OAO BALTIKA BREWERY
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2004 and 2003

OAO BALTIKA BREWERY
AND SUBSIDIARIES

Consolidated Financial Statements and Independent Auditors' Report

December 31, 2004 and 2003

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Independent Auditors' Report

To the Board of Directors of OAO Baltika Brewery Group

We have audited the accompanying consolidated balance sheets of OAO Baltika Brewery and subsidiaries (the "Group") as of December 31, 2004 and 2003, 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 25, are the responsibility of the Group'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, 2004 and 2003, 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.

ZAO KPMG
March 9, 2005

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Balance Sheets December 31, 2004 and 2003

(in thousands U.S. dollars)

Assets		**2004**	**2003**
Current assets:			
Cash and cash equivalents	$	62,666	27,429
Trade accounts receivable, net (note 2)		42,050	26,031
Inventories (note 4)		98,346	68,583
Net investments in direct financing and sales-type leases (note 5)		2,390	2,426
Prepayments and other receivables (note 6)		83,444	62,778
Total current assets		288,896	187,247
Investment securities (note 7)		309	291
Investments in affiliated companies (note 8)		11,808	10,765
Loans receivable, net (note 3)		9	150
Net investments in direct financing and sales-type leases (note 5)		-	2,390
Property, plant and equipment, net (note 9)		738,185	657,839
Intangible assets		3,142	957
Total assets	$	1,042,349	859,639
Liabilities and Shareholders' Equity			
Current Liabilities:			
Trade accounts payable	$	38,356	30,270
Short-term debt including current installments of long- term debt (note 11)		57,725	76,465
Current installments of obligations under capital leases (note 12)		3,659	3,659
Accrued salaries, wages and benefits		32,808	11,944
Accrued taxes		27,275	22,912
Other liabilities		5,847	3,273
Due to related parties (note 18)		3,625	3,189
Total current liabilities		169,295	151,712
Long-term debt, excluding current installments (note 10)		43,449	8,326
Obligations under capital leases, excluding current installments (note 12)		2,423	6,082
Deferred income taxes (note 14)		44,846	32,867
Total liabilities		260,013	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		641,177	564,263
Treasury shares		(501)	(1,349)
Other comprehensive income		74,755	30,833
Total shareholders' equity		782,336	660,652
Commitments and contingencies (note 17)			
Total liabilities and shareholders' equity	$	1,042,349	859,639

See accompanying notes to consolidated financial statements.

Anton Artemiev
Acting President

Ekaterina Azimina
Director on finance and economy

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Statements of Income For the

Years Ended December 31, 2004 and 2003

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

	2004	2003
Sales	$ 1,092,294	805,244
Excise taxes	(98,274)	(67,999)
Net sales	994,020	737,245
Cost of goods sold	(549,175)	(397,298)
Gross profit	444,845	339,947
Selling, general and administrative expenses	(250,501)	(171,414)
Restructuring expenses (note 20)	(21,830)	-
Operating income	172,514	168,533
Other income/(expense)		
Equity in income of affiliates	1,121	1,377
Interest income	3,697	993
Interest expense (note 13)	(3,191)	(2,240)
Other expense, net	(1,518)	(3,163)
Foreign currency income	2,428	5,047
Income before income taxes	175,051	170,547
Income taxes (note 14)	(43,101)	(47,407)
Net income	$ 131,950	123,140
Basic and diluted earnings per share (note 19)	1.06	1.01

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Statement of Shareholders' Equity and Comprehensive Income For the Year Ended December 31, 2004 and 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					131,950			131,950
Net treasury stock acquired						848		848
Translation adjustments - other							43,922	43,922
Dividends declared								
Preference shares					(7,190)			(7,190)
Ordinary shares					(47,846)			(47,846)
Balances at December 31, 2004	$	2,965	23,872	40,068	641,177	(501)	74,755	782,336

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

AND SUBSIDIARIES

Consolidated Statements of Cash Flows For the

Year Ended December 31, 2004 and 2003

(in thousand U.S. dollars)

