, have been significantly affected by these factors, and will continue to be affected for the foreseeable future, by the country's unstable economy caused in part by the currency volatility in the Russian Federation.

3. ACCOUNTING POLICIES

Basis of presentation

The Group maintains its accounting records and prepares its statutory financial statements in Russian s in accordance with Federal Accounting Law No 129-FZ dated 21 November 1996, and the Regulations on Accounting and Reporting in the Russian Federation pursuant to Order No 170 of the Ministry of Finance of the Russian Federation dated 26 December 1994.

The accompanying consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications to comply with International Accounting Standards ("IAS") promulgated by the International Accounting Standards Committee. The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation and modified by the initial valuation. Property, plant and equipment are stated at cost or valuation. The functional currency of the Group, and the reporting currency for these financial statements, is the Russian .

The presentation of the 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.

On January 1, 1998, the currency unit of the Russian Federation was redenominated with the effect that one thousand Russian s of the currency unit existing at 31 December, 1997 became equivalent to one redenominated Russian Rouble. All Russian Rouble amounts appearing in these financial statements are stated in the currency unit existing at 1 January 1998.

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 shareholders' funds between the revaluation reserve and retained earnings (see Note 15), of certain items in the income statement (see Note 21) and in the cash flow statement.

Further, where necessary, the comparatives have been adjusted or extended to take into account the requirements of the following revised or new International Accounting Standards which the Group implemented in 1998, in advance of their effective dates:

IAS 1 - Presentation of financial statements

IAS 14 - Segmental Reporting

IAS 16 - Property, Plant and Equipment (revised 1998)

IAS 19 - Employee Benefits

IAS 22 - Business Combinations

IAS 36 - Impairment of Assets

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

IAS 38 - Intangible Assets

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 1995	211,612	5.8
1 January 1996	487,575	2.5
1 January 1997	594,110	2.1
1 January 1998	659,463	1.8
1 January 1999	1,216,401	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 earlier years, are restated by applying the change in the index during the current year.
- Current year profit and loss transactions 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.
- 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 4.

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 has 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 4. 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. Non-monetary items which are carried at fair value that is denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

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 28.

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.

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.

Depreciation is calculated on the straight line method to write off the cost or valuation of each asset to their residual values over their expected useful life. The average expected useful lives are as follows:

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

During September 1998, the IASC published IAS 36 "Impairment of Assets" which replaces the requirements relating to recoverability of assets in IAS 16 (revised 1993), "Property, plant and equipment". IAS 36 becomes applicable for accounting periods beginning on or after July 1, 1999. The Group has chosen to adopt IAS 36 for preparation of these financial statements for the year ending 31 December 1998.

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 statement of operations. 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 allocated to goodwill allocated to the cash-genenrating 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 of the entity acquired, negative goodwill should be amortised to income when the related losses are realised. In all other circumstances or if future losses are not realised 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 assets acquired.

The accounting policy in respect of Goodwill was changed as a result of implementation of IAS 22 revised. However the period of amortization is considered to be 5 years as in prior years.

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

Land rights

During October 1998, the IASC published IAS 38 “Intabgible Assets”. IAS 38 becomes applicable for accounting periods beginning on or after July 1, 1999. The Group has chosen to adopt IAS 38 for preparation of these financial statements for the year ending 31 December 1998. Comparatives have been retrospectively adjusted accordingly, as described in Note 7.

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 on an average cost basis. 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

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. These obligations, which are unfunded, are substantially similar to those typically existing under a defined benefit pension scheme. 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. Actuarial gains and losses are recognised in the income statement immediately.

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

Dividends are accrued in the financial statements for the year which they relate to.

4. GROUP STRUCTURE

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".

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	**Rbl'000**
- Cash payable	26,337
Total purchase consideration	26,337
Fair value of net assets acquired	16,451
Goodwill (Note 6)	9,886

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	3,913
Property, plant and equipment (Note 5)	98,028
Inventories	12,421
Receivables	6,826
Payables	(13,012)
Borrowings	(91,709)
Minority interests	(16)
Fair value of net assets	16,451
Goodwill (Note 5)	9,886
Total purchase consideration	26,337

Less:	
Amount payable at 31 December 1998	(26,337)
Cash and cash equivalents in subsidiary acquired	3,913
Cash inflow on acquisition	3,913

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

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	**Rbl'000**
- Cash paid	6,336
Total purchase consideration	6,336
Fair value of net assets acquired	4,317
Goodwill (Note 6)	2,019

