OAO BALTIKA BREWERY
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2002 and 2001

OAO BALTIKA BREWERY
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2002 and 2001

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statements of Shareholders' Equity and Comprehensive Income	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-23

kpmg

Independent Auditors' Report

The Board of Directors and Shareholders
OAO Baltika Brewery Group:

We have audited the accompanying consolidated balance sheets of OAO Baltika Brewery and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements, as set out on pages 2 to 23, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO Baltika Brewery and subsidiaries as of December 31, 2002 and 2001, the results of their operations, shareholders' equity and comprehensive income and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG
St. Petersburg, Russian Federation
March 5, 2003

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2002 and December 31, 2001

(in thousands U.S. dollars)

Assets		**2002**	**2001**
Current assets:			
Cash and cash equivalents	$	12,844	16,414
Trade accounts receivable, net (note 2)		7,024	6,169
Loans receivable, net (note 3)		110	10,552
Inventories (note 4)		58,583	56,694
Prepayments and other receivables (note 5)		72,251	32,478
Total current assets		150,812	122,307
Investment securities (note 6)		310	425
Investments in affiliated companies (note 7)		8,042	5,132
Loans receivable, net (note 3)		10,408	-
Property, plant and equipment net (note 8)		525,688	382,692
Intangible assets		668	623
Total assets	$	695,928	511,179
Liabilities and Shareholders' Equity			
Current Liabilities:			
Trade accounts payable	$	33,136	17,055
Short-term debt including current installments of long-term debt (note 10)		69,766	11,281
Accrued salaries, wages and benefits		15,914	9,413
Accrued taxes		10,768	6,581
Other liabilities		4,073	5,553
Due to related parties (note 17)		902	1,262
Total current liabilities		134,559	51,145
Long-term debt, excluding current installments (note 9)		10,000	14,000
Deferred income taxes		2,934	-
Total liabilities		147,493	65,145
Minority interest		-	49,907
Shareholders' equity (note 13):			
Preference shares		2,965	2,963
Ordinary shares		23,872	23,530
Additional paid-in capital		40,068	-
Retained earnings		481,151	370,097
Treasury shares		(759)	(463)
Other comprehensive income		1,138	-
Total shareholders' equity		548,435	396,127
Commitments and contingencies (note 15)		-	-
Total liabilities and shareholders' equity	$	695,928	511,179

See accompanying notes to consolidated financial statements.

Alexander Nikonov
Vice-president on finance and economy,CFO

Sergei Alexeev
Chief accountant

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Statements of Income For the

Years Ended December 31, 2002 and 2001

(in thousands U.S. dollars, except per share data)

		2002	2001
Sales	$	736,806	585,106
Excise taxes		(54,146)	(47,729)
Net sales		682,660	537,377
Cost of goods sold		341,711	261,908
Gross profit		340,949	275,469
Selling, general and administrative expenses		150,374	99,462
Operating income		190,575	176,007
Other income (expense)			
Equity in income of affiliates		2,400	641
Interest income		4,795	3,221
Interest expense (note 11)		(1,172)	(2,060)
Other expense, net		(2,210)	(1,440)
Foreign currency income/(loss)		(3,691)	(2,793)
Income before income taxes and minority interest		190,697	173,576
Income taxes (note 12)		37,952	26,152
Income for the year before minority interest		152,745	147,424
Minority interest		12,954	18,397
Net income before cumulative effect of a change in accounting principle		139,791	129,027
Cumulative effect on prior years of retroactive application of depreciation for kegs		(2,737)	-
Net income	$	137,054	129,027
Basic earnings per share before cumulative effect of accounting change		1.20	1.17
Accounting change		(0.02)	-
Basic earnings per share (note 19)		1.18	1.17
Diluted earnings per share before cumulative effect of accounting change		1.20	1.17
Accounting change		(0.02)	-
Diluted earnings per share (note 19)		1.18	1.17

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Statement of Shareholders' Equity and Comprehensive Income

Years Ended December 31, 2002 and 2001

(in thousand U.S. dollars)