	2004	2003
Net cash provided by operating activities (note 16)	233,302	191,588
Cash flows from investing activities:		
Capital expenditures	(126,872)	(150,810)
Acquisition of subsidiary net of cash acquired	(2,631)	(499)
Proceeds on disposal of fixed assets	749	1,044
Purchase of investment securities	-	41
Financing provided under sales and lease back transactions	-	(6,032)
Financial revenue received under leases	242	-
Principle payments received under leases	2,390	1,215
Dividends received	396	372
Purchase of bank promissory notes	(29,321)	(2,142)
Net change in loans made to third parties	144	10,748
Net cash used in investing activities	(154,903)	(146,063)
Cash flows from financing activities:		
Bank indebtedness	(23,825)	1,436
Dividends paid	(53,655)	(40,304)
Proceeds from operations with treasury shares	897	(509)
Proceeds from leased-back transactions	-	12,404
Principal payments under capital lease obligations	(3,659)	(2,498)
Proceeds from long-term borrowings	40,109	2,326
Repayments of long-term borrowings	(4,773)	(4,000)
Net cash used in financing activities	(44,906)	(31,145)
Translation difference	1,744	205
Increase in cash and cash equivalents	35,237	14,585
Cash and cash equivalents, beginning of year	27,429	12,844
Cash and cash equivalents, end of year	$ 62,666	27,429

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 July 21, 1992, and through a controlling interest in nine companies and four branches (referred to collectively as the "Group"), produces and distributes beer and mineral water.

The Company's ordinary shares are 82% owned and controlled by Baltic Beverages Holding AB. The remainder of the ordinary shares are widely held.

The Company's preference shares are 17% owned and controlled by Baltic Beverages Holding AB. The remainder 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 nine subsidiaries: OOO Baltika-Moscow, OOO Leasing-Optimum, OOO Universalopttorg, OOO Terminal Podolsk, OOO Baltika-Ukraine, OsOO Baltika, Baltika S.R.L., Baltika-Almaty LLP 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 when the 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.

Starting from 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 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 Roubles at 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 Roubles as the functional currency.

Further translation from functional currency to reporting currency for the 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 income statement transactions are included in Accumulated Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at December 31, 2004 and 2003 was 1 USD to 27.75 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 December 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 Batika-Ukraine	Distribution of Baltika beer	Ukraine	100.00%
Baltika S.R.L.	Distribution of Baltika beer	Moldova	100.00%
Baltika-Almaty LLP	Distribution of Baltika beer	Kazakhstan	100.00%
OsOO Baltika	Distribution of Baltika beer	Kirgizia	100.00%
OOO Terminal Podolsk	Warehouse	Russia	100.00%
OOO Universalopttorg	Warehouse	Russia	100.00%
Baltika Deutschland GmbH	Distribution of Baltika beer	Germany	100.00%

During 2004 the Group established four new subsidiaries:

OOO Baltika-Ukraine was established on April 26, 2004 with authorized share capital equivalent to $3,801.

Baltika S.R.L was established on April 28, 2004 with authorized share capital equivalent to $440.

Baltika-Almaty LLP was established on March 29, 2004 with authorized share capital equivalent to $676.

OsOO Baltika was established on April 29, 2004 with authorized share capital equivalent to $2.

In December 2004 OOO Terminal Podolsk has been acquired by the Group for $2,631 th. Fair value of net assets of OOO Terminal Podolsk at the purchase date was equal to the purchase price paid.

Affiliated companies are those companies over which the Group can exercise significant influence, but which it cannot control. Affiliated companies are accounted for by the equity method. As at December 31, 2004, the only affiliated company is ZAO Malterie Soufflet Saint-Petersburg (Soufflet). This company produces malt.

(f) Cash Equivalents

Cash equivalents of $62,666 th. and $27,429 th. at December 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 December 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 is charged to earnings and a new cost basis for the security is established.

(j) Investments in Affiliated Companies

Investments in the common stock of affiliated companies are accounted for under 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 to 21% 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 in 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 changed its 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 the underlying circumstances of dealing with bottles the Company included the total invoice value into revenue and the purchase costs of bottles into costs of goods sold.

(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 other 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 for the period of the deemed error.

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 operations 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, 2004 and 2003 consist of the following:

		2004	2003
Trade receivables	$	43,813	27,392
Less: allowance for doubtful debts		(1,763)	(1,361)
	$	42,050	26,031

(3) Loans Receivable

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

	2004	2003
Long-term:		
Loan receivable from OAO Krinitsa	$ 9	150
	$ 9	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:

	2004	2003
Raw materials and supplies	$ 71,165	47,738
Work in progress	9,197	7,376
Finished goods	17,984	13,469
	$ 98,346	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 has a Parent in common, machinery and equipment with a carrying value of $5,064 th. The contract expires during 2005.