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	684
Property, plant and equipment (Note 5)	7,254
Other non-current investments	192
Inventories	2,037
Receivables	1,510
Payables	(2,578)
Borrowings	(3,359)
Minority interests	(1,423)
Fair value of net assets	4,317
Goodwill (Note 6)	2,019
Total purchase consideration	6,336
Less:	
Cash and cash equivalents in subsidiary acquired	684
Cash outflow on acquisition	5,652

On 7 October 1998 the Group acquired 35.5% of the share capital of JSC "Penza Confectionery Factory" (see Note 8). Details of net assets acquired and consideration are as follows:

Purchase consideration:

- Cash paid	4,145
Fair value of net assets acquired	21,731

A controlling interest in JSC "TKF Yasnaya Polyana" was acquired in June 1997 for cash consideration of Rbl'000 4,604. A controlling interest in JSC "TAKF" (Tambov) was acquired for cash consideration of Rbl'000 3,014 in December 1997.

A listing of significant subsidiaries and associates is as follows:

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

1. Property, Plant and Equipment

	Buildings Rbl'000	**Plant and equipment Rbl'000**	**Non operating property Rbl'000**	**Motor vehicles Rbl'000**	**Total Rbl'000**
	Rbl'000	Rbl'000	Rbl'000	Rbl'000	Rbl'000
Cost or valuation					
At 1 January 1998	1,526,783	1,152,864	197,431	38,674	2,915,752
Acquisition of subsidiaries	58,247	87,604	964	4,174	150,989
Additions in the year	4,900	173,574	7,856	1,259	187,589
Disposals in the year	(3,873)	(133,270)	(3,476)	(4,784)	(145,403)
At 31 December 1998	1,586,057	1,280,772	202,775	39,323	3,108,927
Accumulated depreciation					

At 1 January 1998	1,103,214	679,041	110,644	35,394	1,928,293
Acquisition of subsidiaries	14,665	29,495	16	1,497	45,673
Charge for the year	17,303	55,957	5,138	2,102	80,500
Eliminated on disposals	(999)	(119,681)	(3,066)	(4,918)	(128,664)
At 31 December 1998	1,134,183	644,812	112,732	34,075	1,925,802
Impairment provision	(89,051)	(123,762)	(90,043)	-	(302,856)
Net book value					
At 31 December 1998	362,823	512,198	-	5,248	880,269
At 31 December 1997	423,569	473,823	86,787	3,280	987,459

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 4 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 Group’s 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’000 302,856 in the 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.

The impairment provision has been applied first against social assets intended for the benefit of the Group's employees. The balance of the impairment provision has been applied against the remaining property, plant and equipment proportionally based on closing net book values.

The carrying value of the property plant and equipment in these financial statements being Rbl’000 880,269 is the estimated recoverable amount of the underlying assets based on their value in use. The real discount rate applied by the Company in the assessment of value in use was 25% per annum in real terms. This pre tax rate is based on the post tax rate of 21%.

The principal assumptions made by the Group in the assessment of value in use are as follows for the years 1999 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;

Assets in the course of construction

Assets in the course of construction included in tangible fixed assets amounted to Rbl’000 131,422 (1997: Rbl’000 221,403) after deducting impairment provision of Rbl’000 38,018 (1997: nil).

Goodwill

	Negative Goodwill Rbl'000	Positive Goodwill Rbl'000	Total Rbl'000
Cost or valuation			
At 1 January 1998	(53,459)	5,721	(47,738)
Acquisition of subsidiaries (Note 4)	(68)	11,905	11,837
Disposals of subsidiaries	90	(1,487)	(1,397)
At 31 December 1998	(53,437)	16,139	(37,298)
Accumulated amortisation:			
At 1 January 1998	(20,437)	555	(19,882)
Elimination on disposal	8	(555)	(547)
Amortisation charge	(10,687)	1,015	(9,672)
At 31 December 1998	(31,116)	1,015	(30,101)
Net book value:			
At 31 December 1998	(22,321)	15,124	(7,197)
At 31 December 1997	(33,022)	5,166	(27,856)

Land rights

The Group has a 49-year lease with the City of Moscow for the land 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. The Group pays the City annual rent in the amount of approximately ECU 722,000. The land rights were last revalued as at 31 December 1995 by independent valuers. As a result of implementation of IAS 38 "Intangible Assets", the Group has removed the land rights from it's assets, as these rights do not meet recognition criteria set out in IAS 38. Comparatives have been restated accordingly. Net book value of the land rights of Rbl'000 337,013 and deferred tax liability arising on it of Rbl'000 117,954 were eliminated from the balance sheet as at 31 December 1997 with a consequent reduction in the revaluation reserve by Rbl'000 219,059. Amortisation charge of Rbl'000 7,489 and deferred tax credit of Rbl'000 2,620 were eliminated from the income statement for the year ended 31 December 1997 with a net effect of 4,869 on profit after tax. The revaluation reserve at 31 December 1996 was reduced by Rbl'000 223,928.

