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OA0 Baltika Brewery Group
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999

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REPORT OF INDEPENDENT AUDITORS
To the Shareholders and Board of Directors of OAO Baltika Brewery

We have audited the accompanying consolidated balance sheet of OAO Baltika Brewery (hereinafter the Company) and its subsidiaries (hereinafter collectively with the Company referred to as the Group) as at 31 December 1999, and the related profit and loss account and statement of cash flows as at and for the year ended 31 December 1999 together with accompanying notes thereon (as set out on pages 1 to 18 attached). These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. 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 audit provides 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 the Group as of 31 December 1999, and of the results of their operations and cash flows for the year then ended in accordance with International Accounting Standards.

We did not perform audit work regarding the comparative figures and opening balances in these financial statements and the books of the Group. We therefore limit our opinion to this year's transactions and balances.

Without further qualifying our opinion, we draw attention that the environment in which the Group operates is uncertain and may have a potential significant impact on the Group. The ultimate effect that the significant economic uncertainties could have on the values, classification, realisation or settlement of assets and liabilities stated in these financial statements has not been estimated.

Saint Petersburg, Russia
27 April 2000

OAD BALTIKA Brewery Group
(expressed in thousands of US dollars)

Consolidated balance sheet

| | | 31 December 1999 | 31 December 1998 |
|--|----|---------------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash in bank | 3 | 5,819 | 3,592 |
| Short-term investments | 4 | - | 754 |
| Trade accounts receivable, net | 5 | 4,376 | 1,697 |
| Financial receivables | 6 | 2,677 | - |
| Prepayments and other receivables | 7 | 5,938 | 8,597 |
| Inventory | 8 | 25,307 | 18,676 |
| | | 44,117 | 33,316 |
| Non-current assets | | | |
| Long-term investments | 4 | 138 | - |
| Intangible assets | | 312 | 280 |
| Property, plant and equipment, net | 9 | 196,167 | 125,836 |
| Assets under construction | 10 | 8,953 | 65,684 |
| Financial receivables | 11 | - | 652 |
| | | 205,570 | 192,452 |
| Total assets | | 249,687 | 225,768 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Short-term loans payable | 12 | 4,622 | 11,805 |
| Short-term loans payable to Baltic Beverages Holding | 13 | - | 17,320 |
| Trade accounts payable | 14 | 14,802 | 20,235 |
| Other accounts payable | 15 | 11,474 | 7,196 |
| Provisions for liabilities | 16 | 1 | 3 |
| | | 30,899 | 56,559 |
| Total liabilities | | 30,899 | 56,559 |
| Net assets | | 218,788 | 169,209 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 17 | 26,493 | 26,493 |
| Restricted reserves | | | |
| Revaluation reserve | 18 | 1,063 | 1,063 |
| Other restricted reserves | 18 | 1,489 | 1,625 |
| Total Restricted reserves | | 2,552 | 2,688 |
| Unrestricted reserves | | | |
| Distributable Retained earnings | 18 | 91,472 | 87,186 |
| Non-distributable Retained earnings | 18 | 93,387 | 48,704 |
| Total unrestricted reserves | | 184,859 | 135,890 |
| Total shareholders' equity | | 213,904 | 165,071 |
| MINORITY INTEREST | 19 | 4,884 | 4,138 |
| Total shareholders' equity and minority interests | | 218,788 | 169,209 |

Approved on behalf of the Board of Directors of OAO Baltika Brewery

T. K. Bolloyev
General Director

S. A. Alexeyev
Chief accountant

OAo BALTIKA Brewery Group
(expressed in thousands of US dollars)

Consolidated profit and loss account

| | | Year ended 31 December 1999 | Year ended 31 December 1998 |
|--|----|--|--|
| Net Revenues | 22 | 199,979 | 278,747 |
| Operating costs | 23 | (122,394) | (135,615) |
| Gross income | | 77,585 | 143,132 |
| General and administrative expenses | 24 | (5,672) | (7,199) |
| Operating income | | 71,913 | 135,933 |
| Other income and expenses | | | |
| Other income, other expenses | 25 | 4,026 | (1,833) |
| Financial income | 26 | 310 | 3,145 |
| Financial expenses | 27 | (5,218) | (3,247) |
| Foreign currency translation adjustment, net | | (13,836) | (36,300) |
| Income before taxation and minority interests | | 57,195 | 97,698 |
| Income tax | 20 | (8,297) | (28,903) |
| Income before minority interests | | 48,898 | 68,795 |
| Minority interests | | (746) | (755) |
| Net income | | 48,152 | 68,040 |

