OAO BALTIKA BREWERY
AND SUBSIDIARIES

Consolidated Financial Statements
and Schedules

June 30, 2002 and 2001

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OAO BALTIKA BREWERY

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Consolidated Balance Sheets As of

June 30, 2002 and December 31, 2001

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

Assets		**June 30, 2002**	**December 31, 2001**
Current assets:			
Cash and cash equivalents	$	46,021	16,414
Trade accounts receivable, net (note 2)		6,596	6,169
Loans receivable, net (note 3)		11,377	10,552
Inventories (note 4)		57,753	56,694
Prepayments and other receivables (note 5)		47,924	32,478
Total current assets		169,671	122,307
Investment securities (note 6)		408	425
Investments in affiliated companies (note 7)		6,727	5,132
Property, plant and equipment net (note 8)		394,896	382,692
Intangible assets		526	623
Total assets	$	572,228	511,179
Liabilities and Share Capital			
Current Liabilities:			
Trade accounts payable	$	32,435	17,055
Short-term debt including current installments of long-term debt		16,082	11,281
Accrued salaries, wages and benefits		11,028	9,413
Accrued taxes		1,457	6,581
Deferred income taxes		1,085	-
Other liabilities		26,036	5,553
Due to related parties (note 16)		1,024	1,262
Total current liabilities		89,147	51,145
Long-term debt, excluding current installments (note 9)		-	14,000
Total liabilities		89,147	65,145
Minority interest		-	49,907
Shareholders' equity (note 12):			
Preference shares		2,965	2,963
Ordinary shares		23,872	23,530
Shareholders' premium		40,068	-
Retained earnings		416,176	370,097
Treasury shares		-	(463)
Total shareholders' equity		483,081	396,127
Commitments and contingencies (note 14)			
Total liabilities and shareholders' equity	$	572,228	511,179

See accompanying notes to consolidated financial statements.

A. A. Nikonov
Acting Finance Director

S. A. Alexeyev
Chief accountant

OAO BALTIKA BREWERY

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Consolidated Statements of Income For the

Six Months Ended June 30, 2002 and 2001

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

		Six months ended June 30,	
		2002	**2001**
Net sales	$	356,372	232,992
Cost of goods sold		132,892	83,382
Gross profit		223,480	149,610
Selling, general and administrative expenses		113,565	69,583
Operating income		109,917	80,027
Other income (expense)			
Equity in income of affiliates		1,781	1,930
Interest income		2,729	155
Interest expense (note 10)		(634)	(1,493)
Other expense, net		(809)	765
Foreign currency income/(loss)		(2,085)	(3,039)
Income before income taxes and minority interest		110,899	78,345
			-
Income taxes (note 11)		23,070	15,392
Income for the year before minority interest		87,829	62,953
Minority interest		12,954	5,454
Net income before cumulative effect of a change in accounting principle	$	74,875	57,499
Cumulative effect on prior years of retroactive application of depreciation for kegs		(2,796)	-
Net income		72,079	57,499
Basic earnings per share before cumulative effect of accounting change		0.66	0.52
Accounting change		(0.03)	-
Basic earnings per share		0.63	0.52
Diluted earnings per share before cumulative effect of accounting change		0.66	0.52
Accounting change		(0.03)	-
Diluted earnings per share		0.63	0.52

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

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Consolidated Statement of Shareholders' Equity and Comprehensive Income For the Six Months Ended June 30, 2002 and Year Ended December 31, 2001

(in thousand U.S. dollars, except share data)

		Preference shares	Ordinary shares	Additional paid-in capital	Retained earnings	Treasury shares	Total shareholders equity
Balances at January 1, 2001	$	2,963	23,530	-	255,167	-	281,660
Net income					129,027		129,027
Treasury stock acquired						(463)	(463)
Comprehensive income							-
Dividends declared							
Preference shares					(1,980)		(1,980)
Ordinary shares					(12,117)		(12,117)
Balances at December 31, 2001	$	2,963	23,530	-	370,097	(463)	396,127
Net income					72,079		72,079
Treasury stock acquired						463	463
Comprehensive income							-
Shares issued		2	342	40,068			40,412
Dividends declared							
Preference shares					(3,639)		(3,639)
Ordinary shares					(22,361)		(22,361)
Balances at June 30, 2002	$	2,965	23,872	40,068	416,176	-	483,081

See accompanying notes to consolidated financial statements.