Investments in associates

	31 December 1998 Rbl’000	31 December 1997 Rbl’000
Balance at 1 January	5,480	21,732
Investments acquired	22,491	-
Negative goodwill on acquisition of associate	(17,586)	-
Goodwill amortisation	586	-
Amount reclassified as subsidiary on acquisition of controlling interest	-	(17,115)
Investment written off	(2,107)	-
Equity earnings	-	863
Balance at 31 December	8,864	5,480

Other investments

Other investments of RR’000 3,379 (1997: Rbl’000 23,417) represent investments in companies which are not publicly traded.

Inventories

	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Raw materials	245,248	203,957
Work in progress and semi-finished goods	36,177	26,815
Finished goods and goods for resale	47,046	55,717
	328,471	286,489

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 9,902 (1997: Rbl’000 13,472)	32,038	45,341
Taxation recoverable	5,608	19,958
Receivable from associates	5,617	-
Other receivables	31,427	27,689
	74,690	92,988

Included in Other receivables is amount of Rbl’000 12,133 (1997: nil) paid by the Company for treasury stock purchased in January 1999.

Prepayments and accrued income

Included in prepayments and accrued income are deposits for tangible fixed assets of Rbl’000 135,164 (1997: Rbl’000 47,765).

Cash and cash equivalents

	31 December 1998 Rbl’000	31 December 1997 Rbl’000
Cash in hand	373	380
Cash at bank in local currency	63,311	177,831
Cash at bank in foreign currency	3,809	53,467
	67,493	231,678

Included in cash at bank in foreign currency at 31 December 1998 is Rbl'000 Nil (1997: Rbl'000 33,256) held as security for the issue of a letter of credit to a supplier of tangible fixed assets.

Share Capital

	Number of shares		
	Issued	**Treasury**	**Outstanding**
Ordinary shares			
At 1 January 1997	8,355,775	(178,331)	8,177,444
Issue during the year	-	-	-
Repurchased	-	(68,365)	(68,365)
Resold	-	3,858	3,858
At 31 December 1997	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
Preference shares			
At 1 January 1997	-	-	-
Issue during the year	1,474,549	-	1,474,549
At 31 December 1997 and 1998	1,474,549	-	1,474,549

The total authorised number of ordinary shares is 8,355,779 shares (1997 8,355,779 shares) with a par value of one Rouble (1997 one redenominated Rouble) each. The total authorised number of preference shares is 1,474,549 shares (1997 1,474,549 shares) with a par value of one Rouble (1997 one redenominated Rouble) each. All shares are fully paid.

Movements in the year

During 1998, the Company repurchased 778,583 ordinary shares (1997: 68,365) at a value of Rbl'000 12,025 (1997: Rbl'000 12,363) and 18,017 ordinary shares (1997: 3,858) have been sold for a net consideration of Rbl'000 995 (1997: Rbl'000 145). In 1998 the Company issued Nil preference shares (1997: 1,474,549) at a premium of Rbl'0 (1997: Rbl' 166) per share.

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 in an amount equal to US$ 1.2 per share for 1998 (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 the preference share dividends are not declared 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.

Revaluation reserve

Management has reviewed the classification between retained earnings and revaluation reserves. In respect of the treatment of the difference between the initial valuation of property, plant and equipment and the carrying value in the underlying company's records, the difference was originally taken to the revaluation reserve in error. Therefore, it is management's opinion that since the objective of the valuation was not to carry assets at valuation but only to establish a substitute for historic cost (as that information was not available) then the uplift in cost and accumulated depreciation is presented fairly as retained earnings. Consequently, opening retained earnings as at 1 January 1997, have been increased by Rbl'000 196,169 with a corresponding adjustment to the revaluation reserve. The adjustment does not impact the Group's financial position or total capital and reserves.

The remaining elimination of revaluation reserve is the effect of implementation of IAS 38 (see Note 7).