OA0 BALTIKA Brewery Group
(expressed in thousands of US dollars)

Consolidated statement of cash flows

| | Year ended 31 December 1999 | Year ended 31 December 1998 |
|--|--|--|
| Cash flow from operating activities | | |
| Income before tax and minority interests | 57,195 | 97,698 |
| Depreciation | 14,827 | 6,723 |
| Loss/(Gain) on disposal of property, plant and equipment | 1,607 | 1,281 |
| Decrease/(Increase) in accounts receivable | (2,679) | 1,180 |
| Decrease/(Increase) in inventory | (6,631) | 231 |
| Decrease/(Increase) in other receivables | (3,836) | 5,079 |
| Decrease/(Increase) in financial receivable | 652 | (652) |
| Increase/(Decrease) in accounts payable | (5,433) | 8,682 |
| Increase/(Decrease) in other liabilities | 4,278 | 57 |
| Increase/(Decrease) in provisions for liabilities | (2) | - |
| Income tax paid | (4,479) | (29,261) |
| Cash flow from operating activities | 55,499 | 91,018 |
| Cash flow from investment activities | | |
| Purchase of property, plant, equipment and intangibles | (38,437) | (104,746) |
| Purchase of shares and participation | - | (1) |
| Net change in short and long term investments | 616 | 11,242 |
| Proceeds from the sale of property, plant and equipment | 10 | 2,102 |
| Cash flow from investing activities | (37,811) | (91,403) |
| Cash flow from financing activities | | |
| Baltic Beverages Holding financing | (17,320) | 17,320 |
| Other loans | (7,182) | 8,080 |
| Currency translation adjustment | 10,536 | (4,573) |
| Dividends paid | (1,495) | (24,616) |
| Outflow from financing activities | (15,461) | (3,789) |
| Net change in cash in bank | 2,227 | (4,174) |
| Cash in bank as at 31 December 1998 | 3,592 | 7,766 |
| Cash in bank as at 31 December 1999 | 5,819 | 3,592 |

1 NATURE OF THE GROUP

1.1 Organisation

OAo Baltika Brewery (the "Company") is an open joint-stock company incorporated under Russian legislation and was registered on 21 July 1992. The Company produces beer and mineral water. Other services it renders include the transport and distribution of Company products.

The principal activities of the subsidiary companies are identical to those of the Company.

1.2 Effects of the Russian business environment on activities in Russia

The Russian Federation continues to undergo the transition to a market economy. As a result, operations carried out in the Russian Federation involve significant risks which are not typically associated with many other environments.

In 1998, the Russian Federation experienced severe economic instability, the ongoing effects of which are instability in the financial services sector, a reduction in the level of available credit, the imposition of currency controls in an attempt to stabilise the rouble exchange rate, hyperinflation, and an increased incidence of bankruptcies, including bank failures, increased unemployment, a reduction in foreign investment and a general lack of liquidity in the economy.

Furthermore, significant political uncertainty exists in the Russian Federation at present, with Presidential elections held in March 2000. The potential for changes in political policy subsequent to these elections is contributing to the current economic uncertainty in the Russian Federation.

The accompanying financial statements reflect management's assessment of the impact of the present Russian business environment on the financial position of the Group. Actual results could differ from management's current assessments and such differences could be material. The financial statements therefore may not include all adjustments that might ultimately result from the present Russian business environment.

2 BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Comparative Financial Statements

The Company has prepared consolidated financial statements for the year ended 31 December 1999 including the results of operations and assets and liabilities of its subsidiaries. The Company has comparative figures for the same period of 1998.