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

Year ending December 31	2004
Total minimum lease payments to be received	$ 2,480
Less: Allowance for uncollectibles	-
Net minimum lease payments receivable	2,480
Less: Unearned income (at rates approximating LIBOR+ 5%)	(90)
Net investment in direct financing and lease-type leases	2,390
Less current installments of lease payments	(2,390)
Net investments in direct financing and lease-type leases, excluding current installments	$ -

(6) Prepayments and other receivables

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

		2004	2003
Bank promissory notes		37,660	6,795
VAT receivable	$	26,709	40,978
Advances to suppliers		11,311	9,596
Profit tax receivable		1,780	1,036
Other		5,984	4,373
	$	83,444	62,778

(7) Investment Securities

Investment securities at December 31, 2004 and 2003 consist of equity securities in Bin Bank. 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, plant and equipment at December 31, 2004 and 2003 consists of the following:

		2004	2003
Buildings	$	228,056	172,346
Machinery and equipment		702,614	592,158
Kegs		30,576	18,558
Construction in progress		59,777	67,941
Less: accumulated depreciation		(282,838)	(193,164)
	$	738,185	657,839

Property, plant and equipment includes production equipment amounting to $36,962 th. and $42,716 th. (at net book value) at December 31, 2004 and 2003, respectively, that has been pledged under a long term loan agreement with the EBRD.

(10) Long-Term Debt

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

		2004	2003
Bonds issued, principal due November 2007	$	36,038	-
Borrowings under financing agreement with EBRD, principal payable each six months until May 2006		6,027	10,034
Borrowings under financing agreement with Calyon Corporate and Investment Bank	$	6,958	2,335
Total long-term debt		49,023	12,369
Less current installments		(5,574)	(4,043)
Long-term debt, excluding current installments	$	43,449	8,326

On April 23, 2004, the Federal Securities Commission of Russia registered the bond issuance prospectus of the Company. The total par value of the bond issue is RUR 1 billion and the par value of each bond is RUR 1,000.

The initial placement was conducted on October 26, 2004 in the form of a private subscription to ZAO Raiffeisenbank Austria. The coupon payments are to be made every 182 days, at an effective semi-annual coupon rate of 8.42% per annum. The maturity of the issue is three years.

On November 23, 2004 the bonds were publicly offered to investors through the Moscow Interbank Currency Exchange (MICEX).

ZAO Raiffeisenbank Austria was the organizer, underwriter and paying agent for the issue.

The EBRD loan represents a revolving credit facility with a loan amount not exceeding $14,000 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 Calyon Corporate and Investment Bank (former Credit Lyonnais S.A.) Under which the Group was granted a credit line. The terms of the credit facility are determined for each individual withdrawal. The credit line should not exceed $30,000 th.

As of December 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 on December 30, 2004.

The weighted average interest rate for long-term bank financing as at December 31, 2004 is LIBOR interest plus 1.5% per annum.

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

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

		2004	2003
Current portion of long-term debt (Note 10)	$	5,574	4,043
Short term loans payable		52,151	72,422
Short-term debt, including current installments of long-term debt	$	57,725	76,465

As at December 31, 2004 short term loans payable bear interest at rates equal to LIBOR plus margins varying from 1.5% to 2.0% on US dollar denominated loans and at rates varying from 4.5% to 6.0% on rouble denominated loans.

(12) Obligations under capital leases

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

		2004	2003
Machinery and equipment	$	11,367	10,709
Less accumulated amortization		(1,617)	(452)
	$	9,750	10,257

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

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

Year ending December 31		**Capital Leases**
2005	$	4,008
2006		2,514
Later years		-
Total minimum lease payments		6,522
Less: amount representing interest (at rates approximating LIBOR+ 5%)		(440)
Present value of net minimum capital lease payments		6,082
Less current installments of obligations under capital leases		(3,659)
Obligations under capital leases, excluding current installments	$	2,423

(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 year 2004 and 2003:

		2004	**2003**
Interest cost capitalized	$	247	1,310
Interest cost charged to income		3,191	2,240
Total interest cost incurred	$	3,438	3,550

(14) Income Taxes

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

		Current	Deferred	Total
Year ended December 31, 2004	$	33,511	9,590	43,101
Year ended December 31, 2003	$	35,557	11,850	47,407

The Group's applicable tax rate as at December 31, 2004 and 2003 is the corporate income tax rate of 24 %.

