Annual Report

SUN Interbrew 2003

SUN Interbrew

Annual Report

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SUNInterbrew
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SUN Interbrew

Annual Report 1

Company Description

Annual
Report

Company
Description

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SUN Interbrew Limited is the second largest brewer in Russia and the market leader in the Ukraine. The company is a strategic partnership between Interbrew, one of the largest brewers in the world, and the SUN Group, which has operated in the region since 1958, and in the beer sector of Russia and the CIS since the early 1990s.

[redacted]

SUN Interbrew Limited has 9 breweries in Russia and 3 in the Ukraine, along with its own distribution network.

[redacted]

The company's main brands are Stella Artois®, Beck's®, Staropramen®, Sibirskaya Korona®, Klinskoye®, and Tolstiak® in Russia, and Stella Artois®, Beck's®, Chernigivske®, Rogan®, Taller® and Yantar® in Ukraine.

[redacted]

SUN Interbrew is a public company registered in Jersey. The Company has a full listing on the Luxemburg Stock Exchange. The Company's Shares are also listed for trading purposes on the Freiverkehr market of the Berlin Stock Exchange, the Stuttgart Stock Exchange, the Frankfurter Boerse and the XetraTM market of the Frankfurt Stock Exchange. The Class B GDRs are listed for trading purposes on the Munich Stock Exchange.

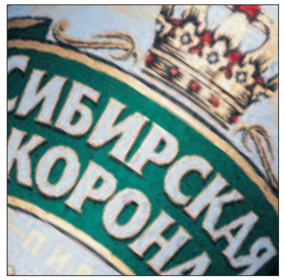
[redacted]

Our Brands in Russia

Stella Artois
one of SUN Interbrew's flagship international brands, is a Belgian, bottom-fermented blond pilsner beer with an alcohol content of 5.2% ABV. Only the very best barley and the finest hops are selected for this beer. Stella Artois is full-bodied but nonetheless exceptionally thirst quenching, and should be served cold at 3° C.

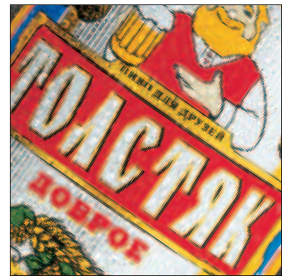
Beck's
is Germany's leading international beer brand, available in some 120 countries. Beck's is brewed according to the German beer purity law, which means that only barley, hops and water may be used. It has a pure, fresh taste and 5% ABV.

Staropramen
is a Czech pale beer which has been brewed to the highest standards at SUN Interbrew's Klin brewery since March 2003. For centuries, skilful Czech brewers have developed beers with a unique clear and mild taste and their meticulous work has given Prague its reputation as Europe's beer capital.



Sibirskaya Korona
is one of SUN Interbrew's leading brands. It was launched as a local beer at the Rosar brewery in Omsk in August 1996 and has become a leading national brand. Sibirskaya Korona's high reputation is guaranteed by combining a classic Russian recipe, modern brewing technologies and high quality of ingredients.

Klinskoe
is a pale beer with a clear taste. It is one of SUN Interbrew's flagship brands in Russia and a leading beer in the Russian market. The Klin brewery developed the brand and, today, the popular beer is also brewed at other SUN Interbrew plants.



Tolstiak
is a high quality Russian beer. Its rich taste is characterised by a pronounced flavour of hops. Today, Tolstiak is one of the best-recognized brands in Russia, following a highly successful advertising campaign that has put the phrases "Where have you been?" - "Out, drinking beer!" firmly into the Russian lexicon.

Volzhanin
is a superb beer with a full malt taste and a fruity aroma. Volzhanin was created at the Povolzhie Brewery in the town of Volzhsky, in the Volgogradsky region. It has been very successful in the southern regions, this excellent beer is now available throughout Russia.

Rifei
is a pale beer created by the Perm brewers, alongside Czech specialists, in 1995. Its prototypes were the popular «people brands» Zhigulevskoye and Yachmenny Kolos. The name Rifey, which comes from the ancient Greek name for the Ural Mountains, was chosen to celebrate the glory of the Perm region.

BagBier
has a crisp and balanced taste with a delightful bitterness and aroma. It is one of the most popular beers brewed at the Omsk brewery. The Siberians have known and loved BagBier since 1994.

Pikur
is a pale beer aimed at true connoisseurs. It is traditionally brewed to a special recipe by the Kursk brewmasters, using only the highest quality malt and hops.

Piterskoe
is a pale beer traditionally brewed at the Bavaria brewery using only malt, hops and water.

Petr Veliky
is a new brand developed especially for the 300th anniversary of the northern capital, St Petersburg and introduced to the market in December 2002. It is a classic pale beer brewed with pure malt and water.

Stalingradskoe
is a dark beer with an excellent flavour and a unique bouquet of caramel. It was created by the Povolzhie brewers to celebrate the 50th anniversary of the victory of the Great Patriotic War in 1995.

Bavaria
is an important SUN Interbrew brand produced at the Bavaria Brewery in St. Petersburg. It was developed in 1993 and has a reputation for excellent quality.

Zolotoy Kovsh
Zolotoy Kovsh is consumers' favourite brand in Chuvashia. It was relaunched in December 2003 after acquisition of Kombinat Napitkov in Novocheboksarsk.

Our Brands in Ukraine

Stella Artois
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Beck's
is Germany's leading international beer brand, available in some 120 countries. Beck's is brewed according to the German beer purity law, which means that only barley, hops and water may be used. It has a pure, fresh taste and 5% ABV.

Hetman
which means dignity and independence, is a high quality beer aimed at connoisseurs. It has a pleasant malt flavour and a slightly bitter aroma.

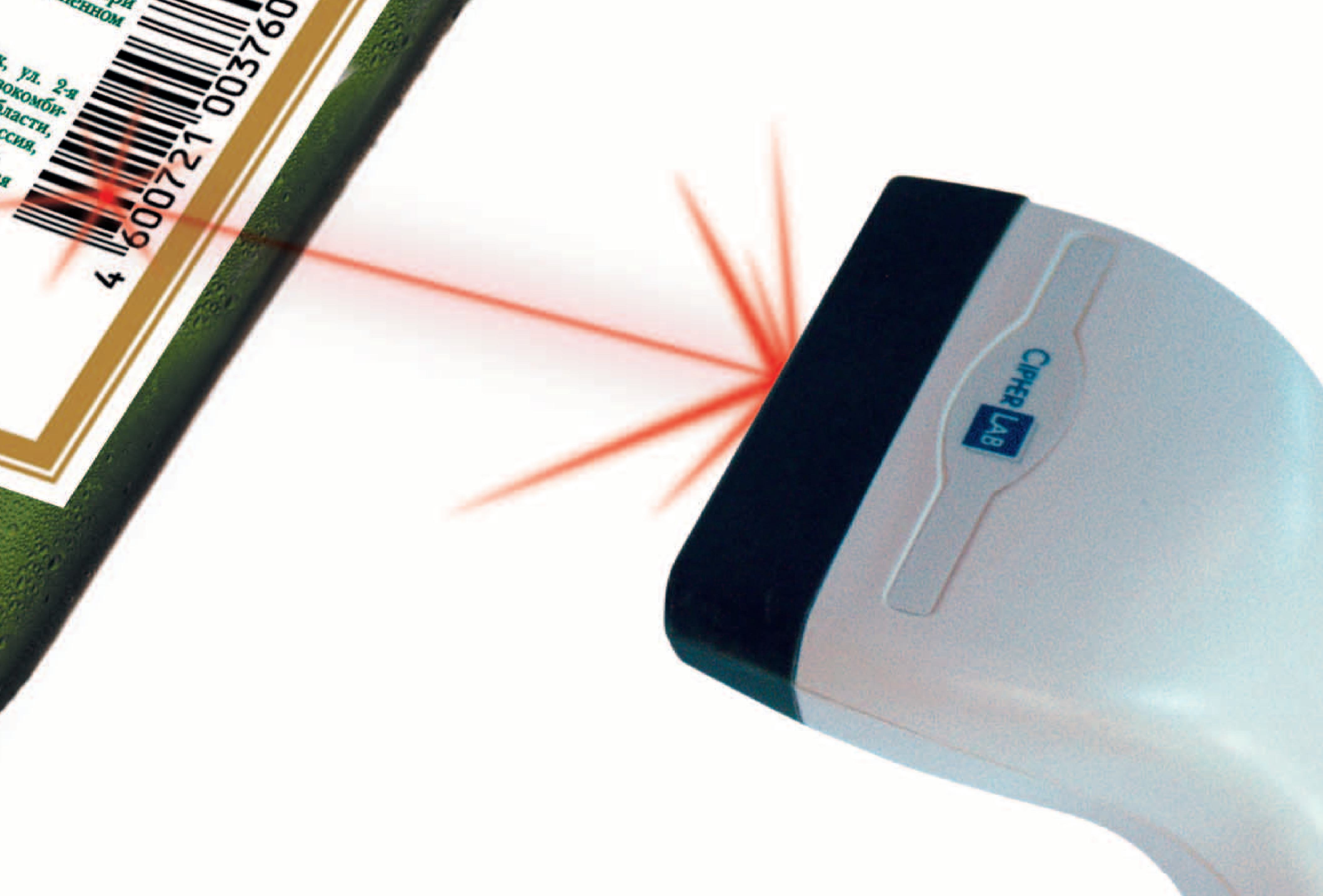
Taller
is produced in the Ukraine under a license from Interbrew SA, Belgium. It offers consumers a western quality beer at Ukrainian prices and has quickly gained popularity.

