OAO BALTIKA BREWERY AND SUBSIDIARIES

Consolidated Financial Statements

March 31, 2004 and 2003

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OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Balance Sheets March 31, 2004 and December 31, 2003

(in thousands U.S. dollars)

Assets		**March, 31 2004**	**December, 31, 2003**
Current assets:			
Cash and cash equivalents	$	31,720	27,429
Trade accounts receivable, net (note 2)		30,287	26,031
Loans receivable, net (note 3)		-	-
Inventories (note 4)		81,870	68,583
Net investments in direct financing and sales-type leases (note 5)		2,390	2,426
Prepayments and other receivables (note 6)		63,313	62,778
Total current assets		209,580	187,247
Investment securities (note 7)		301	291
Investments in affiliated companies (note 8)		11,009	10,765
Loans receivable, net (note 3)		10	150
Net investments in direct financing and sales-type leases (note 5)		1,793	2,390
Property, plant and equipment net (note 9)		690,023	657,839
Intangible assets		864	957
Total assets	$	913,580	859,639
Liabilities and Shareholders' Equity			
Current Liabilities:			
Trade accounts payable	$	43,052	30,270
Short-term debt including current installments of long- term debt (note 11)		66,046	76,465
Current installments of obligations under capital leases (note 12)		3,659	3,659
Accrued salaries, wages and benefits		14,932	11,944
Accrued taxes		26,854	22,912
Other liabilities		3,804	3,273
Due to related parties (note 18)		2,426	3,189
Total current liabilities		160,773	151,712
Long-term debt, excluding current installments (note 10)		13,730	8,326
Obligations under capital leases, excluding current installments (note 12)		5,167	6,082
Deferred income taxes		37,078	32,867
Total liabilities		216,748	198,987
Shareholders' equity (note 15):			
Preference shares		2,965	2,965
Ordinary shares		23,872	23,872
Additional paid-in capital		40,068	40,068
Retained earnings		577,958	564,263
Treasury shares		(856)	(1,349)
Other comprehensive income		52,825	30,833
Total shareholders' equity		696,832	660,652
Commitments and contingencies (note 17)			
Total liabilities and shareholders' equity	$	913,580	859,639

See accompanying notes to consolidated financial statements.

Ekaterina Azimina — *Director on finance and economy*

Sergei Alexeev — *Chief accountant*

OAO BALTIKA BREWERY

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Consolidated Statements of Income For the

Tree Months Ended March 31, 2004 and 2003

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

	Three months ended March 31,	
	2004	**2003**
Sales	$ 186,630	143,155
Excise taxes	(16,587)	(13,304)
Net sales	170,043	129,851
Cost of goods sold	104,092	75,799
Gross profit	65,951	54,052
Selling, general and administrative expenses	46,056	35,844
Operating income	19,895	18,208
Other income (expense)		
Equity in income of affiliates	491	610
Interest income	676	259
Interest expense (note 13)	(807)	(627)
Other expense, net	(204)	(1,000)
Foreign currency income/(loss)	1,626	1,112
Income before income taxes and minority interest	21,677	18,562
Income taxes (note 14)	7,982	4,995
Net income	$ 13,695	13,567
Basic earnings per share (note 19)	0.12	0.07
Diluted earnings per share (note 19)	0.12	0.07

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

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Consolidated Statement of Shareholders' Equity and Comprehensive Income For the Three Months Ended March 31, 2004 and Year Ended December 31, 2003

(in thousand U.S. dollars)

		Preference shares	Ordinary shares	Additional paid-in capital	Retained earnings	Treasury shares	Other comprehensive income (loss)	Total shareholders equity
Balances at January 1, 2003	$	2,965	23,872	40,068	481,151	(759)	1,138	548,435
Net income					123,140			123,140
Net treasury stock acquired						(590)		(590)
Translation adjustment related to change in functional currency (note 14)							(16,080)	(16,080)
Translation adjustments - other							45,775	45,775
Dividends declared								
Preference shares					(5,231)			(5,231)
Ordinary shares					(34,797)			(34,797)
Balances at December 31, 2003	$	2,965	23,872	40,068	564,263	(1,349)	30,833	660,652
Net income					13,695			13,695
Net treasury stock acquired						493		493
Translation adjustments - other							21,992	21,992
Dividends declared								
Preference shares					-			-
Ordinary shares					-			-
Balances at March 31, 2004	$	2,965	23,872	40,068	577,958	(856)	52,825	696,832

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

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Consolidated Statements of Cash Flows For the