		Preference shares	Ordinary shares	Additional paid-in capital	Retained earnings	Treasury shares	Other comprehensive income	Total shareholders equity
Balances at January 1, 2001	$	2,963	23,530	-	255,167	-	-	281,660
Net income					129,027			129,027
Net treasury stock acquired						(463)		(463)
Comprehensive income								-
Dividends declared								
Preference shares					(1,980)			(1,980)
Ordinary shares					(12,117)			(12,117)
Balances at December 31, 2001	$	2,963	23,530	-	370,097	(463)	-	396,127
Net income					137,054			137,054
Net treasury stock acquired						(296)		(296)
Comprehensive income								-
Shares issued		2	342	40,068				40,412
Translation difference							1,138	1,138
Dividends declared								
Preference shares					(3,639)			(3,639)
Ordinary shares					(22,361)			(22,361)
Balances at December 31, 2002	$	2,965	23,872	40,068	481,151	(759)	1,138	548,435

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2002 and 2001

(in thousand U.S. dollars)

	2002	2001
Net cash provided by operating activities (note 14)	160,830	161,913
Cash flows from investing activities:		
Capital expenditures	(188,263)	(114,656)
Proceeds on disposal of fixed assets	141	1,477
Purchase of investment securities	98	(369)
Additional contribution to associate	-	(407)
Purchase of bank promissory notes	(1,338)	(2,890)
Net change in loans made to third parties	34	(10,134)
Net cash used in investing activities	(189,328)	(126,979)
Cash flows from financing activities:		
Bank indebtedness	58,486	(6,708)
Dividends paid	(25,915)	(13,712)
Dividends paid to minority	(3,347)	(534)
Proceeds from operations with treasury shares	(296)	(463)
Proceeds from long-term borrowings	14,000	-
Repayments of long-term borrowings	(18,000)	(2,000)
Net cash used in financing activities	24,928	(23,417)
Increase/(decrease) in cash and cash equivalents	(3,570)	11,517
Cash and cash equivalents, beginning of year	16,414	4,897
Cash and cash equivalents, end of year	$ 12,844	16,414

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

OAO Baltika Brewery (the "Company") is an open joint-stock company incorporated under Russian legislation and was registered on 21 July 1992, and through a controlling interest in three companies (referred to collectively as the "Group"), produces beer and mineral water. Other services it renders include the transport and distribution of Group products.

The Company's ordinary shares are 81% owned and controlled by Baltic Beverages Holding AB. The reminder of the ordinary shares are widely held.

The Company's preference shares are 14% owned and controlled by Baltic Beverages Holding AB. The reminder of the preference shares are widely held.

As at reporting period end the Company has four branches: Baltika-Tula, Baltika-Rostov, Baltika-Samara and Baltika-Khabarovsk and three subsidiaries: OOO Baltika-Moscow, OOO Leasing-Optimum and Baltika Deutschland GmbH.

Most of the Group's customers are located in Russia. The Group's raw materials are readily available, and the Group is not dependent on a single supplier or only a few suppliers.

(b) Effects of the Russian business environment on activities in Russia

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets.

The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of Baltika Brewery and subsidiaries. The future business environment may differ from management's assessment.

(c) Convertibility of the Rouble

The Russian rouble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian rouble amounts to US dollars should not be construed as a representation that Russian rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(d) Principles of Accounting

The statutory accounts of the Group are maintained in accordance with Russian accounting regulations and are stated in Russian roubles. The accompanying financial statements have been prepared in accordance with US generally accepted accounting principles ("US GAAP") and have been translated to US dollars ("USD") in accordance with the Statement of Financial Accounting Standards No. 52 ("SFAS 52"), "Accounting for Foreign Currency Translation".

USD transactions are shown at their historical value. Foreign currency (Russian rouble) denominated accounts are converted into USD in accordance with accounting for highly inflationary economies under SFAS 52. Under this method, monetary assets and liabilities denominated in roubles are translated into USD at the prevailing period end exchange rate. All other assets and liabilities are translated at historic exchange rates. Revenues, expenses and cash flows have been translated, where practicable, at historic rates as of the date of the transaction. Otherwise, revenues, expenses and cash flows have been translated using reporting period average rates. Foreign currency gains and losses resulting from the use of these different rates are included in the statement of operations. Rouble to USD exchange rates used at December 31, 2002 and December 31, 2001 were 31.78 and 30.14 roubles to 1 USD, respectively.