Rogan
is the most popular beer in the Eastern Ukraine. It was developed by combining local recipes with foreign brewing techniques.

Chernigivske
is a classic lager beer. Its name is linked to the ancient city of Chernigiv and its history. It is brewed to a traditional Ukrainian recipe, using water welled from a depth of 700 metres. Chernigivske is one of the best local brands in Interbrew's portfolio.

Yantar
continues the glorious brewing tradition of the Mykolaiv region, in the southern Ukraine. Yantar is a simple, natural and affordable beer that provides superb quality at a reasonable price.

Chill
was launched, under the Taller brand, as a range of flavoured beers aimed specifically at the low alcohol drinks and ready-prepared cocktails segments of the market. Chill drinkers can choose from a range of strengths and flavours, which include apple, grapefruit, lemon, tequila and cola.



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RUSSIA & UKRAINE
RUSSIA
UKRAINE
BELARUS
KAZAKHSTAN
MONGOLIA
CHINA
UZBEKISTAN
TURKMENISTAN
ISLAMIC REPUBLIC OF IRAN
IRAQ
TURKEY
FINLAND
SWEDEN
NORWAY
POLAND
DENMARK
JAPAN
D.P.R. OF KOREA
REP. OF KOREA
SVALBARD
ZEMLYA FRANTSA JOSSIFA
NOVAYA ZEMLYA
SEVERNAYA ZEMLYA
NOVOSIBIRSKIYE OSTROVA
OSTROV VRANGELYA
Moscow (Moskva)
St. Petersburg
Kyiv
Minsk
Astana
Ulaanbaatar
Beijing
Novosibirsk
Yekaterinburg
Vladivostok
Yakutsk
Magadan
Irkutsk
Omsk
Krasnoyarsk

Annual Report 2

Key Figures

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Annual Report

Key Figures

Key Figures


STELLA ARTOIS
LAGER BEER
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BECK'S
1874


Staropramen
PRAHA
1869


СИБИРСКАЯ
КОРОНА
5,0%

SUN INTERBREW FINANCIAL HIGHLIGHTS (INCLUDING SOFT DRINKS)
five year review

	1999	2000	2001	2002	2003
Total Volume, m Hl	5.1	10.1	13.0	13.6	17.3
Net Turnover per Hl, €	18.4	28.1	30.2	31.7	31.2
Gross Margin, % of Net Turnover	34%	34%	43%	42%	40%
EBITDA, m €	13.8	61.4	89.9	74.9	100.8

FINANCIAL HIGHLIGHTS RUSSIA
(excluding soft drinks)
four year review

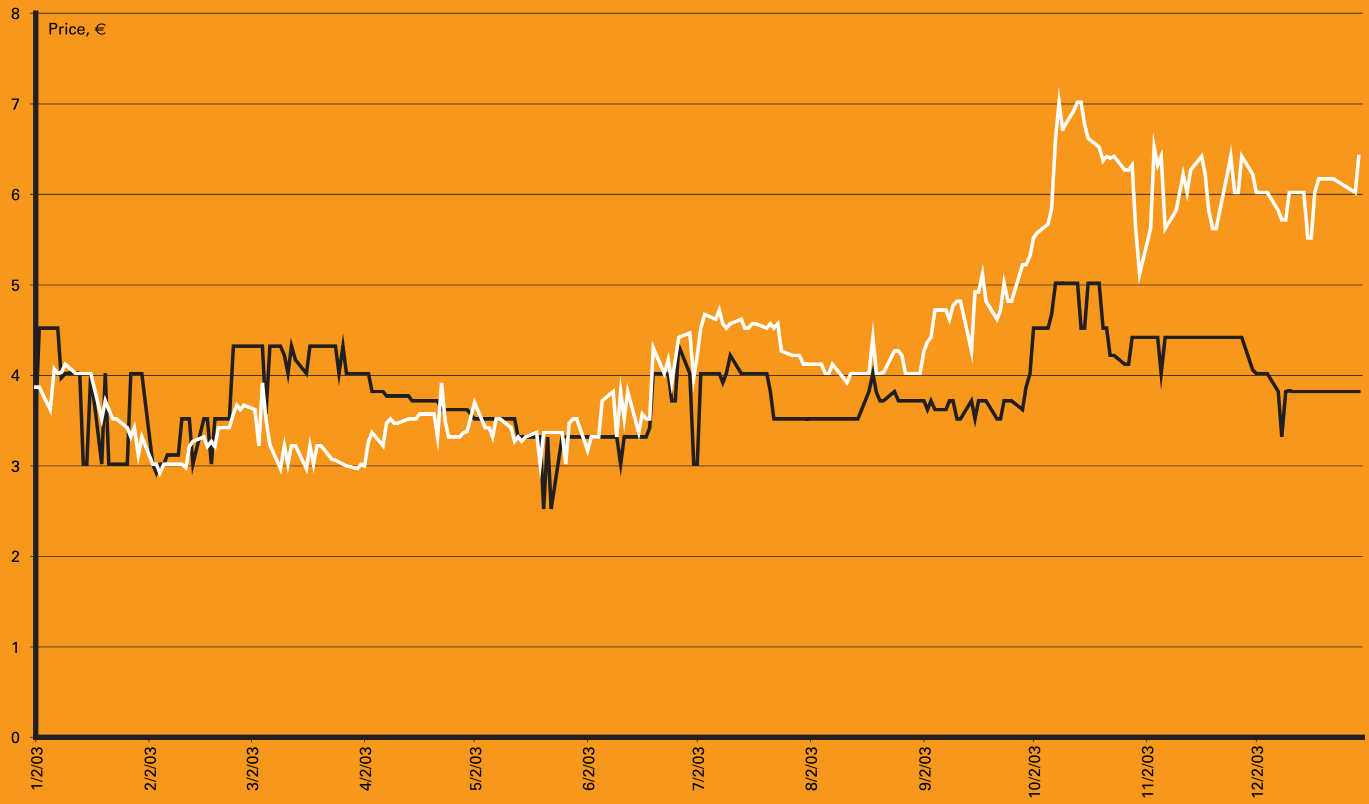
	2000	2001	2002	2003
Brand Sales volumes, m hl				
Tolstiak	1.6	1.9	1.9	2.6
Klinskoye	1.9	2.5	2.6	3.1
Sibirskaya Korona	0.9	1.0	1.0	1.6
Market Share, %	14.7%	12.8%	11.8%	14.5%
Net Turnover per Hl, €/Hl	29.4	35.6	38.1	37.4

FINANCIAL HIGHLIGHTS THE UKRAINE
(excluding soft drinks)
four year review

	2000	2001	2002	2003
Brand Sales volumes, m hl				
Chernigivske	0.7	1.2	1.8	2.6
Rogan	0.1	1.6	1.7	1.9
Market Share, %	19.3%	31.7%	32.2%	34.3%
Net Turnover per Hl, €/Hl	23.3	26.2	27.1	27.6

SUN INTERBREW SHARE PRICE

SUN Interbrew — A-Share (SUGA GR);
SUN Interbrew — B-Share (SUG GR)




КЛИНСКОЕ
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ТОЛСТЯК
Плот. 14°


Волжанин
СВЕТ
акт. нач. сусла 11%. Мин.