Basis for the Preparation

The consolidated financial statements of the Group and its subsidiaries are prepared in accordance with International Accounting Standards under the historical cost convention, as modified by the revaluation of property, plant and equipment. The Group maintains accounting records and prepares its statutory financial statements in Russian roubles (RUR) in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The accompanying financial statements are prepared in US dollars because this currency is deemed to be the most appropriate to present the position and the operations of the Group. However, 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.

OA0 BALTIKA Brewery Group

(expressed in thousands of US dollars)

Currency Translation

Monetary assets and liabilities denominated in currencies other than US dollars as at the balance sheet date are converted into US dollars at the official Central Bank of Russia exchange rate as at 31 December 1999. Non-monetary items have been converted at historical exchange rates. The Russian rouble to US dollar exchange rate as at 31 December 1999 was 27 (31 December 1998 - 20.65). The profit and loss account has been translated using a six month average exchange rate for the first half of the year (23.7105), an average third quarter rate (24.8227), and an average fourth quarter rate (26.27653). These rates approximate those effective on the settlement dates. The average exchange rate for 1999 was 24.63009 (9.6954 in 1998). Exchange gains and losses arising are recognised in the profit and loss account or as part of equity, as appropriate.

Basis for 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 of Company control. Minority interests in the income and assets and liabilities of the subsidiaries is disclosed separately.

As at 31 December 1999, the subsidiary companies, both registered in Russia, consist of the following:

| Name | Nature of Business | Ownership |
|--------------------|-------------------------------------|-----------|
| OOO Baltika Moscow | Distribution of Baltika beer | 100.00% |
| OA0 Baltika Don | Production and distribution of beer | 82.63% |

Associated companies are those companies over which the Company can exercise significant influence, but which it cannot control. Associated companies are accounted for by the equity method. As at 31 December 1999, the only associated company is a company founded in conjunction with the Soufflet group. This company intends to produce malt and will start its operations in June 2000.

Other long-term and short-term investments are stated at cost; provisions are recorded when their fair market values or net realisable values are less than the valuations recorded in the accounting books.

Revenues

Revenues are presented net of VAT and excise. Services are rendered to customers on credit terms or following a prepayment from the customer. Revenue is recognised when goods are shipped or services are provided.

Accounts receivable

The Company records a provision for doubtful accounts receivable based on a review of the particular account, in addition to considering the overall delinquency in customer payments. The Company fully provides for debtors balances over 180 days old.

Inventory

Valuation of raw materials is recorded at full purchase cost; work in progress and finished goods are recorded at direct production cost plus production overheads. Should the net realisable value be less than the cost, a reduction in the valuation is effected.

OAo BALTIKA Brewery Group

(expressed in thousands of US dollars)

Property, Plant and Equipment

All buildings, plant and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Cost includes all costs directly attributable to bringing the assets into working condition for their intended use. The valuation is translated from roubles using the exchange rate effective as at the acquisition date.

Property, plant and equipment is depreciated on a straight-line basis over the expected useful lives of the related assets as follows:

| | Useful lives |
|-------------------------|--------------|
| Buildings | 50-100 years |
| Construction | 25-50 years |
| Machinery and equipment | 8.3-10 years |
| Trucks | 7.1 years |
| Other | 8.3-10 years |

Repair and Maintenance Costs

Repair and maintenance costs which prolong the useful economic life of property, plant and equipment are capitalised. Other repair and maintenance costs are expensed as incurred.

Assets Under Construction

Assets under construction are recorded in the balance sheet according to the cost of work completed to date. These balances are not depreciated until the construction is completed and the asset is put into use.

Deferred Taxation

The Company adopted IAS 12 (revised) "Accounting for Taxes on Income". In accordance with IAS 12 (revised) "Accounting for Taxes on Income", deferred taxation resulting from temporary differences in the recognition of assets and liabilities for income tax and financial reporting purposes is recorded using the liability method to the extent that there is a reasonable probability that such taxes will be payable or recoverable in the foreseeable future. Valuation allowances are made against deferred income tax assets that are not expected to be realised.

Pensions

The Company and its subsidiaries make contributions to the Pension Fund of the Russian Federation as required by Russian law. The contributions amount to 28% of gross salaries and are expensed as incurred. The Company has no present or future commitments towards its pensioners, as it makes no payments in addition to these mandatory contributions to state pension funds.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred or capitalised to the extent that they relate to fixed assets acquisitions.