(e) Principles of Consolidation

Subsidiary companies are those companies in which the Company directly or indirectly holds more than 50% of the voting rights and is able to exercise control. Subsidiary companies have been fully consolidated from the date the Company acquired control. Minority interests in the income and assets and liabilities of the subsidiaries are disclosed separately.

As at December 31, 2002, the subsidiary companies which are included in the consolidation, consist of the following:

Name	Nature of Business	Country of Incorporation	Ownership
OOO Baltika-Moscow	Distribution of Baltika beer	Russia	100.00%
OOO Leasing-Optimum	Lessor's activity	Russia	100.00%
Baltika Deutschalnd GmbH	Distribution of Baltika beer	Germany	100.00%

During 2002 the Group established two new subsidiaries OOO Leasing-Optimum and Baltika Deutschalnd GmbH.

OOO Leasing-Optimum was established on May 27, 2002 with authorized share capital of RUR 500,000 or $15,982.

Baltika Deutschalnd GmbH was established on August 23, 2002 with authorized share capital of EURO 25,000 or $24,450.

Associated companies are those companies over which the Group can exercise significant influence, but which it cannot control. Associated companies are accounted for by the equity method. As at December 31, 2002, the only associated company is a company founded in conjunction with the Soufflet group - ZAO Malterie Soufflet Saint-Petersburg (Soufflet). This company produces malt.

(f) Changes in accounting policies

Starting January 2002, the Group changed its method of accounting for kegs to record such items as fixed assets and depreciate such packaging over its estimated useful life. Before 2002, the Group recorded kegs in inventory. While the Group's previous method of accounting was also in accordance generally accepted accounting principles, the Group believes that Baltika's experience and trends in the industry indicate that the new principle is preferable. In accordance with Accounting Principles Board Opinion (“APB”) No.20, “Accounting Changes”, the Group has applied this change retroactively. The cumulative effect of the accounting change resulted in a decrease of income of $2,737 th. ($0.02 per share basic and $0.02 per share diluted).

(g) Reclassifications

Reclassification of selling, general and administrative expenses from cost of goods sold has been made in comparatives amounts of consolidated statement of income for 2001 for $36,362 th. to be consistent with the presentation used by the Group in 2002.

(h) Cash Equivalents

Cash equivalents of $12,844 th. and $16,414 th. at December 31, 2002 and December 31, 2001, respectively, consist of bank balances and short-term certificates of deposit held in local banks. For purposes of the consolidated statements of cash flows, the Group considers all short-term deposits to be cash equivalents.

(i) Loans Receivable

Loans receivable are recorded at cost, less the related allowance for impaired loans receivable. Management, considering current information and events regarding the borrowers’ ability to repay their obligations, considers a loan to be impaired when it is probable that the Group will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate. Impairment losses are included in the allowance for doubtful accounts through a charge to bad debt expense.

(j) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted average method for all inventories.

(k) Investment Securities

Investment securities at December 31, 2002 consist of equity securities. The Group classifies its equity securities as available-for-sale.

Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

(l) Derivative Instruments and Hedging Activities

In June 1998 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities." In June 2000 the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000; the Group adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. Financial assets and liabilities as at December 31, 2002 were re-measured to fair values in accordance with the provisions of SFAS No. 107 (see note (19))

(m) Investments in Affiliated Companies

Investments in the common stock of affiliated companies are accounted for by the equity method. The Group would recognize a loss when there is a loss in value in the investment.

(n) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets as follows.

Asset	Estimated useful lives
Buildings	40 years
Construction	25-50 years
Machinery and equipment	8.3-10 years
Trucks	7.1 years
Other	8.3-10 years

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(p) Pension and Other Postretirement Plans

The Company and its subsidiaries make contributions to the Pension Fund of the Russian Federation as required by Russian law. The contributions amount to 26% of gross salaries and are expensed as incurred. The Group has not recorded any commitments payable to management or employees on retirement.

(q) Use of Estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(r) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognised by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill and intangible assets not subject to amortization are tested annually for impairment. An impairment loss is recognised to the extent that the carrying amount exceeds the asset's fair value.