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:

		2004	2003
Computed "expected" tax expense	$	42,012	40,932
Increase (reduction) in income taxes resulting from:			
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates		(2,531)	(803)
Tax concessions granted in respect of local portion of tax		(3,147)	(1,051)
Adjustments of 2003 income tax mainly due to tax concessions granted in respect of local portion of tax for excise payers for 2003 claimed in 2004 (see below)		(6,079)	-
Tax effect of non-deductible expenditures		13,969	3,822
Other, net		(1,123)	4,507
	$	43,101	47,407

On May 26, 2004 a decision was handed down by the Arbitration Court in favour of the Company in relation to the tax exemption with regard to the profits tax paid to St.-Petersburg budget for 2002.

Following this decision of the Arbitration Court the Company has applied the exemption for 2003 following the same rules as for 2002. Such decision is based on the Company's belief that the risk that the tax authorities will challenge the application of the tax exemption for 2003 and subsequent years is remote as the Decision of the Arbitration Court of May 26, 2004 confirmed the right of the Company to this tax exemption for the whole period for which it was granted.

As a result of the application of the exemption for 2003 a reversal of profits tax expense has been recorded in 2004 in amount of $6,906 th.

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

		2004	2003
Deferred tax assets/(liabilities):			
Accounts receivable, principally due to allowance for doubtful accounts	$	(81)	(135)
Inventories, principally due to obsolete inventory written off		100	108
Inventories, principally due to the differences in principles of overhead allocation		-	(142)
Prepayments and other receivables, principally due to allowance for doubtful accounts		827	126
Investments in affiliated companies under the equity method		(494)	(444)
Fixed assets, principally due to different tax depreciation rates and different accounting basis		(45,479)	(33,282)
Effect of expenses recorded in the tax transformation base recoverable within 5 years		1,127	1,752
WIP and FG, principally due to different capitalisation rules for tax and accounting purposes		(743)	(764)
Other		(103)	(86)
Net deferred tax assets/(liabilities)	$	(44,846)	(32,867)

(15) Share capital and dividends

As of December 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%. 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 not fully paid, 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 December 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 at the period end rate is $549,884 th. (2003: $449,363 th.).

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

	RUR per share	USD per share equivalent	Thousands USD
December 31, 2003			
Preference shares			
Dividends for 2002 (first instalment)	4.91	0.16	2,119
Dividends for 2002 (second instalment)	7.21	0.23	3,112
Total dividends declared preference shares in 2003			5,231
Ordinary shares			
Dividends for 2002 (first instalment)	3.77	0.12	14,076
Dividends for 2002 (second instalment)	5.55	0.18	20,721
Total dividends declared ordinary shares in 2003			34,797
December 31, 2004			
Preference shares			
Dividends for 2003 (first instalment)	9.08	0.32	4,315
Dividends for 2003 (second instalment)	6.05	0.21	2,875
Total dividends declared preference shares in 2004			7,190

Ordinary shares			
Dividends for 2003 (first instalment)	7.00	0.24	28,773
Dividends for 2003 (second instalment)	4.64	0.16	19,073
Total dividends declared ordinary shares in 2004			47,846

The Shareholder's meeting held on April 2, 2004 approved dividends equivalent to $55,036 th.

During the 2004 the Group repurchased 226,316 of ordinary shares and 20,843 of preference shares and resold 299,033 of ordinary shares and 16,943 of preference shares. As at December 31, 2004 the balance of treasury shares amounted to 28,295 of ordinary and 4,308 of preference shares (2003: 101,012 ordinary and 408 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 the year ended December 31, 2004 and 2003 follows:

		2004	2003
Cash flows from operating activities:			
Net income	$	131,950	123,140
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		80,067	58,285
Loss on disposal of property and equipment		1,580	2,977
Undistributed income of affiliates		(1,121)	(1,377)
Other non-cash items		-	451
Changes in operating assets and liabilities:			
(Increase)/decrease in trade receivables		(13,886)	(17,706)
(Increase)/decrease in prepayments		13,136	16,718
(Increase)/decrease in inventory		(24,601)	(5,149)
Increase/(decrease) in accounts payable, accrued liabilities, taxes payable and other current liabilities		45,839	12,224
Increase/(decrease) in amount due to related parties		338	2,025
Net cash provided by operating activities	$	233,302	191,588

The Group paid $3,054 th. and $3,297 th. for interest and $34,151 th. and $23,277 th. for income taxes in year 2004 and 2003, respectively.