Three Months Ended March 31, 2004 and 2003

(in thousand U.S. dollars)

	March 31,	
	2004	**2003**
Net cash provided by operating activities (note 16)	40,750	28,718
Cash flows from investing activities:		
Capital expenditures	(29,557)	(47,230)
Proceeds on disposal of fixed assets	53	575
Principle payments received under leases	506	-
Purchase of bank promissory notes	(209)	4,228
Net change in loans made to third parties	144	46
Net cash used in investing activities	(29,063)	(42,381)
Cash flows from financing activities:		
Bank indebtedness	(12,807)	16,443
Dividends paid	(18)	(952)
Proceeds from operations with treasury shares	536	(361)
Principal payments under capital lease obligations	(915)	-
Proceeds from long-term borrowings	5,405	-
Repayments of long-term borrowings	-	-
Net cash (used in)/provided by financing activities	(7,799)	15,130
Translation difference	403	-
Increase/(decrease) in cash and cash equivalents	4,291	1,467
Cash and cash equivalents, beginning of year	27,429	12,844
Cash and cash equivalents, end of year	$ 31,720	14,311

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 four companies and four branches (referred to collectively as the "Group"), produces and distributes beer and mineral water.

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 16% owned and controlled by Baltic Beverages Holding AB. The reminder of the preference shares are widely held.

As at reporting period end the Group consists of five production plants: Baltika-Saint-Petersburg, Baltika-Tula, Baltika-Rostov, Baltika-Samara and Baltika-Khabarovsk and four subsidiaries: OOO Baltika-Moscow, OOO Leasing-Optimum, OOO Universalopttorg 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.

(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) Functional and reporting currency

Prior to 2003 Russian economy was considered to be hyperinflationary under Statement of Financial Accounting Standard No. 52 (SFAS 52) "Foreign Currency Translation", the Group elected to use the US Dollar as the functional and reporting currency for financial statement purposes.

Monetary assets and liabilities denominated in roubles at the balance sheet date were translated to US dollars at the exchange rate ruling at that date. Foreign exchange differences arising on translation were recognised in the income statement. Non-monetary assets and liabilities denominated in roubles, which are stated at historical cost, were translated to US dollars at the foreign exchange rate ruling at the date of the transaction. Income statement transactions in foreign currencies were translated to US dollars with application of period weighted average rate approximating the foreign exchange rate ruling at the date of the transaction.

Starting January 1, 2003 the Russian economy was no longer considered to be hyperinflationary under Statement of Financial Accounting Standard No. 52 "Foreign Currency Translation". Accordingly the Group has conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. Management of the Group have elected to use US Dollar as the reporting currency for these financial statements.

As a result of the change in the functional currency to the rouble, the carrying values of all non-monetary assets and equity items were translated and fixed in Russian Rouble at the rates effective at the date of transition to the Russian Rouble as the functional currency, January, 1, 2003, and all subsequent additions to non-monetary assets and equity, accounted for using Russian Rouble as the functional currency.

Further translation from functional currency to reporting currency for the 2003 financial statements was conducted as follows:

All assets and liabilities are translated from functional currency to reporting currency at the exchange rate effective at the reporting date.

Equity items are translated from functional currency to reporting currency at the historical exchange rate. Translation adjustments arising from translation of equity are included in Accumulated Other Comprehensive Income in accordance with SFAS 52.

Income statement transactions are translated from functional to reporting currency with application of period weighted average rate approximating the rate, ruling at the dates of the transactions. Translation adjustments arising from translation of equity are included in Accumulated Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at March 31, 2004 and December 31, 2003 was 1 USD to 28.49 Roubles and 1 USD to 29.45 Roubles, 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 March 31, 2004, 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	Leasing	Russia	100.00%
OOO Universalopttorg	Warehouse	Russia	100.00%
Baltika Deutschland GmbH	Distribution of Baltika beer	Germany	100.00%

OOO Universalopttorg (Voronezh) is an entity that owns a warehouse and office building in Voronezh and derives its revenues from letting these premises to the Company.

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 March 31, 2004, 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) Cash Equivalents

Cash equivalents of $31,720 th. and $27,429 th. at March 31, 2004 and December 31, 2003, 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.

(g) 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.

(h) Inventories

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

(i) Investment Securities

Investment securities at March 31, 2004 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.

(j) Investments in Affiliated Companies

Investments in the common stock of affiliated companies are accounted for by the equity method.