OAO BALTIKA BREWERY

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Consolidated Statements of Cash Flows For the

Six Months Ended June 30, 2002 and 2001

(in thousand U.S. dollars, except share data)

	June, 30	
	2002	**2001**
Net cash provided by operating activities (note 13)	123,132	72,481
Cash flows from investing activities:		
Capital expenditures	(44,719)	(31,203)
Proceeds on disposal of fixed assets	315	1,324
Purchase of investment securities	-	-
Additional contribution to associate	-	(407)
Purchase of bank promissory notes	(22,080)	-
Net change in loans made to third parties	(825)	-
Net cash used in investing activities	(67,309)	(30,286)
Cash flows from financing activities:		
Bank indebtedness	(7,198)	(13,790)
Dividends paid	(14,168)	(5,303)
Dividends paid to minority	(3,313)	(534)
Payments to acquire treasury shares	463	-
Repayments of long-term borrowings	(2,000)	-
Net cash used in financing activities	(26,216)	(19,627)
Increase/(decrease) in cash and cash equivalents	29,607	22,568
Cash and cash equivalents, beginning of year	16,414	4,897
Cash and cash equivalents, end of year	$ 46,021	27,465

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. The Company produces beer and mineral water. Other services it renders include the transport and distribution of Company products.

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

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

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

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

The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of Baltika Brewery and subsidiaries (the Group). The future business environment may differ from management's assessment. The impact of such differences on the operations and financial position of the Group may be significant.

(c) Convertibility of the Rouble

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

(d) Principles of Accounting

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

USD transactions are shown at their historical value. Foreign currency (Russian rouble) denominated accounts are converted into USD in accordance with accounting for highly inflationary economies under SFAS 52. Under this method, monetary assets and liabilities denominated in roubles are translated into USD at the prevailing period end exchange rate. All other assets and liabilities are translated at historic exchange rates. Revenues, expenses and cash flows have been translated, where practicable, at historic rates as of the date of the transaction. Otherwise, revenues, expenses and cash flows have been translated using reporting period average rates. Foreign currency gains and losses resulting from the use of these different rates are included in the statement of operations. Rouble to USD exchange rates used at June 30, 2002 and December 31, 2001 were 31.4471 and 30.14 roubles to 1 USD, respectively.

(e) Principles of Consolidation

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

As at June 30, 2002, the subsidiary companies which are both included in the consolidation and registered in Russia, consist of the following:

Name	Nature of Business	Ownership
OOO Baltika-Moscow	Distribution of Baltika beer	100.00%
OOO Leasing-Optimum	Lessor's activity	100.00%

OOO Leasing-Optimum was established on May 27, 2002 with authorized share capital to be an equivalent of $15,980 or 500,000 RUR.

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 June 30, 2002, the only associated company is a company founded in conjunction with the Soufflet group-ZAO Soufflet (Soufflet). This company produces malt.

(f) Changers in accounting policies

Starting January 2002, the Company changed its method of accounting for kegs to record such items as fixed assets and depreciate such packaging over its estimated useful life. Before 2002, the Company recorded kegs in inventory. In accordance with Accounting Principles Board Opinion ("APB") No.20, "Accounting Changes", the Company has applied this change retroactively. The cumulative effect of the accounting change resulted in a decrease of income of $2,796 th. ($0.03 per share basic and $0.03 per share diluted).

(g) Cash Equivalents

Cash equivalents of $46,021 th. and $16,414 th. at June 30, 2002 and December 31, 2001, respectively, consist of bank balances and short-term certificates of deposit held in local banks. For purposes of the consolidated statements of cash flows, the Company considers all short-term deposits to be cash equivalents.

(h) 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 Company 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.