(s) Revenue Recognition

The Group recognizes revenue on sales when products are shipped and the customer takes ownership and assumes risk of loss. Revenues are stated net of value-added taxes charged to customers.

(t) Commitments and Contingencies

A considerable degree of uncertainty currently exists in the Russian Federation with regard to the direction of domestic economic policy, regulatory policy and political developments. Group management is unable to predict what changes in conditions may occur and what effect such changes may have on the financial statements.

As Russian commercial legislation, and tax legislation in particular, contains provisions which can be interpreted in more than one way, and due to the tax authorities' practice, as developed in a generally unstable environment, of arbitrarily judging business activities and arbitrarily classifying enterprises' activities where the regulatory basis for such a decision is insufficient, management's judgment of the Group's business activities may not coincide with the tax authorities' interpretation of these same activities.

Management is not currently aware that any situations exist which may be challenged by the tax authorities which have not already been reflected in the financial statements. However, if a particular treatment was to be challenged by the tax authorities, significant penalties may be imposed on the Group. Although the actual amount of tax due on a transaction may be minimal, penalties can be charged at 20% of the value of the outstanding tax amount and also include interest accrued thereon at 1/300 of Central Bank of Russia interest rate per day.

The Group is affected by political, legislative, fiscal and regulatory developments in Russia and also to physical risks of various kinds. The nature and frequency of the developments and risks, which are not covered by insurance, as well as their effect on the future operation and earnings are not predictable. The occurrence of significant losses and impairments associated with facilities could have a material effect on the Group's operations and no provisions for self-insurance to cover such items are incorporated into these financial statements.

(2) Trade Receivables

Trade receivables at December 31, 2002 and December 31, 2001 consist of the following:

		2002	2001
Trade receivables	$	7,368	6,459
Less: allowance for doubtful debts		(344)	(290)
	$	7,024	6,169

(3) Loans Receivable

Loans receivable at December 31, 2002 and December 31, 2001 consist of the following:

		2002	2001
Current:			
Loan receivable from OAO Krinitsa		-	10,552
Other loans receivable		110	-
	$	110	10,552
Long-term:			
Loan receivable from OAO Krinitsa	$	10,408	-
	$	10,408	-

See note (15) Legal proceeding below for more details covering the OAO Krinitsa Loan.

(4) Inventories

Inventories are stated at the lower of cost or market value and are calculated using the weighted-average method. Inventory consists of the following:

		2002	2001
Raw materials and supplies	$	40,634	42,694
Work in progress		6,894	5,553
Finished goods		11,055	8,447
	$	58,583	56,694

(5) Prepayments and other receivables

Prepayments and other receivables at December 31, 2002 and December 31, 2001 consist of the following:

		2002	2001
VAT receivable	$	39,948	11,457
Deferred tax asset		-	1,424
Profit tax receivable		14,044	7,210
Advances to suppliers		8,728	4,593
Bank promissory notes		4,228	2,890
Other		5,303	4,904
	$	72,251	32,478

(6) Investment Securities

Investment securities at December 31, 2002 consist of equity securities in Menatep Bank and Bin Bank. The 10% stake at Rosbalt agency was sold in July, 2002. All investment securities are classified as available-for-sale.

(7) Investments in Affiliated Companies

Investments in affiliated companies consist of 30% of the common stock of Soufflet, malt producing company. This investment has been accounted for under the equity method.

(8) Property, plant and equipment

Property and equipment at December 31, 2002 and December 31, 2001 consists of the following:

		2002	2001
Buildings	$	107,300	94,080
Machinery and equipment		368,020	335,153
Kegs		12,336	-
Construction in progress		165,084	37,607
Less: accumulated depreciation		(127,052)	(84,148)
	$	525,688	382,692

Property and equipment includes production equipment amounting to $46,908 th. and $47,824 th. (by net book value) at December 31, 2002 and 2001 that has been pledged under a long term loan agreement with the EBRD.

(9) Long-Term Debt

Long-term debt at December 31, 2002 and December 31, 2001 consists of the following:

		2002	2001
Borrowings under financing agreement with EBRD, LIBOR interest plus margin, payable each month, principal due November 2006	$	14,012	18,096
Total long-term debt		14,012	18,096
Less current installments		(4,012)	(4,096)
Long-term debt, excluding current installments	$	10,000	14,000

In 1999, the Group entered into a financial agreement with EBRD that permitted the Group to borrow up to $40,000 th., bearing interest at LIBOR plus a margin percentage. Borrowings under the financing agreement were to be repaid in ten equal semi-annual installments commencing 28 November 2001.