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КРЕПКОЕ
7,0%

Annual Report 3

Chairman's Letter to Shareholders

Chairman's Letter to shareholders

Annual Report 3

Chairman's Letter to Shareholders

Chairman's Letter to Shareholders

Nand Khemka
Chairman

I am pleased to report that 2003 was a successful year for SUN Interbrew, and one which produced strong results for the business and our shareholders. Following management and operational changes initiated in late 2002, we saw our strategy of customer focus and innovation leadership develop and deliver. The company ended the year considerably stronger than it started it. ■ We achieved significant volume growth of 28.6%, selling a total of 16.1 million hectolitres of beer in 2003. This increase was achieved based on the successful implementation of a number of key initiatives which included: investment in and upgrades to our main routes to market; key product and packaging innovations; a consistent pricing policy, and the optimisation of brewing efficiencies and capacities. ■ SUN Interbrew revolutionised local packaging by introducing the breakthrough PET PIVOPACKв bottle in Russia. PIVOPACKв, which is based on innovative and proprietary technology, proved very popular with our consumers. ■ We also successfully introduced a number of new beer varieties, such as Klinskoyeв Samurai in Russia and Chernigivskeв Bile in the Ukraine, as well as proprietary packaging. We continued to grow our global brand Stella Artoisв and have successfully launched Staropramenв and Beck'sв in Russia and the Ukraine since the year end, strengthening our position in the super premium segment. We made successful changes to our sales and distribution systems, strengthening and in some cases reinventing our relationships with distributors, which has given us stronger traction and growth.

Our performance

We achieved Group beer volume growth of 28.6% and a net turnover increase of 24.8% versus 2002. Our EBITDA result of €100.8 million was 34.7% better than in 2002. Excluding negative currency impacts relative to 2002, EBITDA would have been €117.7 million, an increase of 57.3%. In Russia, we achieved strong beer volume growth of 33.2%, significantly outperforming the market growth of 7.4%, and increased our market share by 2.7 percentage points to 14.5%. In the Ukraine, we further consolidated our market-leading position, growing beer volumes by 20% against market growth of 13%, leading to market share growth of 2.1 percentage points to 34.3%. ■ We successfully placed our first domestic bond on September 18, 2003. The bond issue raised 2.5 billion RUB, was 35% oversubscribed and will mature three years from the placement date. ■ The proceeds of the issue were used to fund the acquisition of Kombinat Napitkov brewery in Chuvashia, to refinance existing short-term debt in order to further strengthen the Group's balance sheet, and to finance ongoing Group capital expenditure requirements. ■ In addition to the acquisition of Kombinat Napitkov brewery in August, SUN Interbrew also acquired a further 41.0% stake in its Yantar Brewery in Nikolaev, the Ukraine, during 2003.

Interbrew

General market development

In Russia, continued economic growth and stable inflation resulted in a continued increase of consumer purchasing power. GDP increased by 7.3% over the year, industrial production grew by 7.0%, and real income by 14.5%. ■ The improvement of the Russian economy over the past five years and its stable political environment have positioned the country as a less volatile emerging market, with favourable economic conditions. ■ In the Ukraine, real GDP and industrial production in 2003 grew at 7.2% and 11.1% respectively. Disposable income increased by 13.0%, and the introduction of a flat tax rate of 13.0% in January 2004 is likely to deliver further opportunity for growth and create incentives for capital investment.

Outlook

SUN Interbrew has started 2004 as a considerably stronger company, both financially and operationally. Our leading positions in both Russia and the Ukraine provide us with a platform on which we can continue to implement our growth strategy. We will carry on strengthening our brands in all segments, never losing sight of the need to understand and satisfy the rapidly evolving needs of our consumers. An important focus will be on growing the premium and super premium segments to improve our profitability further. With the ongoing political stability in Russia and the Ukraine, SUN Interbrew is confident about the company's prospects, and we are determined to identify and leverage all opportunities for the continued creation of value for our company and our shareholders.

Annual Report 4

CEO Review

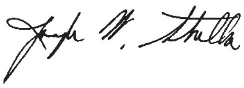
CEO Review

Annual Report 4

CEO Review

CEO Review

Joseph W. Strella
Chief Executive Officer



SUN INTERBREW IN 2003

2003 was a year in which we continued, successfully, to implement the initiatives started in the second half of 2002. These initiatives led to a significant improvement in both the operational and financial performance of the company.

In Russia, we delivered record beer volume growth of 33.2% to 10.8 million hectolitres, compared to an overall beer market growth of 7.4%. In the Ukraine, we consolidated our market-leading position and expanded our share to 34.3%. Our excellent Group beer volume growth of 28.6%, together with greater efficiency in the business, led to an EBITDA increase of 34.7% over 2002. Supported by a carefully targeted marketing effort, we successfully introduced product and packaging innovations and further developed our brands across all segments, as well as improving the mix. We made major developments within our distribution system, which enabled us to achieve a more effective route to market, and we improved brewing efficiencies and capacities. Overall, the company has considerably strengthened its competitive position.



INNOVATIONS

During 2003, SUN Interbrew continued to invest substantially in innovation to generate current and future growth. We revolutionised the local beer market by introducing the breakthrough PET PIVOPACKв bottle in February 2003. Based on a cost-optimised, single-layer barrier enhanced resin technology, its excellent barrier properties offer outstanding protection against oxygen and light, while keeping the carbonation inside the bottle. The bottle is relatively cheap to produce, doubles the shelf-life of our products and has proved very popular with our customers. All our premium brands in Russia have been available in this packaging since March 2003.

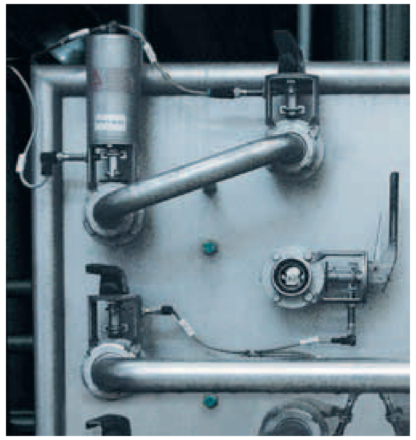
Over the course of 2003, we launched a number of new variety brands and presented selected core and premium brands in new proprietary bottles and labels. In Russia, Sibirskaya Korona® appeared in a new bottle and label design, which was supported by a national advertising campaign in the first quarter. Other innovations included the radically new look and bottle for Klinskoye®, and the introduction of a number of new varieties, such as Redkoe® and Samurai in Russia and Chernigivske® Bile in the Ukraine.

We further increased our PET share in both markets and introduced cans for the first time in the Ukraine

ROUTE TO MARKET

Following key appointments in sales and distribution in 2002, we revised our route to market strategy. We now have two Sales Vice Presidents in Russia, one for each of the Western and the Eastern regions, and a Sales Director for the Ukraine.