ОАО BALTIKA Brewery Group

(expressed in thousands of US dollars)

Minority interests

Minority interests are treated as allocation of equity and stated at historical value both in the Balance sheet and Profit and Loss account.

Distributable and non-distributable retained earnings

Distributable retained earnings represent the closing rouble retained earnings (including adjustments made for compliance with IAS) translated at the period end rate. The closing retained earnings include the net income earned in the reporting period.

Non-distributable retained earnings represent the difference between the historical value of retained earnings and distributable retained earnings.

3 CASH IN BANK

| | 31 December 1999 | 31 December 1998 |
|--------------------------------|-----------------------------|-----------------------------|
| Russian rouble bank accounts | 5,649 | 3,551 |
| Foreign currency bank accounts | 164 | 34 |
| Petty cash | 6 | 7 |
| | 5,819 | 3,592 |

There were no legal restrictions on the use of cash and bank balances as of 31 December 1999. As the Government removed Inkombank's licence, the Inkombank balances of the Group have been recorded in the financial receivables line and have been fully provided for as at 31 December 1999.

4 SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term investments consist of the following items:

| | 31 December 1999 | 31 December 1998 |
|---------------------------------|-----------------------------|-----------------------------|
| State government bonds ("GKOs") | - | 164 |
| Deposits | - | 560 |
| Shares in Menatep bank | - | 61 |
| Provision on Menatep shares | - | (31) |
| | - | 754 |

Long-term investments consist of the following items:

| | 31 December 1999 | 31 December 1998 |
|---|-----------------------------|-----------------------------|
| Shares in Menatep bank | 47 | - |
| Shares in the Associated Company Soufflet | 91 | - |
| | 138 | - |

Shares in Soufflet have been included in the consolidated financial statements using the equity method.

OAo BALTIKA Brewery Group
(expressed in thousands of US dollars)

5 TRADE ACCOUNTS RECEIVABLE

| | 31 December 1999 | 31 December 1998 |
|--|-----------------------------|-----------------------------|
| Trade accounts receivable | 4,740 | 1,900 |
| Provision for bad and doubtful receivables | (364) | (203) |
| | 4,376 | 1,697 |

6 FINANCIAL RECEIVABLES

| | 31 December 1999 | 31 December 1998 |
|---|-----------------------------|-----------------------------|
| Financial receivables from Tula Brewery | 2,677 | - |
| | 2,677 | - |

On 5 November 1999, an extraordinary general shareholders' meeting of Tula Brewery took the decision to carry out an additional issue of 1,665,876 ordinary registered shares, which amounts to 50 % of Tula Brewery's ordinary registered shares, and to sell them under a restricted subscription to Baltika Brewery. These securities are to be paid for in cash or with property at a price of 12 dollars per share (in RUR equivalent).

On 1 November 1999, Baltika Brewery approved a loan to Tula Brewery in the amount of 5,555 thousand dollars at an interest rate of 6%. The amount received by Tula Brewery to 31 December 1999 consists of principal amounting to USD 2,664,333 and accrued interest totalling USD 12,935.

7 PREPAYMENTS AND OTHER RECEIVABLES

| | 31 December 1999 | 31 December 1998 |
|---|-----------------------------|-----------------------------|
| Receivables from Inkombank | 9 | 544 |
| Provision for receivables from Inkombank | (9) | (544) |
| Trade receivables from group companies | 28 | - |
| Prepaid expenses | 14 | 709 |
| Advances to suppliers, paid in roubles | 1,052 | 498 |
| Advances to suppliers, paid in foreign currency | 27 | 483 |
| Profit tax receivable | 4,220 | 2,586 |
| VAT receivable | 597 | 3,335 |
| Other taxes receivable | - | 17 |
| Prepayments to customs | - | 969 |
| | 5,938 | 8,597 |

ОАО BALTIKA Brewery Group
(expressed in thousands of US dollars)

8 INVENTORY

| | 31 December 1999 | 31 December 1998 |
|----------------|-----------------------------|-----------------------------|
| Raw materials | 6,565 | 5,383 |
| WIP | 1,953 | 1,400 |
| Finished goods | 1,495 | 689 |
| Other | 15,294 | 11,204 |
| | 25,307 | 18,676 |