(17) Commitments and Contingents

As at December 31, 2004, the Group had the following major capital commitments for projects to be completed in 2005 (2004: USD 8.4 million):

Project	Amount in million USD
St. Petersburg plant	5.4
Baltika-Tula plant	0.5
Baltika-Khabarovsk plant	0.9
Baltika-Samara plant	0.6
Total	7.4

Financial Guarantees

As of December 31, 2004, the Group has issued guarantees aggregating $1.6 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 this affiliate. No amount has been accrued for the Group's obligation under its guarantee arrangements.

Tax risks

In 2004 the tax authorities performed on-site tax audits of the Company with regard to all major taxes. The total amount of additional taxes, penalties and interest fines imposed by the tax authorities based on the results of the audits was approximately $1,513 th. The most significant portion of additional tax, penalties and interest fines of $1,297 th. related to profits tax. The tax authorities challenged that the Company was entitled to deduct expenses related to the tax base of transitional period and expenses related to maintenance of airplane. The Company has appealed to arbitration court in this regard and management estimates probability of favourable decision as high.

The tax authorities have also completed an audit of OOO Leasing-Optimum covering all the major taxes including VAT for a period from 27 May 2002 till 31 December 2003. The total amount of additional taxes, penalties and interest fines imposed by the tax authorities based on the results of the audits was approximately $ 10,598 th. The Company has appealed to arbitration court in this regard. However taking into account the official comments to the Resolution of the Constitutional Court and favorable arbitration court decisions on similar episode, management estimates the risk that the arbitration court decision will not be in favor of OOO Leasing-Optimum as remote.

(18) Related Party Transactions

In 2004 the Group purchased raw materials (i.e. malt) from Soufflet, an associate to the Group amounting to a total of $27,082 th., (w/out VAT) or 20% of total malt purchases, and 77,351 tons, or 23% in total malt purchases by volume. In 2003 Group's purchases from Soufflet amounted to a total of $28,052 (w/out VAT) or 23% of total malt purchases, and 75,229 tons, or 25% in total malt purchases by volume.

The liability to Soufflet for malt amounted to $2,565 th. and $3,084 th. as at December 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.

Under arrangements with Carlsberg the Group received $4,119 th. and $4,891 th. as reimbursement of expenses incurred in relation to advertising of Carlsberg brands and paid $893 th. and $293 th. royalty to Carlsberg in 2004 and 2003, respectively.

The liability to Carlsberg for royalty amounted to $145 th. and $105 th. as at December 31, 2004 and December 31, 2003 respectively.

In 2004 Group purchased raw materials (i.e. malt) from Dannish Malting Group, a company, affiliated to Carlsberg, amounting to a total of $3,711 th. (w/out VAT) or 3% of total malt purchases, and 10,671 tons, or 3% in total malt purchases by volume. The liability to Dannish Malting Group for malt amounted to $915 th. as at December 31, 2004.

(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):

	2004		**2003**	
	Income	Shares	Income	Shares
Net income	131,950		123,140	
Preferred stock dividend requirements	(7,190)		(5,231)	
Basic income and shares	124,760	117,158,530	117,909	117,158,530
Basic and diluted earnings per share	1.06		1.01	

(20) Restructuring

In order to rationalize the Group's operations the Group has adopted a long-term strategic plan that resulted in redundancies and associated costs. In 2004, the Group recorded $21,830 th. in respect of these redundancies and associated costs. The charge is separately disclosed in the Consolidated Statement of Income as restructuring expenses. During 2004, $983 th. of such costs were paid and charged against the accrued liability, and $800 th., recorded as foreign currency loss. At December 31, 2004, a liability of $21,647 th. remains for the unpaid portion of such costs.

(21) 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, 2004 and 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.

		2004		2003	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:					
Cash and cash equivalents	$	62,666	62,666	27,429	27,429
Trade accounts receivables		42,050	42,050	26,031	26,031
Loans receivable		9	9	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		-	-	2,390	2,390
Investment securities		309	309	291	291
Prepayments and other receivables		83,444	83,444	62,778	62,778
Financial liabilities:					
Trade accounts payables	$	38,356	38,356	30,270	30,270
Due to related parties		3,625	3,625	3,189	3,189
Accrued salaries, wages and benefits		32,808	32,808	11,944	11,944
Other liabilities		5,847	5,847	3,273	3,273
Long-term debt, excluding current installments		43,449	43,449	8,326	8,326

Obligations under capital leases, excluding current installments	2,423	2,423	6,082	6,082
Short-term debt including current installments of long-term debt	57,725	57,725	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 parties, 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.