(i) Inventories

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

(j) Investment Securities

Investment securities at June 30, 2002 consist of equity securities. The Company 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. Dividend and interest income are recognized when earned.

(k) Derivative Instruments and Hedging Activities

In June 1998 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities." In June 2000 the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000; the Company adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. Financial assets and liabilities as at June 30, 2002 were re-measured to fair values in accordance with the provisions of SFAS 107 (see note 17)

(l) Investments in Affiliated Companies

Investments in the common stock of affiliated companies are accounted for by the equity method. The Company would recognize a loss when there is a loss in value in the investment which is other than a temporary decline.

(m) Property, Plant and Equipment

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

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

(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 26% of gross salaries and are expensed as incurred. The Company has not recorded any commitments payable to management or employees on retirement.

(p) Use of Estimates

Management of the Company 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

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles be 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 future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(r) Revenue Recognition

The Company 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.

(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 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.

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.

(2) Trade Receivables

Trade receivables at June 30, 2002 and December 31, 2001 consist of the following:

		June 30, 2002	December 31, 2001
Trade receivables	$	6,943	6,459
Less: allowance for doubtful debts		(347)	(290)
	$	6,596	6,169

(3) Loans Receivable

Loans receivable at June 30, 2002 and December 31, 2001 consist of the following:

	June 30, 2002	December 31, 2001
Loan receivable from OAO Krinitsa	11,377	10,552
	$ 11,377	10,552

See note (14) Legal proceeding below for more details covering the OAO Krinitsa Loan.

(4) Inventories

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

	June 30, 2002	December 31, 2001
Raw materials and supplies	$ 44,449	42,694
Work in progress	5,449	5,553
Finished goods	7,855	8,447
	$ 57,753	56,694

(5) Prepayments and other receivables

Prepayments and other receivables at June 30, 2002 and December 31, 2001 consists of the following:

	June 30, 2002	December 31, 2001
VAT receivable	$ 10,339	11,457
Deferred tax asset	-	1,424
Profit tax receivable	-	7,210
Advances to suppliers	8,851	4,593
Bank promissory notes	24,970	2,890
Other	3,764	4,904
	$ 47,924	32,478

(6) Investment Securities

Investment securities at June 30, 2002 consist of equity securities in Menatep Bank, Bin Bank and 10% stake in Rosbalt agency. The 10% stake at Rosbalt agency was sold in July, 2002. All securities are classified in available-for-sale category.

(7) Investments in Affiliated Companies

Investments in affiliated companies consist of 30% of the common stock of Soufflet, malt producing company.

(8) Property, plant and equipment

Property and equipment at June 30, 2002 and December 31, 2001 consists of the following:

		June 30, 2002	**December 31, 2001**
Buildings	$	94,915	94,080
Machinery and equipment		345,533	335,153
Kegs		11,978	-
Construction in progress		49,534	37,607
Less: accumulated depreciation		(107,064)	(84,148)
	$	394,896	382,692

Property and equipment includes production equipment, which has been pledged under the terms of long-term loan agreement with EBRD, amounting to $66,765 th. as at the date of pledge in 1999.

(9) Long-Term Debt

Long-term debt at June 30, 2002 and December 31, 2001 consists of the following:

		June 30, 2002	**December 31, 2001**
Borrowings under financing agreement with EBRD, LIBOR interest plus margin, payable each six months, principal due November 2006		16,082	18,096
Total long-term debt		16,082	18,096
Less current installments		(16,082)	(4,096)
Long-term debt, excluding current installments	$	-	14,000

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

According to the EBRD loan agreement, unless the Bank otherwise agrees in writing, the Company may not declare or pay any 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, if:

1. An Event of Default or Potential Event of Default has occurred and is continuing or would occur as a result of such declaration or payment or such other action as aforesaid; or
2. The resulting proforma Debt Service Coverage Ratio as defined by the contract, and without double counting any declaration, payment or making of the same dividend or distribution for the annualised 11-month period ending with the month prior to the proposed undertaking of such action as referred to point 1 above would be below 1.8:1.