9 PROPERTY, PLANT AND EQUIPMENT

In 1999, the Group continued its investment program. The main projects were the following:

- Construction of a bottling line (investment of 1.9 million US dollars);
- Construction of a finished goods warehouse (investment of 3.9 million US dollars);
- Construction of new cylinder-conical tanks (investment of 5.3 million US dollars);
- Construction of a brewing line (investment of 2.5 million US dollars);
- Modernisation of the beer filtration systems (investment of 0.7 million US dollars);
- Increasing the capacity of the refrigerating shop (investment of 0.7 million US dollars);
- Keg line installation (investment of 0.6 million US dollars);
- Installation of the PET bottling line (investment of 5.6 million US dollars);

In 1999, the Group invested 2.5 million dollars in the reconstruction of Baltika-Don and 0.9 million dollars in the reconstruction of Tula Brewery.

The investment program for 2000 will be financed using internal financing in an estimated amount of 48 million dollars and external funds (long-term loan from the EBRD) in an estimated amount of 40 million dollars. Subsequent to balance sheet date the Group has drawn down 8 million dollars of these funds. External financing is secured by a pledge of equipment and machinery amounting to 66,765 thousand dollars.

OAo BALTIKA Brewery Group*(expressed in thousands of US dollars)*

Property, plant and equipment movement schedule for 1999 is as follows:

| | Machinery and equipment | Plant | Reserve from negative goodwill | Total 31 December 1999 | Total 31 December 1998 |
|--|--|----------------|---|---|---|
| Cost | | | | | |
| Cost as at 1 January 1999 | 105,799 | 41,548 | (842) | 146,505 | 69,500 |
| Additions | 76,473 | 18,570 | - | 95,043 | 85,171 |
| Disposals | (2,145) | (2,181) | 824 | (3,502) | (5,621) |
| Translation difference | (7,238) | (2,502) | 18 | (9,722) | (2,545) |
| Cost as at 31 December 1999 | 172,889 | 55,435 | - | 228,324 | 146,505 |
| Accumulated Depreciation | | | | | |
| Accumulated depreciation as at 1 January 1999 | (14,852) | (5,817) | - | (20,669) | (17,113) |
| Depreciation charge | (13,640) | (1,114) | - | (14,754) | (6,564) |
| Disposals | 919 | 966 | - | 1,885 | 2,392 |
| Translation difference | 1,079 | 302 | - | 1,381 | 616 |
| Accumulated depreciation as at 31 December 1999 | (26,494) | (5,663) | - | (32,157) | (20,669) |
| Net Book Value as at 31 December 1999 | 146,395 | 49,772 | - | 196,167 | 125,836 |

10 ASSETS UNDER CONSTRUCTION

| | 31 December 1999 | 31 December 1998 |
|---|-----------------------------|-----------------------------|
| Assets under construction | 7,984 | 40,050 |
| Intangible assets acquisition | 90 | 57 |
| Interest on acquisition of fixed assets | - | 62 |
| Fixed assets not put into operation | 879 | 25,515 |
| | 8,953 | 65,684 |

OAo BALTIKA Brewery Group
(expressed in thousands of US dollars)

11 FINANCIAL RECEIVABLES

| | 31 December 1999 | 31 December 1998 |
|---------------------------------|-----------------------------|-----------------------------|
| Cash in Inkombank | 18 | 19 |
| Provision on Inkombank balances | (18) | (19) |
| State treasury bonds ("GKOs") | - | 1,467 |
| Provision for GKOs | - | (815) |
| | - | 652 |

12 SHORT-TERM LOANS PAYABLE

As at 31 December 1999, there is a bank loan payable to Citibank within one year :

| Lender | Repayment date | Currency | Interest due | 31 December 1999 | 31 December 1998 |
|---------------|---------------------------|-----------------|-------------------------|-----------------------------|-----------------------------|
| Dresdner Bank | - | BEF | - | - | 1,607 |
| Dresdner Bank | - | FIM | - | - | 1,831 |
| Dresdner Bank | - | DEM | - | - | 3,993 |
| Dresdner Bank | - | SEK | - | - | 897 |
| Dresdner Bank | - | USD | - | - | 3,477 |
| Citibank | 31-Jan-2000 | USD | 22 | 4,600 | - |
| | | | 22 | 4,600 | 11,805 |

The Citibank loan was extended at an interest rate of 10.46%. The amount consists of principal in the amount of 4,600,000 US dollars and accrued interest totalling 22,000 US dollars and is unsecured.