(k) 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	6-10 years
Trucks	6 years
Other	5-10 years

(l) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as capital leases. Plant and equipment acquired by the way of capital lease is stated at an amount equal to the lower of its fair value or the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (refer to note (1)(q)).

Payments for operating leases, under which the Group does not assume substantially all the risks and rewards of ownership, are expensed in the period they are incurred.

(m) Investments in direct financing and sales-type leases

Leases where the Group transfers substantially all the risks and rewards incident to ownership of an asset to the lessee are classified either as direct financing or sales-type leases. A net investment in direct financing and sales-type leases at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised.

The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest rate method.

(n) 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.

(o) 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 from 21% to 28% of gross salaries and are expensed as incurred.

(p) 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.

(q) 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.

(r) 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.

During 2003 the Company has changed terms of dealing with customers in relation to returnable packaging (bottles). As a result of these changes the Company does not have an obligation to take back the dispatched bottles.

Following the change in underlying circumstances of dealing with bottles the Company included the sold bottles into revenue and costs of goods sold. In the period ended March 31, 2004 the amounts included in revenue and costs of goods sold comprised USD 10,072 th. and USD 10,537 th. respectively.

(s) 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 March 31, 2004 and December 31, 2003 consist of the following:

		March 31, 2004	December 31, 2003
Trade receivables	$	31,950	27,392
Less: allowance for doubtful debts		(1,663)	(1,361)
	$	30,287	26,031

(3) Loans Receivable

Loans receivable at March 31, 2004 and December 31, 2003 consist of the following:

		March 31, 2004	December 31, 2003
Current:			
Other loans receivable		-	-
	$	-	-
Long-term:			
Loan receivable from OAO Krinitsa	$	10	150
	$	10	150

(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:

		March 31, 2004	December 31, 2003
Raw materials and supplies	$	53,767	47,738
Work in progress		9,847	7,376
Finished goods		18,256	13,469
	$	81,870	68,583

(5) Net Investment in Direct Financing and Sales-Type Leases

The Group’s leasing operations consist of leasing of certain machinery and equipment to several companies. The Group's leases are classified as direct financing leases. During 2003 the Group leased out to Vena, a company, with which the Company have a Parent in common, machinery and equipment with a carrying value of $5,064 th. The contract expires within the next two years.

The following lists the components of the net investment in direct financing and sales-type leases as of March 31, 2004:

Three months ending March 31		**2004**
Total minimum lease payments to be received	$	4,449
Less: Allowance for uncollectibles		-
Net minimum lease payments receivable		4,449
Less: Unearned income (at rates approximating LIBOR+ 5%)		(266)
Net investment in direct financing and lease-type leases		4,183
Less current installments of lease payments		(2,390)
Net investments in direct financing and lease-type leases, excluding current installments	$	1,793

(6) Prepayments and other receivables

Prepayments and other receivables at March 31, 2004 and December 31, 2003 consist of the following:

		March 31, 2004	**December 31, 2003**
VAT receivable	$	42,643	40,978
Profit tax receivable		361	1,036
Advances to suppliers		8,643	9,596
Bank promissory notes		7,236	6,795
Other		4,430	4,373
	$	63,313	62,778

(7) Investment Securities

Investment securities at March 31, 2004 consist of equity securities in Bin Bank and as at December 31, 2003 in Bin Bank and Menatep Bank. Shares of Menatep Bank were sold by the Company in September 2003. All investment securities are classified as available-for-sale.

(8) 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.

(9) Property, plant and equipment

Property and equipment at March 31, 2004 and December 31, 2003 consists of the following:

		March 31, 2004	December 31, 2003
Buildings	$	181,369	172,346
Machinery and equipment		624,538	592,158
Kegs		22,729	18,558
Construction in progress		79,281	67,941
Less: accumulated depreciation		(217,894)	(193,164)
	$	690,023	657,839

Property and equipment includes production equipment amounting to $42,128 th. and $42,716 th. (by net book value) at March 31, 2004 and December 31, 2003 respectively that has been pledged under a long term loan agreement with the EBRD.

(10) Long-Term Debt

Long-term debt at March 31, 2004 and December 31, 2003 consists of the following:

		March 31, 2004	December 31, 2003
Borrowings under financing agreement with EBRD, payable each six months, principal due May 2006	$	10,129	10,034
Borrowings under financing agreement with Credit Lyonnais S.A.	$	7,763	2,335
Total long-term debt		17,892	12,369
Less current installments		(4,162)	(4,043)
Long-term debt, excluding current installments	$	13,730	8,326

EBRD loan represents revolving credit facility with the loan amount not exceeding $10,000 th. Under the terms of the EBRD 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.