We have strengthened, and in some cases reinvented the partnerships with our distributors and have increased the availability and visibility of our brands, all of which has given us stronger traction and growth.



CHUVASHIA BREWERY ACQUISITION

With the acquisition of the Kombinat Napitkov brewery in Novocheboksarsk (Republic of Chuvashia) in August 2003, we took control of one of the most modern brewing facilities in Russia. Its equipment allows for the production of up to 1 million hectolitres annually of the highest quality beer and provides us with necessary capacity for some of our future growth requirements, particularly for the production of our super premium and higher-margin varieties.

REDUCTION IN COST BASE

We continued to reduce our fixed cost base, with general and administration costs €6.0 million lower for the full year compared to 2002, reflecting our continuous focus on cost control, particularly payroll and consultancy savings. Sales, marketing and distribution costs for the year were €138.8 million, slightly up from €126.7 million in 2002, but with volumes up by 28.6%. We were able to reduce average distribution costs slightly from 2002, to a competitive €3.96 per hectolitre. Total sales and marketing costs in 2003 represented an improved 13% of net turnover, compared with 16% in 2002. Marketing costs were almost €1.2 million lower than in the previous year.

CROSS BREWING

We are now successfully cross-brewing our national brands Klinskoye®, Tolstiak® and Sibirskaya Korona® in six of our nine breweries in Russia. In the Ukraine, we cross-brew Chernigivske® in all three of our breweries. Cross-brewing gives us maximum flexibility in production and reduces transportation costs. As a result of this initiative, we have been able to increase our output significantly and optimise our capacities in both markets.

COUNTRY

Russia

Total beer sales volumes in Russia grew a record 33.2% to 10.8 million hectolitres in 2003 versus 8.1 million hectolitres in 2002, and against total beer market growth of 7.4%. On a quarter-to-quarter basis, sales volumes increased by 55.9% in the fourth quarter 2003 over 2002. We continued to grow our market share throughout the year and in the last quarter of 2003 our market share reached 15.5%. We have seen this upward trend continue in the first quarter of 2004. The key drivers of this remarkable growth were successful introductions of new packaging and new varieties, supported by targeted marketing campaigns, as well as a more effective route to market.

GLOBAL BRANDS
Stella Artois®, launched in 2002, further expanded nationally and grew 114.7% in volume over 2002. Staropramen® and Beck's® were launched successfully and made significant progress in 2003.

DOMESTIC BRANDS
Following its relaunch in early 2003 in a new proprietary glass bottle, its availability in PIVOPACKв, and the launch of the new variety Beloye, Sibirskaya Korona® exceeded last year's sales by 54%. Klinskoye® expanded further with 16% volume growth, mainly driven by its availability in PIVOPACKв and aggressive launches of the new brand extensions Redkoe® and Samurai. By the fourth quarter, Klinskoye® was available only in a modern proprietary bottle, which helped to enhance the brand image. Tolstiak® sales volume grew by 38% compared with the previous year, thanks to successful geographical expansion of sales, and supported by a new PET bottle shape.

MARKETING
Market initiatives in Russia were supported by a focused marketing strategy developed by our newly appointed Vice President of Marketing, Alok Kumar, and his team. In October 2003, SUN Interbrew was awarded the International Advertising Award "for its innovative approach to the promotion of its leading brands and its active involvement in and contribution to the development of the advertising market in Russia".

ROUTE TO MARKET
In the second half of 2002, we instigated a programme aimed at significantly strengthening our relationships with our main distributors. As a result of this programme, 700 selling agents and 224 van sellers, all of which are essential to ensuring our products are available and prominent in retail outlets, have started selling SUN Interbrew's products on an exclusive basis. We also put all of these agents through a comprehensive training process, which has provided them with a detailed knowledge of SUN Interbrew's full product range as well as an understanding of how to tailor this offering to specific retailers' needs.

PRICING
We implemented a consistent pricing policy throughout Russia, which we regularly review and adapt, and we successfully increased prices over all brands and all types of packaging throughout the year.

PERSONNEL OPTIMISATION PROGRAMME
In December 2002, we announced the implementation of a corporate restructuring and personnel optimisation programme. As a result of this initiative, we reduced headcount in Russia by approximately 1,080 over the course of 2003.

Ukraine

Sales volumes of beer in the Ukraine increased by 20%, from 4.39 million hectolitres in 2002 to 5.22 million hectolitres in 2003. This was well ahead of total beer market growth of 13% for the year and brought our market share up to 34.3%, compared with 32.2% in the previous year. This strong result was largely driven by the 43.8% volume growth of Chernigivske®, which outgrew the market by over three times and is now the Ukraine's biggest brand. We also introduced cans for the first time in the Ukraine, for Chernigivske® Premium, Bile, Stella Artois® and Taller Ice®. At the end of 2003, our market share in the relatively small can segment reached 12.4%.

GLOBAL BRANDS

Stella Artois® volumes almost doubled compared with 2002, achieving 59.7% growth, supported by promotional campaigns and national TV advertising.
We successfully launched Beck's® in October 2003 and achieved our target volume of 6,600 hectolitres by the end of the year. We also introduced a low-alcohol beer, Chill®, in the middle of the year.

DOMESTIC BRANDS

Sales of Rogan® increased by 9.3% over 2002, to 1.9 million hectolitres. For Chernigivske®, the largest increase in volume came in the PET segment. We also launched the Chernigivske® Bile variety in one-litre PET bottles and cans, which contributed 3.1 percentage points to Chernigivske®'s overall market share. We heavily increased PET volumes, by 67%, and reached a 43.5% market share in the PET segment. Our keg volumes grew in line with the market growth of 16.3%, and our bottle volumes by 3.5%.

PRICING

Our pricing strategy enabled us to increase prices for all brands and variants, in all types of packaging, by an average 5% overall. We simultaneously improved our brand and product mix.

PROMOTIONAL ACTIVITIES

Our market initiatives were supported by promotional activities and key sponsorship projects: SUN Interbrew Ukraine, with the Chernigivske® brand, was the main sponsor of National Independence Day celebrations on August 21, 2003, the tenth anniversary of the Ukraine's independence. We also ran a quality campaign for Chernigivske®, for which we engaged the hugely popular world boxing champions Vitaliy and Volodymyr Klytchko.

REPORT

СИБИРСКАЯ КОРОНА
КЛИНСКОЕ
STELLA ARTOIS
Staropramen
ARTOIS
СИБИРСКАЯ КОРОНА
ТОЛСТЯК

Annual Report 5

Financial Review

Finan cial Re view

Annual
Report
5

Financial
Review

Finan
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Over a remarkable beer volume growth of 28.6% to 16.1 million hectolitres, SUN Interbrew increased total net turnover for 2003 by 24.8% compared with 2002, to €540.3 million. Earnings before interest and tax, depreciation and amortisation (EBITDA) grew by 34.7%, to €100.8 million, representing an increase of 16.7 per cent over €74.9 million the previous year. Earnings before interest and tax (EBIT) were 121.6% higher, at €48.6 million.

The headline results were adversely affected by the foreign currency impact from the depreciation of local currencies against the Euro, which reduced profitability on the EBITDA level by €16.9 million.

Net income was €21.3 million and increased by €24.9 million from a loss in 2002.

These strong results reflect our efforts to grow volumes and market share, combined with the right pricing.

OPERATIONAL PERFORMANCE

Gross margins for the year decreased slightly to 39.7%, from 41.8% in 2002. Gross margins for the fourth quarter increased by 5.3 percentage points over the same quarter in 2002, to 36.0%. EBITDA margins for the year increased by 1.4 percentage points over 2002, while showing a very slight decrease, of 0.2%, on a quarter-by-quarter basis.

Total sales and marketing costs in 2003 represented 13.0% of net turnover, compared with 15.9% in 2002.