Due to a change in the Group's cash flow requirement the Bank has agreed to amend the financial agreement. The long-term loan facility was changed into revolving credit facility with the loan amount not exceeding $14,000 th. The loan amortization schedule was left unchanged. The respective agreements were signed on November 14, 2002.

1. Under the terms of this borrowing agreement the Group is required to follow the specified levels of cash flow in relation to the amounts borrowed in order to be able to declare or pay dividends, distribute any of its share capital, purchase, redeem or acquire any of its shares, or make any payment of principal on any subordinated debt.

(10) Short-term debt

Short-term debt at December 31, 2002 and December 31, 2001 consists of the following:

		2002	2001
Current portion of long-term debt	$	4,012	4,096
Short term loans payable		65,754	7,185
Short-term debt, including current installments of long-term debt	$	69,766	11,281

As at December 31, 2002 an amount of $65,754 th. has been drawn at interest rates between 3.93% and 4.80% on US dollar denominated loans, 14.5% on rouble denominated loans. All short-term loans have variable interest rates.

(11) Interest Expense

The Group capitalizes interest cost as a component of the cost of construction in progress. During 2001 the Group did not capitalize interest cost as a component of the cost of construction in progress, as no loans were received for the purpose of financing construction works. The following is a summary of interest cost incurred during years 2002 and 2001:

		2002	2001
Interest cost capitalized	$	440	-
Interest cost charged to income		1,172	2,060
Total interest cost incurred	$	1,612	2,060

(12) Income Taxes

Income tax expense attributable to income from continuing operations consists of:

		Current	Deferred	Total
Year ended December 31, 2002	$	33,165	4,787	37,952
Year ended December 31, 2001	$	26,380	(228)	26,152

The Group's applicable tax rate as at December 31, 2002 and 2001 is the corporate income tax rate of 24.00% and 29.00% respectively. The rate used for measuring deferred tax as at December 31, 2002 and 2001 was 17.87% (6.00% for investments in Soufflet) and 24.00% respectively.

Reconciliation of effective tax rate:

		2002	2001
Computed "expected" tax expense	$	45,767	50,337
Increase (reduction) in income taxes resulting from:			
Adjustment to Deferred tax assets and liabilities for enacted changes in tax laws and rates		(364)	(206)
Tax concessions on fixed assets purchases		-	(25,211)
Tax concessions granted in respect of local portion of tax		(1,961)	-
Tax concessions granted in respect of local portion of tax for excise payers		(6,820)	(6,551)
Tax effect of non-deductible expenditures		4,377	5,114
Other, net		(3,047)	2,669
	$	37,952	26,152

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and December 31, 2001 are presented below.

		2002	**2001**
Deferred tax assets/(liabilities):			
Accounts receivable, principally due to allowance for doubtful accounts	$	61	183
Inventories, principally due to obsolete inventory written off		69	122
Inventories, principally due to the differences in principles of overhead allocation		(92)	-
Prepayments and other receivables, principally due to allowance for doubtful accounts		129	125
Accrued salaries, wages and benefits, principally due to reserve for unused vacation and period end bonuses		-	1,306
Investments in affiliated companies under equity method		(297)	(442)
Unrealized inter-company gain in inventory		-	156
Fixed assets, principally due to different tax depreciation rates		(3,859)	-
Effect of recoverable within 5 years transformation base		1,585	-
WIP and FG, principally due to different capitalisation rules for tax and accounting purposes		(530)	-
Other		-	(26)
Total gross deferred tax assets/(liabilities)		(2,934)	1,424
Less valuation allowance		-	-
Net deferred tax assets/(liabilities)	$	(2,934)	1,424

(13) Share capital and dividends

As of December 31, 2000 the Company had authorized and issued share capital of 1,338,590 ordinary shares and 168,570 preference shares with a par value of 80 roubles each.