In July 2003 the Group signed a financing agreement with Credit Lyonnais S.A. Under which the Group was granted a credit line to partially finance the eligible commercial contracts. The terms of the credit facility are determined for each individual withdrawal. The credit line should not exceed $30,000 th.

As of March, 31 2004 the liability represents a loan received to finance the purchase of the equipment for the malt production in the amount not exceeding Euro 7,179 th. to be repaid in US dollars. The loan is to be repaid in 10 semi-annual instalments commencing in six months after the date of provisional acceptance of malt production equipment and at the latest on December 30, 2004.

The weighted average interest rate for long-term debt as at March 31, 2004 comprises LIBOR interest plus 1.7% per annum.

(11) Short-term debt including current instalments of long-term debt

Short-term debt at March 31, 2004 and December 31, 2003 consists of the following:

		March 31, 2004	December 31, 2003
Current portion of long-term debt	$	4,162	4,043
Short term loans payable		61,884	72,422
Short-term debt, including current installments of long-term debt	$	66,046	76,465

As at March 31, 2004 an amount of $61,884 th. has been drawn at interest rates equal LIBOR plus margin varying from 1.9% to 2.2% on US dollar denominated loans and at interest rates varying from 4.5% to 5.3% on rouble denominated loans.

(12) Obligations under capital leases

The Group is obligated under capital lease covering certain machinery and equipment that expire within the next three years. At March 31, 2004 and December 31, 2003 the gross amount of plant and equipment and related accumulated amortisation recorded under capital leases were as follows:

		March 31, 2004	December 31, 2003
Machinery and equipment	$	11,073	10,709
Less accumulated amortization		(745)	(452)
	$	10,328	10,257

Amortization of assets held under capital leases is included with cost of goods sold.

Future minimum capital lease payments as of March 31, 2004 are:

Year ending December 31		**Capital Leases**
2004	$	3,120
2005		3,958
2006		2,494
Later years		-
Total minimum lease payments		9,572
Less: amount representing interest (at rates approximating LIBOR+ 5%)		(746)
Present value of net minimum capital lease payments		8,826
Less current installments of obligations under capital leases		(3,659)
Obligations under capital leases, excluding current installments	$	5,167

(13) Interest expense

The Group capitalizes interest cost as a component of the cost of construction in progress. The following is a summary of interest cost incurred during three months 2004 and 2003:

		Three months ended March 31,	
		2004	**2003**
Interest cost capitalized	$	7	396
Interest cost charged to income		807	627
Total interest cost incurred	$	814	1,023

(14) Income Taxes

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

		Current	**Deferred**	**Total**
Three months ended March 31, 2004	$	4,909	3,073	7,982
Three months ended March 31, 2003	$	3,352	1,643	4,995

The Group's applicable tax rate as at March 31, 2004 and 2003 is the corporate income tax rate of 24.00%.

Due to the fact that starting January 1, 2003, the economy of the Russian Federation ceased to be considered highly inflationary (see note (1) (d)) the differences between the new rouble functional currency basis and the tax basis represent temporary differences, for which additional deferred taxes liability of $16,080 th. as of January 1, 2003 is recognized. The effects of recognizing such deferred taxes were included as an adjustment to accumulated other comprehensive income, a component of stockholders' equity.

Reconciliation of effective tax rate:

		Three months ended March 31,	
		2004	**2003**
Computed "expected" tax expense	$	5,202	4,455
Increase (reduction) in income taxes resulting from:			
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates		744	(165)
Tax concessions granted in respect of local portion of tax		(224)	(105)
Tax concessions granted in respect of local portion of tax for excise payers		-	(922)
Tax effect of non-deductible expenditures		1,353	619
Other, net		907	1,113
	$	7,982	4,995

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2004 and December 31, 2003 are presented below.

		March 31, 2004	December 31, 2003
Deferred tax assets/(liabilities):			
Accounts receivable, principally due to allowance for doubtful accounts	$	(214)	(135)
Inventories, principally due to obsolete inventory written off		105	108
Inventories, principally due to the differences in principles of overhead allocation		-	(142)
Prepayments and other receivables, principally due to allowance for doubtful accounts		136	126
Investments in affiliated companies under equity method		(452)	(444)
Fixed assets, principally due to different tax depreciation rates and different accounting basis		(38,129)	(33,282)
Effect of recoverable within 5 years transformation base		1,550	1,752
WIP and FG, principally due to different capitalisation rules for tax and accounting purposes		(320)	(764)
Other		246	(86)
Total gross deferred tax assets/(liabilities)		(37,078)	(32,867)
Less valuation allowance		-	-
Net deferred tax assets/(liabilities)	$	(37,078)	(32,867)

(15) Share capital and dividends

During 2001 and 2002 the Company was in process of reorganisation of its legal structure that was finalised on June 28, 2002 and resulted in exchange of shares held by minority shareholders in Baltika-Don and Tula Brewery into newly issued shares of the Company.