Given the facts of the successful financial performance of the Company and further development of the Company's investment program, the management of the Company has taken the following two decisions:

- To repay the entire long-term debt payable to EBRD, the respective amount of the principal debt and accrued interest was repaid on 31 July 2002;
- To sign in the near future an amendment to the loan agreement with the EBRD, which will allow the Company to disburse the funds under an open credit line, the limit of which will reduce in accordance with the bank loan schedule.

(10) Interest Cost

The Company has not capitalized interest cost as a component of the cost of construction in progress, as no loans were received for the purpose of financing construction works. The following is a summary of interest cost incurred during six months 2002 and 2001:

		Six months ended June 30,	
		2002	**2001**
Interest cost capitalized	$	-	-
Interest cost charged to income		634	1,493
Total interest cost incurred	$	634	1,493

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Notes to Consolidated Financial Statements For the Six Months Ended

June 30, 2002 and 2001

(11) Income Taxes

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

	Current	Deferred	Total
Six months ended June 30, 2002	20,561	2,509	23,070
Six months ended June 30, 2001	15,392	-	15,392

Income tax expense attributable to income from continuing operations differed from the amounts computed by applying the income tax rate of 24% to pretax income from continuing operations as a result of the following:

	Six months ended June 30, 2002	2001
Computed "expected" tax expense	$ 26,616	24,506
Increase (reduction) in income taxes resulting from:		
Change in the beginning-of-the year balance of deferred tax assets and liabilities allocated to income tax expense	2,509	-
US GAAP adjustments	1,159	482
Tax concessions on fixed assets purchases	-	(8,406)
Tax concessions granted in respect of local portion of tax for excise payers	(1,200)	(2,976)
Tax effect of non-deductible expenditures	1,181	1,733
Tax effect of FA depreciation	(1,318)	
Other, net	(5,877)	53
	$ 23,070	15,392

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2002 and December 31, 2001 are presented below.

		June 30, 2002	December 31, 2001
Deferred tax assets/(liabilities):			
Accounts receivable, principally due to allowance for doubtful accounts	$	129	183
Inventories, principally due to obsolete inventory written off		87	122
Prepayments and other receivables, principally due to allowance for doubtful accounts		64	125
Accrued salaries, wages and benefits, principally due to reserve for unused vacation and period end bonuses		304	1,306
Investments in affiliated companies under equity method		(352)	(442)
Unrealized inter-company gain in inventory		-	156
Fixed assets, principally due to different tax depreciation rates		(1,318)	-
WIP and FG, principally due to different principles of expenses recognition for tax purposes		(44)	-
Other		45	(26)
Total gross deferred tax assets/(liabilities)		(1,085)	1,424
Less valuation allowance		-	-
Net deferred tax assets/(liabilities)	$	(1,085)	1,424

(12) Share capital and dividends

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

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

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

As at June 30, 2002 the new amount of authorized share capital was not registered yet.

As of June 30, 2002 the Company had authorized and issued share capital of 117,158,530 ordinary shares and 13,545,150 preference shares with a par value of 1 rouble each.

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

Distributable reserves are restricted to the rouble denominated retained earnings of the Company as determined by Russian legislation. Distributable reserves of subsidiaries may be distributed via parent Company first.

At June 30, 2002 the dollar equivalent of the amount available for distribution for Parent company and its subsidiaries, calculated based on statutory retained earnings of consolidated financial statements of the Company in roubles with application of period end rate is $ 244,214 th. (2001: $264,557 th.).

The following table demonstrates declared dividends for the periods ended June 30, 2002 and December 31, 2001:

	RUR per share	**USD per share equivalent**	**Thousands USD**
December 31, 2001			
Preference shares			
Final portion of dividends for 2000	132	4.59	774
Interim dividends for 2001	208	7.15	1,206
Total dividends declared preference shares in 2001			1,980
Ordinary shares			
Final portion of dividends for 2000	102	3.55	4,752
Interim dividends for 2001	160	5.5	7,365
Total dividends declared ordinary shares in 2001			12,117
June 30, 2002			
Preference shares			
Final portion of dividends for 2001	4.70	0.15	2,036
Interim dividends for 2002	3.70	0.12	1,603
Total dividends declared preference shares in 2002			3,639
Ordinary shares			
Final portion of dividends for 2001	3.65	0.12	12,556
Interim dividends for 2002	2.85	0.09	9,805
Total dividends declared ordinary shares in 2002			22,361

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

The Shareholder’s meeting held on 28 March 2001 approved dividends in equivalent of 26,000 thousand US dollars.