The shareholders meeting of the Company held on March 28, 2001 approved a decision to carry out a split of the nominal value of preference and ordinary shares from 80 roubles per share to 1 rouble per share and thus increase the number of shares on issue. These changes were registered on September 19, 2001.

The shareholders meeting of the Company held on December 15, 2001 reached a decision to increase Baltika's authorized share capital by issuing additional 10,073,490 ordinary and 59,550 preference shares. The newly issued shares were used for conversion of shares held by minority shareholders of Baltika-Don and Tula Brewery during the reorganization process. The reorganization process was finalized on June 28, 2002. See note (16) Restructuring below for more details covering the restructuring process.

As of December 31, 2002 the Company had authorized and issued share capital of 117,158,530 ordinary shares and 13,545,150 preference shares with a par value of 1 rouble each.

Preference shares earn dividends calculated on the basis of the nominal value multiplied by the interest rate of the Savings Bank of the Russian Federation, plus 10%. In accordance with the Company Charter, preference shares grant shareholders the following additional rights: if the Company is liquidated, the nominal value of preference shares will be returned to shareholders. Shareholders are entitled to sell their shares to the Company at their nominal value adjusted for inflation before any return is made to holders of ordinary shares.

Distributable reserves are restricted to the rouble denominated retained earnings of the Company as determined by Russian legislation.

At December 31, 2002 the dollar equivalent of the amount available for distribution for Parent company and its subsidiaries, calculated based on statutory retained earnings of consolidated financial statements of the Company in roubles with application of period end rate is $312,464 th. (2001: $264,557 th.).

The following table demonstrates declared dividends for the periods ended December 31, 2002 and December 31, 2001:

	RUR per share	USD per share equivalent	Thousands USD
December 31, 2001			
Preference shares			
Final portion of dividends for 2000	132	4.59	774
Interim dividends for 2001	208	7.15	1,206
Total dividends declared preference shares in 2001			1,980
Ordinary shares			
Final portion of dividends for 2000	102	3.55	4,752
Interim dividends for 2001	160	5.5	7,365
Total dividends declared ordinary shares in 2001			12,117
December 31, 2002			
Preference shares			
Final portion of dividends for 2001 (first instalment)	4.70	0.15	2,036
Final portion of dividends for 2001 (second instalment)	3.70	0.12	1,603
Total dividends declared preference shares in 2002			3,639
Ordinary shares			
Final portion of dividends for 2001 (first instalment)	3.65	0.12	12,556
Final portion of dividends for 2001 (second instalment)	2.85	0.09	9,805
Total dividends declared ordinary shares in 2002			22,361

For US GAAP purposes, share capital has been translated into US dollars in the accompanying balance sheet at the exchange rate effective as at the date of registration.

The Shareholder's meeting held on March, 22 2002 approved dividends in equivalent of $26,000 th.

During year 2002 the Group performed operations on repurchase and selling of ordinary and preference shares, during 2002 - 157,458 ordinary shares and 17,103 preference shares were purchased and 168,653 ordinary shares and 12,132 preference shares were sold. As at December 31, 2002 the balance of treasury shares amounted to 49,865 ordinary and 4,971 preference shares.

Due to requirement of Russian legislation, the Company has cancelled 2,160 ordinary shares decreasing the amount of authorized share capital for 2,160 RUR or $474.

(14) Reconciliation of Net Income to Cash Provided by Operating activities

The reconciliation of net income to net cash provided by operating activities for the years ended December 31, 2002 and 2001 follows:

	2002	2001
Cash flows from operating activities:		
Net income	$ 137,054	129,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,488	27,359
Cumulative effect of prior years of retroactive application of depreciation for packaging material	2,737	-
(Gain)/loss on disposal of property and equipment	2,339	703
Undistributed income of affiliates	(2,400)	(641)
Minority interest	12,954	18,397
Changes in operating assets and liabilities:		
(Increase)/decrease in trade receivables	(855)	(2,125)
(Increase)/decrease in prepayments	(38,435)	(7,934)
(Increase)/decrease in inventory	(12,977)	(10,224)
Increase/(decrease) in accounts payable, accrued liabilities, taxes payable and other current liabilities	17,285	7,190
Increase/(decrease) in amount due to related parties	(360)	161
Net cash provided by operating activities	$ 160,830	161,913

The Group paid $1,635 th. and $2,163 th. for interest and $39,999 th. and $31,836 th. for income taxes in 2002 and 2001, respectively.