ACQUISITIONS

There were two significant acquisitions in 2003: the acquisition of Kombinat Napitkov brewery in the Republic of Chuvashia in August 2003, and the purchase of additional shares of the Yantar brewery in the Ukraine (41%) in July, which brought our stake to 97.7%.

CAPITAL EXPENDITURE

Net capital expenditure in 2003 was €112.2 million. We intend to spend a similar amount of capital expenditure in 2004 to ensure sustained growth for the company and our shareholders.

CASH FLOW AND GEARING

Improvements in our operations, including the management of working capital, have resulted in a substantial improvement in net cash generated by operating activities. In 2003, this amounted to €83.4 million compared with €52.7 million in 2002.

At the end of 2003, we remained competitively geared at 57.9% with sufficient room to make strategic investments for future growth.

BOND ISSUE

On September 18, 2003, SUN Interbrew Finance, a wholly owned subsidiary of SUN Interbrew, successfully raised 2.5 billion Russian roubles through its first domestic bond placement. The issue will mature three years from its placement date. The bonds bear semi-annual coupons. The first two coupon rates are equal and fixed at the level of 13.75%.

The purposes of the issue were:

- to refinance existing short-term debt in order to further strengthen the Group's balance sheet;
- to fund the acquisition of Kombinat Napitkov brewery in Chuvashia announced on August 1, 2003; and
- to finance ongoing Group CAPEX requirements.

ACCOUNTING CHANGES

We made two main changes to our accounting practices:

- We changed the accounting practice for bottles in Russia to align it with our operational practices: previously bottles were considered fixed assets (returnable) depreciated on the balance sheet; they are now treated as inventory (non-returnable) and included in our turnover and in cost of goods sold.
- As of January 1, 2003, the Russian economy was no longer considered to be hyperinflationary under SFAS 52. Accordingly, the company has conducted an assessment of its operations in Russia and determined the Russian Rouble to be the functional currency. In 2002, a similar decision was taken for operations in the Ukraine, where the reporting currency is now the Ukrainian Hryvna. For consolidation purposes the financial statements of Russia and the Ukraine in local currencies are translated into euros.

EVOLUTION OF THE HEADLINE NUMBERS IN 2003:

	2002	Organic Growth	Hyperinflation Accounting Impact	Forex Impact	2003
EBITDA	74.9	39.1	3.1	(16.9)	**100.8**
EBIT	21.9	29.7	5.4	(8.4)	**48.6**
Net Income	**(3.6)**	**26.2**	**2.2**	**(3.5)**	**21.3**

Annual Report 6

Corporate Governance

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Annual Report 6

Corporate Governance

Corp orate Gover nance

SUN Interbrew follows the Interbrew Code of Ethical Conduct and its own internal regulations, with clearly defined roles and responsibilities for the Board of Directors and the executives of the company.
The Board of Directors decides the company's strategy and is the ultimate decision-making body, except for those matters which fall under the powers reserved to the shareholders' meeting by law, or by the charter. Major decisions taken by the Board include the appointments of the Chief Executive and members of the executive management, acquisitions and the annual budget.

The Board of Directors is assisted by two committees:

- The Compensation Committee comprises three members, including an independent director;
- The Audit Committee comprises three members including an independent director.

Company strategy is co-ordinated by the Executive Committee, consisting of one representative from each of the major shareholders. Currently the members of the Executive Committee are Shiv Khemka of the SUN Group and Jerry Fowden of Interbrew.

APPOINTMENTS BY THE BOARD

In March 2003, Joseph W. Strella was appointed Chief Executive Officer and, as of the beginning of November 2003, a member of the Board.

Luc Vanheel was appointed as Chief Financial Officer, succeeding Alan Hibbert, on September 1, 2003.

POLICY FOR DEALING IN SHARES BY CONNECTED PARTIES

In December 2003, the Board of SUN Interbrew approved a revised set of policies on share dealings in SUN Interbrew shares by connected parties, which established specific closed periods and applied best international practices. The policies aim to further augment the level of corporate governance and transparency at SUN Interbrew, through the application of international best practices for dealing in the shares of public companies. The policies are available on the company website, www.suninterbrew.ru, along with information regarding shareholdings by connected parties.

Annual Report 7

Corporate Social Responsibility

Our consumers lie at the heart of everything we do

Corp

Soc

responsibility

Annual Report 7

Corporate Social Responsibility

Our consumers lie at the heart of everything we do

Corporate Social responsibility

Corporate standards

SUN Interbrew is committed to conducting all of its business activities in a socially responsible manner and, in particular, taking care to protect the interests of employees, stakeholders, customers and the environment. Occupational health and safety, environmental and social considerations are priorities in SUN Interbrew's decision-making processes. We also ensure best practices are integrated into all workplace activities. SUN Interbrew is a long-term and committed business partner to Russia and the Ukraine, where we employ around 8,000 people. ■ We always work closely with local authorities and support local communities.

Socially responsible marketing

"We will live here!" ■ SUN Interbrew plays an active role in the cities and regions where its breweries and sales centres are located. Our long-term social initiative, "We will live here!", continued in 2003. This supports programmes to improve the environment in the towns where we operate, as well as the lives of the local populations. A year-long programme, it is implemented in all the cities where SUN Interbrew's production and distribution centres are located. ■ Each spring, all our employees in the regions spend two days performing useful work in the community. These events take place at the weekend and are called subbotnik—"socially useful works on Saturday": In the summer, we donate and plant flowers, often resulting in very colourful autumn competitions, so called "best-yard" contests. The most exciting season of the year is winter, when we provide skating rinks and new-year decorations in all the cities in which the company operates ■ We have also built several sport complexes in Omsk and Novosibirsk. ■ These programmes are conducted in conjunction with local authorities, and enjoy their full support.

Socially responsible marketing

In early 2003, SUN Interbrew introduced its own Corporate Code of Communication and Marketing Standards, which ensures that the company's marketing materials or activities:

- do not target consumers under the national legal drinking age;
- promote responsible drinking and a healthy lifestyle;
- do not make unsubstantiated health claims;
- do not imply that beer consumption enhances or is a prerequisite for personal success; and
- do not create any confusion regarding alcohol strength, nor use high or low alcoholic content as a positive quality for our brands.

This code is mandatory for all our business units throughout the markets where we operate and applies to advertising, sponsorship, outdoor events and promotions. ■ We are a member of a number of social and commercial associations, which including the Consumer Right Protection Society and the Advertisers' Association. ■ SUN Interbrew worked with the State Duma's Working Group and the Anti-Monopoly Ministry's Expert Council on legislative initiatives and elaboration of advertising laws. ■ In November, SUN Interbrew was awarded "The Best Advertiser of the Year" at the Moscow International Advertising Festival, "for its contribution to development of Russian advertising and establishment of self-regulation principles on the Russian advertising market".

SUN interbrew hotline

SUN Interbrew is always available to speak to its customers. For this reason we have a permanent customer hotline on 8-800-200-PIVO.