13 SHORT-TERM LOANS PAYABLE TO BALTIC BEVERAGES HOLDING

| Lender | Repayment date | Currency | Interest due | 31 December 1999 | 31 December 1998 |
|---|---------------------------|-----------------|-------------------------|-----------------------------|-----------------------------|
| Short-term loans payable to Baltic Beverages Holding | 31-Dec-1999 | USD | - | - | 17,320 |
| | | | | - | 17,320 |

The loan was extended at an interest rate of 12% and was repaid before 31 December 1999.

OA O BALTIKA Brewery Group
(expressed in thousands of US dollars)

14 TRADE ACCOUNTS PAYABLE

| | 31 December 1999 | 31 December 1998 |
|---|-----------------------------|-----------------------------|
| Payable for property, plant and equipment, foreign currency | 6,171 | 10,606 |
| Payable to suppliers, foreign currency | 3,720 | 5,939 |
| Other payables, foreign currency | 853 | 715 |
| Payable for property, plant and equipment, RUR | 570 | 1,523 |
| Payable to suppliers, RUR | 2,076 | 1,049 |
| Payable for packaging | 842 | 195 |
| Other | 570 | 182 |
| Payable to BBH group companies | 0 | 26 |
| | 14,802 | 20,235 |

15 OTHER ACCOUNTS PAYABLE

| | 31 December 1999 | 31 December 1998 |
|--|-----------------------------|-----------------------------|
| Salary and social charges | 3,386 | 1,879 |
| Advances received | 969 | 751 |
| Taxes payable | 146 | 1,936 |
| Other | 5,307 | 1,338 |
| Financial liabilities to BBH Group Companies | 1,666 | 1,292 |
| | 11,474 | 7,196 |

16 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent Liabilities

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, contain 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, the management's judgement 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.

OAo BALTIKA Brewery Group

(expressed in thousands of US dollars)

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 Company's operations and no provisions for self-insurance to cover such items are incorporated into these financial statements.

Capital commitments

As at 31 December 1999, the Company has the following major capital commitments to be completed in 2000:

| Description of the asset | Amount |
|-----------------------------------|--------|
| New bottling line | 1,095 |
| New brewing line | 509 |
| Binding and palletising equipment | 383 |
| Water and steam supply system | 125 |

17 SHARE CAPITAL

Share capital is denominated in roubles. On 26 December 1992, the date of the Company's first issue of shares, share capital consisted of 1,243,880 authorised and issued shares with a nominal value of 50 RUR.

The second issue was registered on 18 April 1995. The nominal value of shares was increased from 50 RUR to 30,000 RUR.

The third issue was registered on 17 May 1995. An additional 293,000 common shares were issued at the nominal value of 30,000 RUR.

The fourth issue was registered on 26 December 1995. The nominal value of shares was increased from 30,000 RUR to 80,000 RUR. As at 1 January 1998, due to the re-denomination of the rouble, the nominal value of Company shares become 80 RUR.

Share capital was fully paid up by December 1995. On 15 April 1997, the Company share value was decreased by repurchasing 22,970 common and 6,750 preference shares.

For IAS 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. Share capital consists of the following types of shares:

| Type of share | Number of shares | Nominal value per share | Share capital | 31 December 1999 | 31 December 1998 |
|---------------|------------------|-------------------------|------------------|------------------|------------------|
| | | | Thousands of RUR | Thousands of USD | Thousands of USD |
| Ordinary | 1,338,590 | 80 | 107,087 | 23,530 | 23,530 |
| Preference | 168,570 | 80 | 13,486 | 2,963 | 2,963 |
| | 1,507,160 | | 120,573 | 26,493 | 26,493 |

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.