Interest bearing borrowings

Source of credit line	Maximum amount of credit line and denomi-nation	Expiry of credit line	Length of each tranche	Interest rate	Security	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Non-current							
Russian bank	US$'mln 10	6 May 1999	1 year	Libor + 3,5% per annum	No	206,500	-
Russian bank	Rbl'000 25,000	22 December 1998	12 months	30%	Stocks of raw materials	-	8,116
						206,500	8,116
Less: current portion of interest bearing borrowings						(165,200)	-
						41,300	8,116
Current							
Current portion of interest bearing borrowings (above)						165,200	-
Russian bank	US$'mln 10	1 October 1998	6 months	Libor + 6% per annum	Right of set-off against the Company's current account without notification	-	100,722
Russian bank	Rbl'000 55,000	18 June 1999	6 months	63%	Stocks of raw materials	54,953	-
Other						1,721	5,010
						221,874	105,732

As at 31 December 1998 and 1997 in the opinion of management, interest rates available on new borrowing facilities were not materially different from the rates disclosed above. Therefore carrying amounts were not significantly different from their fair value.

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. As a result of implementation of IAS 1 (Revised) "Presentation of financial statements", the classification of loans between short- and long-term was revised. Comparatives have been adjusted accordingly.

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

Other borrowings

Other borrowings represent an unsecured interest free loan from Kraft Foods International, Inc. to JSC "Confectionery Factory named after K.Samoilova" of USD 4,196,200.

Prepayments received

	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Prepayments from customers	9,462	16,270
Prepayment from the City of Moscow for the forthcoming share issue (see Note 31)	25,000	-
	34,462	16,270

Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (1997 35%).

The movements in net deferred income tax during the years ended 31 December 1998 and 1997, were as follows:

	31 December 1998 Rbl'000	**31 December 1997 Restated Rbl'000**
At beginning of year	37,220	30,795
		-
Income statement (credit)/charge (Note 24)	(5,359)	6,425
		-
At end of year	31,861	37,220

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 1998 Rbl'000	31 December 1997 Restated Rbl'000
Deferred tax assets	-	-
Deferred tax liabilities	31,861	37,220

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

	31 December 1997 Rbl'000	Charged/ (credited) to income Rbl'000	31 December 1998 Rbl'000
Deferred tax assets			
Difference arising on deposits for fixed assets	-	(34,465)	(34,465)
Differences arising on accruals	(6,429)	(439)	(6,868)
Difference arising on bad debts provision	(9,878)	4,749	(5,129)
Other	(23,631)	11,892	(11,739)
	(39,938)	(18,263)	(58,201)
Deferred tax liabilities			
Property, plant and equipment differences	69,433	10,571	80,004
Other	7,725	2,333	10,058
	77,158	12,904	90,062
Net deferred tax liability	37,220	(5,359)	31,861

Deferred tax assets is 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 1998. The management believes that taxable profits will be generated by the Group in the future. Therefore deferred tax asset was recognised in these financial statements.

	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Aggregate temporary differences associated with investment in subsidiaries not recognised	61,437	40,537

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 change in Russian tax legislation, a profit tax rate of 30% has been enacted starting from 1 April 1999. As this tax rate was not substantively enacted at 31 December 1998, the effect of the change will be reflected in the financial statements for the year ended 31 December 1999. The estimated reduction of the net deferred tax liability as at 31 December 1998 resulting from the reduction in the tax rate is Rbl'000 4,128.

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 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. The method of accounting for these obligations (unfunded), are substantially similar to those typically existing under a defined benefit pension scheme.

The amounts recognised in the balance sheet are as follows:

	31 December 1998 Rbl'000	**31 December 1997 Rbl'000**
Present value of unfunded obligations	11,766	1,324
Unrecognised actuarial losses	-	-
Liability in the balance sheet	11,766	1,324

The amounts recognised in the income statement are as follows:

	31 December 1998 Rbl'000	**31 December 1997 Rbl'000**
Current service cost	10,100	838
Interest cost	342	183
Net actuarial losses recognised in year	-	-
Total included in staff costs (Note 22)	10,442	1,021

Movement in the liability recognised in the balance sheet:

	31 December 1998 Rbl'000	**31 December 1997 Rbl'000**
At beginning of year	1,324	303
Total expense as above	10,442	1,021
Contributions paid	-	-
At end of year	11,766	1,324

Weighted average assumptions are as follows:

	31 December 1998 %	31 December 1997 %
Weighted average real discount rate used in determining present values	4	4
Annual real rate of increase in future compensation levels	0	0

1. profit from operations

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

	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Depreciation on property, plant and equipment (Note 5)	80,500	95,111
Amortisation of goodwill (Notes 6 and 8)	(10,259)	(8,827)
Impairment charge relating to property, plant and equipment (Note 5)	302,855	-
Repair and maintenance expenditure	44,858	59,095
Loss on disposals of fixed assets	16,736	17,091
Other Russian taxes and associated penalties	111,937	118,280
Loss on disposal of investments	22,813	20,688
Staff costs (Note 22)	282,062	293,118
Costs of providing social welfare	38,608	59,115

Other Russian taxes and associated penalties were included in cost of sales in these financial statements, while in the financial statements for the years ended 31 December 1997 they were charged after gross profit. Management believes that the new classification is a better reflection of the nature of these costs. Comparatives were adjusted accordingly.