During six months ended June 30, 2002 the Company has sold treasury shares that existed as at December 31, 2001 (61,060 ordinary and 500 preference shares). Due to requirement of Russian legislation, the Company has cancelled 2,160 ordinary shares decreasing the amount of authorized share capital for the equivalent of $474 or 2,160 RUR.

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

The reconciliation of net income to net cash provided by operating activities for the years ended June 30, 2002 and 2001 follows:

		Six months ended June 30,	
		2002	**2001**
Cash flows from operating activities:			
Net income	$	72,079	57,499
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		21,166	11,091
Cumulative effect of prior years of retroactive application of depreciation for packaging material		2,796	
(Gain)/loss on disposal of property and equipment		809	(701)
Non-cash interest on long-term indebtedness and capital lease		-	-
Undistributed income of affiliates		(1,781)	(1,930)
Foreign currency translation adjustment		-	-
Minority interest		12,954	5,454
Changes in operating assets and liabilities:			
(Increase)/decrease in trade receivables		(427)	47
(Increase)/decrease in prepayments		6,634	1,003
(Increase)/decrease in inventory		(12,147)	(8,883)
Increase/(decrease) in accounts payable, accrued liabilities, taxes payable and other current liabilities		21,287	8,901
Increase/(decrease) in amount due to related parties		(238)	
Net cash provided by operating activities		123,132	72,481

The Company paid $648 th. and $1,284 th. for interest and $11,894 th. and $11,703 th. for income taxes in six months 2002 and 2001, respectively.

(14) Commitments and Contingencies

As at June 30, 2002, the Company had the following major capital commitments to be completed in 2002:

Project	**Amount in thousands USD**
St. Petersburg plant	7,3
Baltika Don plant	3,8
Tula Brewery plant	4,8
Samara plant	22,4
Khabarovsk plant	17,4
Total	55,7

During 2002 the Company continued construction of two new breweries (branches of the Company) in Khabarovsk and Samara. The Company plans to invest not less than $55 million into construction of Baltika-Samara and $50 million into construction of Baltika-Khabarovsk. It is planned that Baltika-Samara will start production of beer in February 2003 and Baltika-Khabarovsk in May 2003. The planned capacity for Baltika-Samara is 1,5 Hl and for Baltika-Khabarovsk 1 million Hl.

Due to expansion activity, the Company is in the process of selecting breweries for proposed acquisitions. Negotiations commenced in 2001 with a number of breweries located in Russia and CIS countries and are continuing into 2002.

Legal Proceedings

The Company has applied to the International Arbitary Commercial Court in Moscow Chamber of Commerce claiming total amount of $11 million loan from OAO Krinitsa, brewery located in Minsk, that had to be repaid by installments in early 2002. The loan was provided to OAO Krinitsa in 2001 and was still outstanding as at June 30, 2002. Originally the loan was provided to OAO Krinitsa for the purpose of being used for reconstruction of Krinitsa plant and effecting the purchase of 50% plus one share in OAO Krinitsa share capital by Baltika Brewery. As no share issue process had started at the date it was planned to, Baltika Brewery has claimed the installments not repaid on the due dates. On May 31, 2002 the International Arbitary Commercial Court made a decision on repayment of first installments in favour of Baltika Brewery in amount of $1,030 th., the decision was legalized in Belorussian Court. Court hearings on other installments will be held on September 2 and September 3, 2002.

The future of the loan is not certain at the date of preparation of these financial statements, and no provision has been created as at June 30, 2002 for amounts receivable from OAO Krinitsa.

In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations or liquidity.