OAo BALTIKA Brewery Group
(expressed in thousands of US dollars)

18 RESERVES

| | Revaluation Reserve | Other restricted reserves | Distributable retained earnings (incl. 1999 net income) | Non- distributable retained earnings |
|---|------------------------|---------------------------------|--|---|
| Balance as at 31 December 1998 | 1,063 | 1,625 | 87,186 | 48,704 |
| 1999 net income | | | 48,152 | |
| Dividend | | | (1,495) | |
| Reclassification | | 214 | (214) | |
| Translation adjustment | | (350) | (42,157) | 44,683 |
| Balance as at 31 December 1999 | 1,063 | 1,489 | 91,472 | 93,387 |

Dividends can be proposed and paid from Russian statutory Distributable Retained Earnings only. For the first half of 1999 interim dividends equivalent to 1,495 thousand dollars were paid.

The Shareholder's meeting held on 23 March 2000 approved dividends equivalent to 8,130 thousand dollars for the second half of 1999.

19 MINORITY INTEREST

The minority interest changed as follows:

| | 31 December 1999 | 31 December 1998 |
|--|---------------------|---------------------|
| Minority interest as at 1 January 1999 | 4,138 | 3,383 |
| Dilution effect due to the increase in Baltika ownership | - | (65) |
| Share of annual profit | 746 | 820 |
| | 4,884 | 4,138 |

20 INCOME TAX

The current charge for income tax was determined on the basis of the Russian statutory taxable income. The current income tax rate applicable to the majority of income is 30%.

The reconciliation between estimated profit tax at statutory rates and tax expense in the consolidated profit and loss account is as follows:

| | 31 December 1999 | 31 December 1998 |
|--|-----------------------------|-----------------------------|
| Profit before taxation and minority interest | 57,195 | 97,698 |
| Estimated profit tax at statutory rates | 11,439 | 32,240 |
| Add/deduct the tax effect of: | | |
| Adjustments between IAS and statutory profit at statutory rate | 1,839 | 1,974 |
| Non-deductible expenses | 1,242 | 7,943 |
| Tax relief (mainly arising from property, plant and equipment acquisition) | (6,838) | (22,667) |
| Loss on disposal of property, plant and equipment | 52 | 340 |
| Currency translation adjustment not included in taxable profit | - | 9,072 |
| Difference in local tax rates | 563 | - |
| Tax expense in the consolidated profit and loss account | 8,297 | 28,903 |

21 RELATED PARTY TRANSACTIONS

Director's Shares

The General Director of Baltika Brewery, Mr Bolloyev, owns 80,192 shares, i.e. 5.3% of the total shares.

Associates

The Company has one associate, Soufflet. Due to the increase in Soufflet's share capital, Baltika's interest in Soufflet's share capital has increased from 27 thousand RUR to 10,086 thousand RUR (equivalent to 422 thousand USD using the historical rate). Baltika's proportional interest in Soufflet's share capital is still 30%. Soufflet has not yet started producing malt and had losses in 1999. Investments in Soufflet are accounted for under the equity method, which led to a reduction in the investment value.

Shareholders

The Company has operations with its shareholder BBH (Baltic Beverages Holding) and other BBH Group companies. During the year ended 31 December 1998, Baltika obtained a loan from BBH Group at an annual interest rate of 12% to be repaid by 31 December 1999. Additional advances were received in 1999 under this loan. The loan was repaid to BBH Group before the end of 1999.

OAo BALTIKA Brewery Group*(expressed in thousands of US dollars)*

Baltika's liabilities to BBH Group consist of the following:

| | 31 December 1999 | 31 December 1998 |
|---|-----------------------------|-----------------------------|
| Liability for property, plant and equipment purchased from BBH | 398 | 418 |
| Liability for BBH services | 431 | 453 |
| Interest due to BBH on liabilities for property, plant and equipment and services | 399 | 421 |
| BBH loan obtained in 1998 and 1999 | - | 17,055 |
| Accrued interest on the 1998/1999 loan | - | 265 |
| BBH payment to EBRD on behalf of the Company | 438 | - |
| Other BBH Group companies | - | 26 |
| Total liability to BBH Group | 1,666 | 18,638 |

22**OPERATING REVENUE**

Almost all sales and services were performed in the Russian Federation. Export sales began in April 1999 and generated 99,000 dollars by 31 December 1999. Goods were exported to Great Britain, Greece, Germany and Israel.