(15) Commitments and Contingents

As at December 31, 2002, the Group had the following major capital commitments to be completed in 2003:

Project	Amount in million USD
St. Petersburg plant	17.0
Baltika-Rostov plant	5.2
Baltika-Tula plant	4.1
Baltika-Khabarovsk plant	1.4
Total	27.7

During 2002 the Group continued construction of two new breweries (branches of the Company) in Khabarovsk and Samara. Baltika-Samara started production of beer in January 2003. Its' capacity is 1,5 million Hl. It is planned that Baltika-Khabarovsk will start production of beer in April 2003. The planned capacity for Baltika-Khabarovsk is 1 million Hl.

Legal Proceedings in relation to Krinitsa

As at December 31, 2002 the Group is in process of claiming the total amount of the $10.4 million loan (recorded under Loans receivable heading of the balance sheet) from OAO Krinitsa, a brewery located in Minsk, that was to be repaid by installments in early 2002.

The loan was provided to OAO Krinitsa in 2001 and was still outstanding as at December 31, 2002. Originally the loan was provided to OAO Krinitsa for the purpose of being used for reconstruction of Krinitsa plant and effecting the purchase of 50% plus one share in OAO Krinitsa share capital by Baltika Brewery.

As no share issue process had started at the date it was planned to, Baltika Brewery has claimed the installments not repaid on the due dates.

As at December 31, 2002 the International Arbitary Commercial Court made a decision on repayment of the loan in favour of Baltika Brewery; the decision was legalized in Belorussian Court. The act of execution is filed with Krinitsa's bank as an order for the collection of outstanding amount from Krinitsa's account.

On February 17, 2003 Krinitsa received a deferral of repayment of the outstanding amount until September 30, 2004 based on the decision of Belarusian Court. The Group plans to protest this decision of the court.

The full amount of the loan is secured by a pledge of Krinitsa equipment. Baltika management evaluates the recoverability of the loan on a regular basis and is fully satisfied that the amount outstanding as at December 31, 2002 will be repaid in full; hence no provision for non-recoverability has been made as at December 31, 2002.

Management has determined fair value of loan receivable based on the present value of expected future cash flows discounted at the interest rate currently received by the Company on deposits kept with local banks of comparable size and period to be in amount of $9,059 th.

Use of tax exemption

In 2002, the Company used a tax exemption with regard to the profits tax paid to St.Petersburg budget. The exemption was granted to companies located in St.Petersburg that produce products imposed by excise tax and have implemented capital investments program at a particular level prescribed by local legislation. The exemption was provided in the form of a 50% reduction to the tax rate for profits tax payable to the St.Petersburg budget. By applying this exemption, the Group reduced current tax expense by approximately $6,820 th.

As of December 31, 2002 this amount represents a contingent tax liability which may arise in any one of the following three years for the profits tax if this exemption claimed by the Company is not allowed by the Tax Authorities. This is because the Company acquired the right to a tax exemption which was subsequently curtailed by newer legislation, and the Company insists that this newer legislation cannot be 'retroactive' and take that right away. From a legal perspective it is not certain whether abolishing a previously granted exemption can be defined as being 'retroactive' and so the tax that the Company did not pay, believing itself to be exempt, may in fact fall due.

The application of this tax exemption has been challenged by the Tax Authorities and the total amount of exempted tax has been claimed. The Tax Authorities have lost first hearings in the court but the disagreements on this issue have not been resolved by the date of the preparation of these financial statements.

When determining the deferred tax liability as of December 31, 2002 the Company applies a tax rate calculated taking into account the effects of the exemption (i.e. a 50% reduction to the tax rate for profits tax payable to the St.Petersburg budget), as the management believes that the Company will be entitled to use this exemption when the temporary differences are realized.

The abolition of the tax exemption due to the reasons described above may give rise to the additional deferred tax liability amounting to approximately $905 th. as of 31 December 2002.

Financial Guarantees

As of December 31, 2002, the Group has issued guarantees aggregating $5.7 million on borrowings by its affiliate Soufflet. It is expected that the Group will not be required to make payments under its guarantees. The Group monitors the financial performance of its associate. No amount has been accrued for the Group's obligation under its guarantee arrangements.