As of March 31, 2004 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 not less than an amount calculated as follows: the nominal value multiplied by the interest rate of the Savings Bank of the Russian Federation, plus 10% and are cumulative. 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 and, if dividends on preference shares are in arrears, the preference shareholders obtain the right to vote. 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 March 31, 2004 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 $469,293 th. (2003: $449,363 th.).

The following table demonstrates declared dividends for the periods ended March 31, 2004 and December 31, 2003:

	RUR per share	USD per share equivalent	Thousands USD
December 31, 2003			
Preference shares			
Final portion of dividends for 2002 (first instalment)	4.91	0.16	2,119
Final portion of dividends for 2002 (second instalment)	7.21	0.23	3,112
Total dividends declared preference shares in 2003			5,231
Ordinary shares			
Final portion of dividends for 2002 (first instalment)	3.77	0.12	14,076
Final portion of dividends for 2002 (second instalment)	5.55	0.18	20,721
Total dividends declared ordinary shares in 2003			34,797
March 31, 2004			
Preference shares			
Dividends for 2003 (first instalment)			-
Dividends for 2003 (second instalment)			-
Total dividends declared preference shares in 2004			-
Ordinary shares			
Dividends for 2003 (first instalment)			-
Dividends for 2003 (second instalment)			-
Total dividends declared ordinary shares in 2004			-

The Shareholder’s meeting held on April 2, 2004 approved dividends in equivalent of $55,036 th.

During three months 2004 the Group performed operations on repurchase and selling of ordinary and preference shares, 105,590 ordinary shares and 1,500 preference shares were purchased and 146,962 ordinary shares and 400 preference shares were sold. As at March 31, 2004 the balance of treasury shares amounted to 59,640 ordinary and 1,508 preference shares.

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

The reconciliation of net income to net cash provided by operating activities for three months ended March 31, 2004 and 2003 follows:

		Three months ended March, 31	
		2004	**2003**
Cash flows from operating activities:			
Net income	$	13,695	13,567
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		18,861	13,282
(Gain)/loss on disposal of property and equipment		310	995
Undistributed income of affiliates		(491)	(610)
Changes in operating assets and liabilities:			
(Increase)/decrease in trade receivables		(3,350)	(2,470)
(Increase)/decrease in prepayments		1,798	(1,663)
(Increase)/decrease in inventory		(10,886)	(1,268)
Increase/(decrease) in accounts payable, accrued liabilities, taxes payable and other current liabilities		21,572	3,277
Increase/(decrease) in amount due to related parties		(759)	3,608
Net cash provided by operating activities	$	40,750	28,718

The Group paid $679 th. and $482 th. for interest and $3,533 th. and $1,317 th. for income taxes in three months 2004 and 2003, respectively.

(17) Commitments and Contingents

As at March 31, 2004, the Group had the following major capital commitments for projects to be completed in 2004:

Project	**Amount in million USD**
St. Petersburg plant	12.5
Baltika-Rostov plant	2.2
Baltika-Tula plant	2.7
Baltika-Tula malt-house	3.1
Baltika-Khabarovsk	1.1
Baltika-Samara plant	1.0
Total	22.6

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 excisable goods and have implemented capital investment program at a 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 in 2002 by approximately $7.9 mln.

The application of this tax exemption was challenged by the tax authorities in 2002 and it has been claimed that the total amount of exempted tax is due to the budget.

A series of Arbitration Court hearings have taken place but the disagreement on this issue had not been resolved as at the date of preparing these financial statements due to the fact that the announcement of the ruling of the Arbitration Court was deferred until a decision is taken by the Charter Court of St. Petersburg. The decision was taken on April 6, 2004 in favour of the Company. The next Arbitration Court hearing will be held on May 26, 2004.

Therefore, as at March 31, 2004, this amount of profits tax ($ 7.9 mln) represents a contingent tax liability which may arise should the Arbitration Court's ruling not be in favour of the Company.