Transport services and mineral water account for approximately 1% of the Group's total sales. The remainder relates to beer sales.

| | 31 December 1999 | 31 December 1998 |
|--------------------------|-----------------------------|-----------------------------|
| Beer | 191,680 | 272,323 |
| Mineral water | 300 | 281 |
| Transport services | 2,000 | 2,956 |
| Other | 5,999 | 3,187 |
| Total group sales | 199,979 | 278,747 |

OAo BALTIKA Brewery Group
(expressed in thousands of US dollars)

23 OPERATING COSTS

| | 31 December 1999 | 31 December 1998 |
|------------------------------------|-----------------------------|-----------------------------|
| Raw materials | (66,452) | (61,501) |
| Low value items | (694) | (1,553) |
| Wages and salaries | (8,069) | (12,800) |
| Pension and social security costs | (2,931) | (4,864) |
| Depreciation | (14,827) | (6,723) |
| Repairs and maintenance | (6,535) | (7,618) |
| Rent | (331) | (373) |
| Taxes | (7,046) | (12,880) |
| Power and heat | (2,693) | (4,914) |
| Compensation to employees | (668) | (1,624) |
| Transport expenses | (5,454) | (3,448) |
| Advertising and marketing expenses | (3,349) | (5,555) |
| Revaluation of pledged packaging | (863) | (2,502) |
| Other | (2,482) | (9,260) |
| | (122,394) | (135,615) |

24 ADMINISTRATIVE EXPENSES

| | 31 December 1999 | 31 December 1998 |
|-----------------------------------|-----------------------------|-----------------------------|
| Wages and salaries | (2,051) | (3,724) |
| Pension and social security costs | (757) | (1,428) |
| Heat, power and light | (133) | (252) |
| Legal and professional | (176) | (584) |
| Communications | (298) | (435) |
| Other | (2,257) | (776) |
| | (5,672) | (7,199) |

25 OTHER INCOME, OTHER EXPENSES

| | 31 December 1999 | 31 December 1998 |
|--|-----------------------------|-----------------------------|
| Refund of taxes paid prior years | 5,680 | - |
| Gain/(Loss) on disposal of property, plant and equipment | (1,607) | (1,281) |
| Penalties to the State budget and non-budgetary funds | (47) | (552) |
| | 4,026 | (1,833) |

26 OTHER FINANCIAL INCOME

| | 31 December 1999 | 31 December 1998 |
|--|-----------------------------|-----------------------------|
| Interest income (from local banks) | 277 | 1,156 |
| Income from local securities | - | 2,728 |
| Less: expenses related to securities acquisition | - | (27) |
| Less: income tax on securities | - | (734) |
| Other interest income | 33 | 22 |
| | 310 | 3,145 |

27 OTHER FINANCIAL EXPENSES

| | 31 December 1999 | 31 December 1998 |
|---|-----------------------------|-----------------------------|
| Provision for investments in associates | (290) | - |
| Provision for short and long-term investments | (710) | (876) |
| Interest expenses (local banks) | (2,325) | (1,085) |
| Interest expense (BBH group) | (1,460) | (265) |
| Provision for receivable from Inkombank | - | (544) |
| Bank services | (433) | (477) |
| | (5,218) | (3,247) |

28 DEFERRED TAXES

The differences between reporting under International Accounting Standards and reporting under statutory tax laws give rise to differences between financial and taxable profits. To the extent that these differences are temporary in nature, their expected future taxation effects are recorded as deferred income taxes. The deferred tax asset arising from such differences has not been recognised in these financial statements due to the lack of certainty of recoverability. It will be realisable if there are no changes in the law or regulations which will adversely affect the Group's ability to realise the asset in future periods.

The difference existing between the property, plant and equipment valuation for IAS and statutory purposes gives rise to a deferred tax liability which has not been recorded in these financial statements. In the short term, the Group does not intend to dispose of a significant part of property, plant or equipment and the Group does not expect to be liquidated. As a result, no deferred tax liability has been recognised in the financial statements.