(16) Restructuring

In 2001, the Group adopted a long-term strategic plan to re-organize the legal structure of the Group by merging of the legal entities Baltika-Don and Tula Brewery with the parent Company.

The Board of Directors meetings held at each brewery in October 2001 made decisions to propose to the extraordinary shareholders' meetings of all three breweries to approve reorganization of Baltika Brewery in the form of its merger with Tula Brewery and Baltika-Don. The shareholders' meetings held at each brewery in December 2001 approved reorganization.

In process of merger Baltika's authorized share capital has been increased by issue of additional shares. The newly issued Baltika shares were used for conversion during the merger of shares in Baltika-Don and Tula Brewery held by minority shareholders into newly issued shares of Baltika.

In March 2002 permission was received from the Federal Antimonopoly Authority for the merger and in June 2002 the Federal Commission for Securities Market registered the issue.

On June 28, 2002 information was entered into the State Register of Legal Entities about cessation of the activities of Baltika-Don and Tula Brewery, and at that date shares held by minority shareholders in

Baltika-Don and Tula Brewery were converted into Baltika's.

(17) Related Party Transactions

In 2002 the Group purchased raw materials (i.e. malt) from Soufflet, an associate to the group amounting to a total of $26,043 th., (w/out VAT) or 28% of total malt purchases, and 78,683 tonns, or 29% in total malt purchases by volume. Liability to Soufflet for malt as at December 31, 2002 amounted to $902 th.

(18) Earnings per share

Basic earnings per share of common stock is calculated by dividing the income attributable to common stock by the average number of shares of common stock outstanding during the applicable period.

The calculation of diluted earnings per share of common stock takes into account the effect of obligations, such as convertible preferred stock, considering to be potentially dilutive.

Earnings per share of common stock is as follows (in thousands U.S. dollars, except per share data):

	Income 2002	Shares 2002	Income 2001	Shares 2001
Net income before cumulative effect of a change in accounting principle	137,892		129,027	
Preferred stock dividend requirements	(3,639)		(1,980)	
Basic income and shares	134,253	112,716,108	127,047	107,087,200
Basic earnings per share before cumulative effect of accounting change	1.20		1.17	
Accounting change	(0.02)		-	
Basic earnings per share	1.18		1.17	
Basic income and shares				
Convertible preferred shares	-	-	-	-
Diluted earnings per share before cumulative effect of accounting change	1.20		1.17	
Accounting change	(0.02)		-	
Diluted earnings per share	1.18		1.17	

(19) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Group's financial instruments at December 31, 2002 and December 31, 2001. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

		2002		**2001**	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:					
Cash and cash equivalents	$	12,844	12,844	16,414	16,414
Trade accounts receivables		7,024	7,024	6,169	6,169
Loans receivable		10,518	9,169	10,552	10,552
Investment securities		310	310	425	425
Prepayments and other receivables		72,251	72,251	32,478	32,478
Financial liabilities:					
Trade accounts payables	$	33,136	33,136	17,055	17,055
Due to related company		902	902	1,262	1,262
Accrued salaries, wages and benefits		15,914	15,914	9,413	9,413
Other liabilities		4,073	4,073	5,553	5,553
Long-term debt, excluding current installments		10,000	10,000	14,000	14,000
Short-term debt including current installments of long- term debt		69,766	69,766	11,281	11,281

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade accounts receivable, prepayments and other receivables, trade accounts payable, due to related company, accrued salaries wages and benefits and other liabilities. The carrying amounts approximate fair value because of the short maturity of these instruments.

Loans receivable: The fair value of the loan from Krinitsa is determined based on the present value of expected future cash flows discounted at the interest rate currently received by the Group on deposits kept with local banks of comparable size and period. See note (15) Legal proceedings above for more details covering the OAO Krinitsa loan.

Investment securities: The fair values of equity investments are based on quoted market prices at the reporting date for those or similar investments.

Long-term debt: The carrying amounts of the Group's long-term debt approximate fair value because the loan is provided to the Group at terms currently offered in the market for similar loans of comparable maturities to like borrowers, i.e. is the loan incurs LIBOR interest plus margin.