Annual Report 8

Management

Management

Annual
Report
8

Management

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Chief Executive Officer
Joseph W. Strella

Chief Financial Officer
Luc Vanheel

Board of Directors*

Nand Khemka, Chairman

Johan Van Biesbroeck

Jerry Fowden

Khamzat Khazbulatov**

Shiv Khemka

Uday Khemka

Christopher Lloyd **

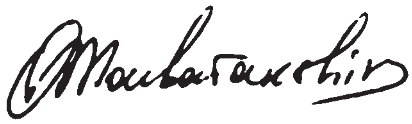
Catherine Noirfalisse

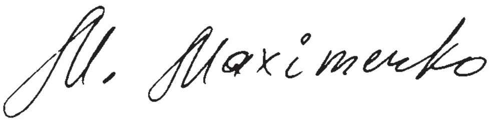
Fred Packard**

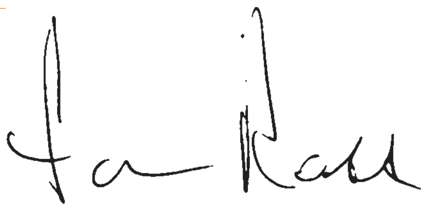
Joseph W. Strella

** As of 31st December 2003*

*** Independent Director*







Management Team Russia*

Joseph W. Strella,
Chief Executive Officer

Luc Vanheel,
Chief Financial Officer

Alok Kumar,
Vice President Marketing

Eugene Zabawa,
Chief Operational Officer

Irina Kibina,
Vice President Corporate Affairs and Communication

Oleg Moubarakshin,
General Legal Councel

Mikhail Maximenko,
Vice President, Supply Chain and Procurement

Ian Ross,
Regional Vice President

Torsten Huebner,
Regional Vice President

Management Team Ukraine*

Ludmila Nakonechnaya,
National Manager

Sergey Yeskov,
National Sales, Distribution & Logistics Director

Victoria Tsomaya,
National Marketing Director

Oksana Komarnitskaya,
National Finance Director

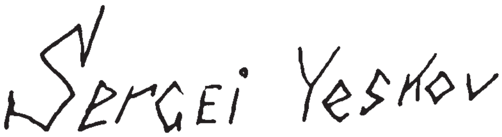
Julia Pylypenko,
National HR Director

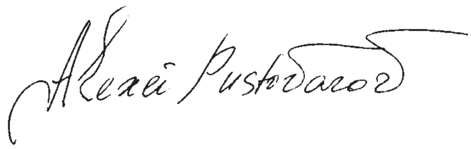
Daniel Gary,
National Operations Director

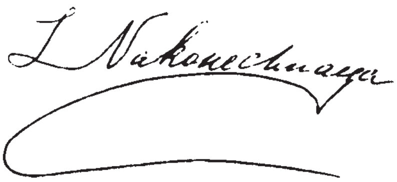
Konstantin Pletenetskiy,
National Procurement Director

Anatoliy Pustovarov,
National IT Director

** As of 31st December 2003*







Annual Report 9

Financial Statements

Finan
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State
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Annual Report 9

Financial Statements

Financial Statements

Independent Auditor's Report

KPMG

11 Gogolevsky Boulevard, Moscow 119019, Russia
Tel. +7 (095) 937 4477, Fax +7 (095) 937 4400/99
www.kpmg.ru

To the board of directors of SUN Interbrew Limited and subsidiaries

We have audited the accompanying consolidated balance sheets of SUN Interbrew Limited and subsidiaries (the "Group") as of December 31, 2003 and 2002 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements 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 SUN Interbrew Limited and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited.

KPMG Limited Moscow,
Russian Federation
16 March 2004

SUN Interbrew Limited and Subsidiaries

Consolidated Statements of Operations

For the Years Ended December 31, 2003 and 2002
(Euros in thousands, except per share amounts)

	2003	2002
Net Sales	540 306	432 971
Cost of goods sold	(325 807)	(251 940)
Gross Margin	**214 499**	**181 031**
Selling, marketing and distribution expenses	(138 788)	(126 659)
General and administrative expenses	(25 291)	(31 328)
Operating Income	**50 420**	**23 044**
Other Expense		
Interest expense, net	(9 831)	(8 533)
Foreign exchange loss	(9 480)	(9 522)
Other – net	(2 561)	(3 486)
Net other expense	**(21 872)**	**(21 541)**
Income before income taxes and minority interest	28 548	1 503
Income taxes	(5 994)	(3 136)
Income (Loss) before minority interest	**22 554**	**(1 633)**
Minority interest	(1 247)	(1 983)
Net Income (Loss)	**21 307**	**(3 616)**
Basic gain (loss) per share	**0.19**	**(0.03)**
Diluted gain (loss) per share	**0.19**	**(0.03)**

SUN Interbrew Limited and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2003 and 2002
(Euros in thousands)

	2003	2002
Assets		
Current Assets		
Cash and cash equivalents	2 529	7 828
Accounts receivable, net	23 799	20 162
Inventories	76 033	66 707
Taxes receivable	20 417	25 800
Deferred tax assets	8 872	6 585
Other current assets	17 689	14 271
Total current assets	**149 339**	**141 353**
Plant and equipment, net	420 456	401 217
Intangible assets, net	3 497	3 578
Goodwill	56 859	26 334
Long-term deferred tax assets	6 451	9 316
Other long-term assets, net	10 043	5 945
Total assets	**646 645**	**587 743**
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	43 011	35 688
Taxes payable	8 623	6 313
Deferred tax liabilities	1 764	2 329
Accrued expenses	13 808	3 772
Short-term debt	130 097	113 648
Short-term debt, related parties	-	40 641
Total current liabilities	**197 303**	**202 391**
Long-term deferred tax liabilities	24 767	8 086
Long-term bonds payable	69 435	-
Post-retirement benefit payable	463	467
Total liabilities	**291 968**	**210 944**
Minority interests in equity of subsidiaries	14 228	33 289
Shareholders' Equity		
Class A Shares, one pence par; authorized 125,278,614 shares; issued 88,777,585 shares	1 421	1 304
Class B Shares, one pence par; authorized 30,000,000 shares; issued 27,796,220 shares	387	387
Additional paid-in capital	357 679	319 308
Retained earnings	58 626	37 319
Accumulated other comprehensive loss	(77 664)	(14 808)
Total shareholders' equity	**340 449**	**343 510**
Total liabilities and shareholders' equity	**646 645**	**587 743**

SUN Interbrew Limited and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2003 and 2002
(Euros in thousands)

	2003	2002
Operating Activities		
Net profit/(loss)	21 307	(3 616)
Adjustments to reconcile net profit/(loss) to net cash provided by operations:		
Depreciation	50 729	51 245
Minority interest	1,247	1,983
Deferred taxes	1,430	(5,182)
Allowance for doubtful accounts and inventory provisions	1,386	(1,501)
Other non-cash items	7,756	436
Changes in working capital:		
Accounts receivable	(6 803)	4 901
Inventories	(11 142)	7 017
Other current assets	(2 390)	2 678
Taxes payable	7 678	(699)
Accounts payable	2 290	(946)
Accrued expenses	9 933	(3 643)
Net cash provided by operating activities	**83 421**	**52 673**
Investing Activities		
Purchase of intangible assets, plant and equipment (net of proceeds from disposal)	(112 200)	(115 202)
Acquisitions of additional shares in subsidiaries	(62 489)	(5 128)
Net cash used in investing activities	**(174 689)**	**(120 330)**
Financing Activities		
Proceeds from issuance of shares	888	–
Payments of loans payable – related parties	(3 041)	–
Proceeds from loans and bonds	88 122	66 008
Net cash provided by financing activities	**85 969**	**66 008**
Decrease in cash and cash equivalents	(5 299)	(1 649)
Cash and cash equivalents, beginning of year	7 828	9 477
Cash and cash equivalents, end of year	**2 529**	**7 828**
Cash paid during the year for:		
Interest	9 046	8 114
Income taxes	8 008	9 954
Schedule of non-cash financing activities		
Proceeds from shares issue offset with loan	37 600	–

SUN Interbrew Limited and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2002 and 2003
(Euros in thousands)

	Share Capital Class "A" Shares	Share Capital Class "B" Shares	Additional Paid-in Capital	Retained Earnings	Other comprehensive loss	Total
Balances at January 1, 2002	1 304	387	319 308	40 935	–	361 934
Net Loss	–	–	–	(3 616)	–	(3 616)
Unrealized loss from foreign currency translation	–	–	–	–	(14 808)	(14 808)
Balances at December 31, 2002	**1 304**	**387**	**319 308**	**37 319**	**(14 808)**	**343 510**
Net Loss	–		–	21 307	–	21 307
Proceeds from shares offering	117		38 371	–	–	38 488
Unrealized loss from foreign currency translation	–	–	–	–	(62 856)	(62 856)
Balances at December 31, 2003	**1 421**	**387**	**357 679**	**58 626**	**(77 664)**	**340 449**

Notes to The Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

1. Description of Business

SUN Interbrew Limited (the "Company") is incorporated in Jersey, the Channel Islands, and has through holding companies incorporated in Jersey, the Netherlands and Cyprus, a controlling interest in 12 breweries and 2 distribution companies (referred to collectively as the "Group") in the Russian Federation ("Russia") and Ukraine. The Group manufactures, markets and distributes beer and soft drinks.