Staff costs

	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Wages and salaries	196,054	213,202
Social security costs	75,566	78,895
Post retirement benefits (Note 20)	10,442	1,021
	282,062	**293,118**
Average number of persons employed by the group during the year:	5,550	4,985

Finance costs

	31 December 1998 Rbl'000	31 December 1997 Rbl'000
Interest income	12,053	11,295
Gain/(Loss) on net monetary position	125,012	(24,365)
Net foreign exchange transaction losses	(348,464)	(4,215)
Interest expense – bank borrowings	(34,727)	(18,353)
	(246,126)	(35,638)

Taxes

	31 December 1998 Rbl'000	31 December 1997 Restated Rbl'000
Current profits tax expense	46,745	53,548
Equity share of profits tax of associates	-	376
Deferred tax expense relating to the origination and reversal of temporary differences	(5,359)	6,424
Profits tax expense for the year	41,386	60,348
Explanation of the relationship between profits tax expense and profit before tax		
Profit before profits tax	(432,553)	71,217
Profit tax:		
calculated at 35% (1997 - 35%)	(151,394)	24,926
Tax relief for capital investment	(28,963)	(48,567)
Other statutory tax concessions	(5,855)	-
Tax effect of:		
Income not assessable to tax	(7,036)	(3,090)
Expenses not deductible for tax purposes	33,640	48,184
Non temporary elements of monetary gains and losses	218,037	42,219
Inflation effect on deferred tax balance at the beginning of the period	(17,043)	(3,324)
	41,386	60,348

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 20).

	31 December 1998	31 December 1997
Net profit (loss) attributable to ordinary shareholders (Rbl'000)	(507,562)	(7,246)
Weighted average number of ordinary shares in issue	7,776,014	8,141,420
Basic and diluted earnings per share (Rbl)	(65.27)	(0.89)

Dividends per share

The Board of Directors proposed a dividend, which was approved by the annual general meeting on 22 May 1999, of Nil Roubles per ordinary share and 1.2 US Dollars per preference share payable between April and September 1999 to shareholders on the register on 16 March 1999 for the year ended 31 December 1998. Based on the results to 31 December 1997, dividends were declared in the amount of 2 Rouble 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 1998 is the amount of Rbl'000 8,815 related to 1997.

Significant Noncash Transactions

Included in sales are barter transactions amounting to Rbl'000 149,350 (1997: Rbl'000 173,457). These transactions have been valued at fair value for the goods and services exchanged.

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 1998 and 1997, 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.

Contingent liabilities

Year 2000 - external factors

It is unclear whether the Russian government and other organisations who provide significant infrastructure services have addressed the Year 2000 Problem sufficiently to mitigate potential disruption to these infrastructure services. The substantial disruption of these services would have an adverse affect on the operations of the Group. Furthermore, the current financial crisis, as discussed in Note 2 could affect the ability of the government and other organisations to fund Year 2000 compliance programs.

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. 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.

Contingent gain

The Group is in the process of negotiating a waiver for the part of the loan from Kraft Foods International, Inc. (see Note 17) in the amount of USD 2,320,000 (Rbl'000 47,908 at the exchange rate ruling at 31 December 1998). The outcome is dependent on the Group meeting the repayment schedule for the remaining loan, and therefore the gain would only be recognised when these conditions were met.

Commitments

Capital commitments

As at 31 December 1998 the Group had commitments for future capital construction expenditure in the amount of Rbl’000 109,068 (1997: Rbl’000 322,472)

POST BALANCE SHEET EVENTS

In February 1999 the Group acquired a further share in Penza confectionery factory and increased the share to 60% for the total consideration of Rbl’000 8,170, including cost of investment done during 1998 (see Note 8).

At the annual general meeting on 22 May 1999 a resolution was passed to issue 417,789 ordinary shares at Rbl 295 per share to the City of Moscow represented by Moscow Property Committee. The issue was completed in September 1999.