In addition, an unfavourable decision of the Arbitration Court may result in a penalty (approximately $1.5 mln) and interest for the delay in payment of this amount of profits tax for 2002 being accrued. Interest is calculated as 0.05% of the underpaid amount for each day of delay. As at March 31, 2004, the estimated maximum amount of the interest fine which may be imposed by the tax authorities may equal $2.9 mln. However, this amount may be reduced taking into account interest on the balance of settlements with the budget (i.e. the interest fine may not be imposed by the tax authorities for periods when the Group had profits tax overpayments).

The Company has not claimed the tax exemption during of 2003 and three months 2004.

Financial Guarantees

As of March 31, 2004, the Group has issued guarantees aggregating $1.9 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.

(18) Related Party Transactions

In three months 2004 Group purchased raw materials (i.e. malt) from Soufflet, an associate to the Group amounting to a total of $6,815 th., (w/out VAT) or 21% of total malt purchases, and 19,076 tonns, or 25% in total malt purchases by volume.

Liability to Soufflet for malt amounted to $2,426 th. and $3,084 th. as at March 31, 2004 and December 31, 2003 respectively.

In 2003 the Group leased out to Vena, certain machinery and equipment in amount of $5,064 th. see note (5) Net Investment in Direct Financing and Sales-Type Leases.

Liability to Carlsberg for royalty amounted to $175 th. and $105 as at March 31, 2004 and December 31, 2003 respectively.

(19) 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):

	Three months ended March, 31			
	2004		**2003**	
	Income	Shares	Income	Shares
Net income before cumulative effect of a change in accounting principle	13,695		13,567	
Preferred stock dividend requirements	-		(5,231)	
Basic income and shares	13,695	117,158,530	8,336	117,158,530
Basic earnings per share	0.12		0.07	
Basic income and shares Convertible preferred shares	-	-	-	-
Diluted earnings per share	0.12		0.07	

(20) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Group's financial instruments at March 31, 2004 and December 31, 2003. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

		March 31, 2004		December 31, 2003	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Cash and cash equivalents	$	31,720	31,720	27,429	27,429
Trade accounts receivables		30,287	30,287	26,031	26,031
Loans receivable		10	10	150	150
Net investments in direct financing and sales-type leases, short-term		2,390	2,390	2,426	2,426
Net investments in direct financing and sales-type leases, long-term		1,793	1,793	2,390	2,390
Investment securities		301	301	291	291
Prepayments and other receivables		63,313	63,313	62,778	62,778
Financial liabilities:					
Trade accounts payables	$	43,052	43,052	30,270	30,270
Due to related company		2,426	2,426	3,189	3,189
Accrued salaries, wages and benefits		14,932	14,932	11,944	11,944
Other liabilities		3,804	3,804	3,273	3,273
Long-term debt, excluding current installments		13,730	13,730	8,326	8,326
Obligations under capital leases, excluding current installments		5,167	5,167	6,082	6,082
Short-term debt including current installments of long-term debt		66,046	66,046	76,465	76,465
Current installments of obligations under capital leases		3,659	3,659	3,659	3,659

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, other liabilities and short-term debt: The carrying amounts approximate fair value because of the short maturity of these instruments.

Loans receivable: The fair value of the loan is determined as the present value of expected future cash flows discounted at the originally contracted effective interest rate.

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

Net investments in direct and sales-type leases, long-term debt and obligations under capital leases: The carrying amounts of these items approximate their fair value as they are provided or received by the Group at terms currently offered in the market for similar loans and leases of comparable maturities to like borrowers.

(21) Subsequent events

On 23 April 2004, the Federal Securities Commission of Russia registered the Bond Issue Prospectus of the Company.

This loan, which is the first bonded loan in the Company's history, will enable it to diversify financing sources for its investment activities and, at the same time, will become an important step in the establishment of the Company's public credit history. This loan with an overall nominal value of RUR 1 billion and a maturity period of three years (1,120 days) will be floated on the Russian share market. The nominal value of each bond is RUR 1,000 .

The initial placement will be conducted in the form of a private subscription at the nominal value. Subsequently, the bonds will be traded on open markets. The bonds will be offered to investors after the registration of the issue results, which will help to minimize interest risks associated with the absence of a secondary circulation in the period between the placement and registration of the issue results.

The loan concept is aimed to ensure that the issue is sold to investors at a fair value and that maximum liquidity of the loan is achieved, with an optimum financing value for the issuer. ZAO Raiffeisenbank Austria is the organizer, underwriter and paying agent for the issue.