The Company's voting shares (Class "B") are 34% owned and controlled by SUN Trade (International) Limited (together with its affiliates, "STI") and 34% owned and controlled by Interbrew S.A. (together with its affiliates, "Interbrew"). The remainder of the voting shares are widely held.

The Company's non-voting shares (Class "A") are owned and controlled by Interbrew, with an interest of 86% and STI, with an interest of 10% as of December 31, 2003 (December 31, 2002: 77% and 12%, respectively). The remainder of the non-voting shares are held by public.

2. Summary of Significant Accounting Policies

+ Basis of Presentation

These consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("US GAAP").

The majority-owned subsidiaries incorporated under the laws of Russia and Ukraine (the "Russian subsidiaries" and "Ukrainian subsidiaries") maintain accounting records and prepare their financial statements in Russian Roubles ("RUB") and Ukrainian Hryvnas ("UAH") in accordance with the requirements of Russian and Ukrainian accounting and tax legislation respectively. The financial statements of the Russian and Ukrainian subsidiaries included in these consolidated financial statements differ from those prepared for Russian and Ukrainian statutory purposes as they reflect certain adjustments not recorded in the accounting books of the Russian or Ukrainian subsidiaries, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

+ Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and of the majority-owned subsidiaries (except as described below). All significant intercompany balances and transactions have been eliminated.

The Group has recorded its majority interest in Yekaterinburg Brewing Company Limited ("YBC") at cost less impairment loss due to its conclusion that it does not control the asset, nor has the ability to exercise authority and significant influence over YBC.

+ Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

+ Going Concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environments in Russia and Ukraine. The consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

+ Foreign Currency Translation

Prior to 2003, when the Russian economy was considered to be hyperinflationary under Statement on Financial Accounting Standards No. 52, "Foreign Currency Translation" ("SFAS 52"), the Group elected to use the Euro as the functional currency of the Russian subsidiaries.

During this period, monetary assets and liabilities denominated in RUB at the balance sheet date were translated to Euro at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated inRUB, which are stated at historical cost, were translated into Euro at the foreign exchange rate ruling at the date of the transaction. Transactions in the statement of operations in foreign currencies were translated to Euro at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising from translation were recognised in the statement of operations.

+ Russia

Starting January 1, 2003, the Russian economy was no longer considered to be hyperinflationary under SFAS 52. Accordingly, the Group has assessed its operations in Russia and determined the RUB to be the functional currency. Management of the Group has elected to continue to use the Euro as the reporting currency for the consolidated financial statements.

As a result of the change in the functional currency to the RUB, the carrying values of all non-monetary assets and equity items were translated and fixed in RUB at the rates effective at January 1, 2003.

Further, at the reporting dates, translation from the functional currency was conducted as follows:

- All assets and liabilities are translated from the functional to the reporting currency at the exchange rate effective at the reporting date;
- Equity items are translated from the functional to the reporting currency at the historical exchange rates;
- Transactions in the statement of operations are translated from the functional currency to the reporting currency at the rates ruling at the dates of the transactions;
- Translation adjustments are included in accumulated other comprehensive loss in equity.

Furthermore, the deferred taxes previously not recorded under SFAS 109, paragraph 9 f, are included in accumulated other comprehensive loss as of January 1, 2003 in the amount of €20.7 million.

+ Ukraine

The economy of Ukraine is not considered hyperinflationary, and the Group uses the Ukrainian Hryvna as the functional currency for its Ukrainian entities. Financial statements of the Ukrainian subsidiaries are translated into Euro using the same method as for the Russian entities.

Exchange rates have changed from 33.11 RUB and 5.53 UAH for € 1 respectively at December 31, 2002 to 36.82 RUB and 6.66 UAH for € 1 respectively at December 31, 2003. The 2003 average exchange rate was € 1=RUB 34.49 and € 1=UAH 5.96.

The Russian Rouble and Ukrainian Hryvna are not fully convertible currencies outside of the territory of Russia and Ukraine. Accordingly, the translation of amounts recorded in these currencies into Euro should not be construed as a representation that such currency amounts have been, could be, or will in the future be converted into Euro at the exchange rates shown or at any other exchange rates.

+ Cash and Cash Equivalents

The Group's cash at December 31, 2003 and 2002 consists of cash in banks and cash in transit.

+ Receivables

Receivables are stated at cost less allowance for doubtful accounts.

+ Inventories

Inventories are recorded at the lower of cost or market value. The cost of inventories is determined on a first-in, first-out (FIFO) basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

+ Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes major expenditures for improvements and replacements, which extend useful lives or increase capacity and interest costs associated with significant capital additions. Depreciation of production assets is included in cost of goods sold. Normal maintenance and repairs are expensed. Depreciation is computed under the straight-line method using the estimated useful lives as follows:

Buildings	10 to 20 years
Machinery and equipment	8 to 15 years
Transportation and office equipment	3 to 10 years
Returnable packaging	5 to 10 years

+ Intangible Assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortization and are amortized on a straight-line basis over their useful lives of 3 to 4 years.

+ Goodwill

Under SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is not amortized but is instead tested for impairment annually. The amount of goodwill impairment is measured based on projected discounted future operating cash flows.

+ **Other Non-Current Assets**

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less allowance for any permanent diminution in value. These investments are classified as available-for-sale securities.

+ **Impairment**

Long-lived assets, such as property, plant and equipment, and purchased intangible assets 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 recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

A decline in the fair value of any available-for-sale security cost that is deemed to be other than temporary results in a reduction of the carrying amount to fair value. The impairment is charged to the statement of operations and a new cost basis for the security is established.

+ **Short-Term Debt**

Short-term debt consists primarily of short-term loans and overdraft facilities from banks.

+ **Revenue Recognition**

Sales are recognized when products are shipped to customers.

+ **Income Taxes**

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying consolidated financial statements. A valuation allowance is provided when management believes that it is more likely than not that the deferred tax assets will not be realized.

+ **Advertising**

Advertising costs are charged to the statement of operations as incurred and amounted to €32.2 million and €33.3 million for the years ended December 31, 2003 and 2002, respectively.

+ **Stock-Based Compensation**

The Group has adopted the provisions of Statement of Financial Accounting Standards 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 encourages, but does not require companies to record at fair value compensation for stock-based employee compensation plans. The Group has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion Number 25, "Accounting for Stock Issued to Employees", and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The proforma disclosures as required by SFAS 148 have not been provided as the effect of applying the fair value based method of accounting was immaterial.

+ **Basic and Diluted Earnings Per Share**

Basic earnings per share is based on the weighted average number of ordinary (common) shares outstanding during the period. Diluted earnings per share is based on the weighted average number of ordinary (common) shares and ordinary (common) share equivalents (stock options and convertible shares) outstanding during the period. The effects of share equivalents are not included in the calculation of diluted earnings per share where their effects would be anti-dilutive.

+ Concentration of Credit Risk and Fair Value of Financial Instruments

Financial assets that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable.

The Group places the majority of its excess cash in branches of international banks in Russia and Ukraine and in financial institutions outside Russia and Ukraine. The Group also limits the amount of credit exposure to any one institution. The Group has not experienced losses on such accounts. The Group's customer base includes primarily beer and soft drink distributors in Russia and Ukraine. The Group does not generally require collateral for its accounts receivable with its larger distributors and maintains an allowance for doubtful accounts. Such losses, in the aggregate, have not exceeded management's estimates.