Financial Guarantees

As of June 30, 2002, the Company has issued guarantees aggregating $3.0 million on borrowings by its affiliate Soufflet. It is expected that the Company will not be required to make payments under its guarantees. The Company monitors the financial performance of its associate. No amount has been accrued for the Company's obligation under its guarantee arrangements.

(15) Restructuring

In 2001, the Company adopted a long-term strategic plan to re-organize the structure of the Group by undertaking a business combination of two existing subsidiaries Baltika-Don and Tula Brewery with the parent Company.

The Baltika-Don and Tula Brewery Board of Directors meetings held on October 25, 2001 made a decision to make a proposal to extraordinary shareholders' meetings of Baltika-Don and Tula Brewery to approve the reorganization of the companies in the form of their merger with Baltika Brewery.

The Baltika Brewery Board of Directors meeting held on October 30, 2001 made a decision to make a proposal to the extraordinary shareholders' meeting of Baltika Brewery to approve reorganization of Baltika Brewery in the form of its merger with Tula Brewery and Baltika-Don.

On October 30, 2001 these three breweries signed an agreement on the proposed merger.

The shareholders' meetings of Baltika-Don and Tula Brewery held on December 11, 2001 approved reorganization of the breweries in the form of their merger with Baltika Brewery.

The Baltika shareholders' meeting held on December 15, 2001 approved reorganization of Baltika Brewery in the form of the merger of Baltika-Don and Tula Brewery with Baltika Brewery.

The Baltika Brewery Board of Directors meeting held on December 21, 2001 made a decision to increase Baltika's authorized share capital by issuing additional shares. The newly issued Baltika shares were intended to be used for conversion during the merger of shares in Baltika-Don and Tula Brewery held by minority shareholders into newly issued shares of Baltika.

On March 6, 2002, permission was received from the Federal Antimonopoly Authority for the merger.

On June 10, 2002 the Federal Commission for Securities Market registered 3 issues of additional shares intended for conversion of Baltika-Don and Tula-Breweries shares during the reorganization.

On June 28, 2002 information was entered into the State Register of Legal Entities about cessation of the activities of Baltika-Don and Tula Brewery, and at that date shares held by minority shareholders in Baltika-Don and Tula Brewery were converted into Baltika's additional shares and Baltika-Don and Tula Brewery started to operate as branches of the Company.

(16) Related Party Transactions

In 2002 the Group purchased raw materials (i.e. malt) from Soufflet, an associate to the group amounting to a total of $14,642 th., (w/out VAT) or 29% of total malt purchases of Baltika Brewery including branches by value, and 45,448 tonns, or 30% in total malt purchases of Baltika Brewery including branches by volume. Liability to Soufflet for malt as at June 30, 2002 amounted to $1,024 th.

The Group has provided Soufflet with the following services during 2002: security services (Baltika plant and Soufflet plant are very close to each other), and canteen services to Soufflet employees.

The Group leased from Soufflet part of its malt storage premises. The lease payment paid by the Group amounted to EUR 0.03 per tonn of malt per day.

Soufflet also rendered other services to the Group for insignificant amounts.

During six months 2002 there were no new contributions to Soufflet.

Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2002 and December 31, 2001. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

		June 30, 2002		**December 31, 2001**	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:					
Cash and cash equivalents	$	46,021	46,021	16,414	16,414
Trade accounts receivables		6,596	6,596	6,169	6,169
Loans receivable		11,377	11,377	10,552	10,552
Investment securities		408	408	425	425
Prepayments and other receivables		47,924	47,924	32,478	32,478
Financial liabilities:					
Trade accounts payables	$	32,435	32,435	17,055	17,055
Due to related company		1,024	1,024	1,262	1,262
Accrued salaries, wages and benefits		11,028	11,028	9,413	9,413
Other liabilities		26,036	26,036	5,553	5,553
Long-term debt		-	-	14,000	14,000

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 receivables, prepayments and other receivables, trade accounts payables, due to related company, accrued salaries wages and benefit and other liabilities (nonderivatives): 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. See note (14) Legal proceeding above for more details covering the OAO Krinitsa loan.

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

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