The carrying amount of financial instruments, including cash and cash equivalents and short-term obligations, approximates the fair value due to the short-term maturities of these instruments.

+ Concentration of Business Risk

The Group's principal operating activities are within Russia and Ukraine. Both countries have been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Russia and Ukraine involve risks that typically do not exist in other markets. The consolidated financial statements reflect management's assessment of the impact of the Russian and Ukrainian business environments on the operations and the financial position of the Group. The future business environments may differ from management's assessment.

+ Recently Adopted Accounting Standards

Effective January 1, 2003, the Group adopted SFAS 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). The adoption of SFAS 143 had no effect on the Group's financial statements.

+ Acquisitions during the year

During 2003, the Group increased its stake in five breweries by acquiring additional shares from the minority shareholders as follows:

Yantar Brewery, Ukraine	an additional 41.82%
Perm Brewery, Russia	an additional 7.89%
Rogan Brewery, Ukraine	an additional 3.99%
Povolzhie brewery, Russia	an additional 1.83%
Desna brewery, Ukraine	an additional 1.17%.

The purchase method of accounting was used for these transactions. The total consideration paid for these shares was €33.0 million. The transactions gave rise to goodwill of €20.8 million and negative goodwill of €2.9 million.

Additionally, in August 2003 the Group acquired 100% of the shares in Kombinat Napitkov, LLC, a company owning brewing production capacities in Novocheboksarsk, Republic of Chuvashia, Russia.

The total consideration paid for these shares and the assets and liabilities arising from the acquisition are as follows:

(€000's)

Cash and cash equivalents	27
Accounts receivable and other current assets	93
Property, plant and equipment	23,488
Other non-current assets	511
Accounts payable and other current liabilities	(425)
Non-current liabilities	(1,012)
Fair value of net assets acquired	22,682
Consideration paid	32,445
Goodwill on acquisition	9,763

3. Net Sales

Net sales for the years ended December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Beer	538,527	428,260
Soft drinks	1,779	3,619
Malt	-	1,092
	540,306	**432,971**

In the beginning of 2003, the Company changed the contracts with customers from sale of beer and deposit for bottles to sale of beer including bottles. As a result, the Company has reclassified bottles from fixed assets (returnable packaging) to inventory (non-returnable packaging) effective from January 1, 2003. Accordingly, the deposit price of a bottle is no longer deducted from net sales and the actual cost of the bottle is included in cost of goods sold. The effect of the change has increased annual net sales and cost of goods sold for the 12 months ended December 31, 2003 by €40 million.

4. Accounts Receivable

Accounts receivable as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Accounts receivable	30,212	26,011
Less: allowance for doubtful accounts	(6,413)	(5,849)
Accounts receivable, net	**23,799**	**20,162**

The activity in the allowance for doubtful accounts was as follows:

	2003	2002
Allowance for doubtful accounts - beginning of the year	5,849	5,981
Additions charged to other operating expense	564	332
Write downs charged against the allowance	-	(464)
Allowance for doubtful accounts - end of yea, r€	**6,413**	**5,849**

5. Inventories

Inventories as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Raw materials	32,612	29,994
Produced malt	5,205	7,849
Work-in-process	7,792	7,416
Finished goods	12,818	4,471
Other (spare parts and point of sales materials)	17,606	16,977
	76,033	**66,707**

6. Other Current Assets

Other current assets as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Advances to suppliers	10,817	8,482
Deposits and other prepayments	6,872	5,789
	17, 689	**14,271**

7. Plant and Equipment

Plant and equipment as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Buildings	95,044	76,483
Machinery and equipment	354,271	292,762
Transportation and office equipment	26,360	25,861
Packaging materials	29,402	32,937
Construction-in-progress	59,152	94,943
	564,229	**522,986**
Less: accumulated depreciation	(143,773)	(121,769)
Plant and equipment, net	**420,456**	**401,217**

Accumulated depreciation includes impairment loss on plant and equipment in Russian breweries of €1.8m and of €1.7m for the years ended December 31, 2003 and 2002, respectively. These impairment losses were recorded in respect of equipment whose future cash flows are less than the assets' carrying values. The impairment loss is included in cost of goods sold.

8. Intangible Assets

Intangible assets as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Cost as of January 1, 2003 and 2002	6,251	5,167
Less: accumulated depreciation	(2,754)	(1,589)
Intangible assets, net	3,497	3,578

9. Goodwill

The changes in the carrying amount of goodwill as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Cost as of January 1, 2003 and 2002	28,478	26,649
Goodwill acquired during the year	30,525	1,829
	59,003	**28,478**
Less accumulated impairment loss	(2,144)	(2,144)
Goodwill, net	**56,859**	**26,334**

10. Other non-current assets

Other non-current assets as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Long term receivables	3,434	2,172
Equity securities available-for-sale	9,568	6,867
Other non-current assets	**338**	**203**
Less: impairment	(3,297)	(3,297)
Other non-current assets, net	**10,043**	**5,945**

The increase in securities available for sale relates to the acquisition of a 30% stake in Vladivostok Brewing Company from STI. The investment is carried at cost because it is the Group's intention to sell the investment.

11. Related Party Transactions

The Group has entered into various services agreements with Interbrew and STI. The services to be provided under the general services agreement include management support, general technical assistance, financial operations, publicity, marketing and various other services, which both STI and Interbrew will provide to the Group. Under the general services agreement, a fee equal to 0.875% of net sales, is payable by the Group to each of STI and Interbrew per annum. Additionally, the Group obtains specific services from Interbrew and STI as needed. Such services are purchased at a market rate. During 2003 and 2002, the Group had expenditures of €11.8 m and €13.8m, respectively under these agreements.

In 2000, the Group entered into an agreement with Interbrew to obtain short-term financing of up to €50.0m. At December 31, 2002, the Group had drawn down €40.6m. The loan was partly repaid and then offset against new shares issued in February-March 2003. The interest rate on the loan was 5.2% as at January 1, 2003 (EURIBOR plus 2%). During 2003 and 2002 interest expenses under this agreement amounted €0.3 million and ų 2.3 million, respectively.

12. Short-Term debt

Short-term debt as of December 31, 2003 and 2002 consisted of the following:

(000's)

	2003	2002
Short-term loans payable	129,492	108,674
Related party payables	308	2,004
Other short-term debt	297	2,970
	130,097	**113,648**

As at December 31, 2003, the Group has multi-currency credit line agreements totalling 172.1 million in Euro equivalent with various banks. Short-term loans payable consist of Euro denominated loans of €36.7 million, which have been drawn at an average interest rate of 3.74%, Rouble denominated loans equivalent to €63.7 million with average interest rate of 9.25% and Hryvna denominated loans equivalent to €29.1m with average interest rate of 21.43%. All short-term loans have variable interest rates.

13. Non-current bonds payable

In September 2003 the Group issued 2,500 million par value RUB 1,000 documentary bonds with 13.75% coupon interest maturing in August 2006. Coupon interest is payable every 6 months with the first payment in February 2004. There were no bonds payable as of December 31, 2002.

14. Post Retirement Benefits payable

Russian and Ukrainian entities are required by federal law to contribute to state pension funds for certain of their employees. The Group's contributions are approximately 28% and 32% of the employees' salaries for Russia and Ukraine, respectively. The contributions are accounted for on an accrual basis, and totalled €10.8 million and €11.9 million for 2003 and 2002, respectively.

Certain breweries provide their own benefit plans covering employees who have served for a Group brewery for more than five years. A life-long retirement benefit and lump sum amount is paid upon retirement. The amount of benefit payments depends on the employee's total length of service for the brewery. The liability related to benefit plans is recognized as a non-current liability and amounted to €0.5 million as of December 31, 2003 and December 31, 2002.

15. Income Taxes

Income taxes are provided based on taxable income and the varying tax rates as required by Russian, Ukrainian, Dutch, Jersey and Cyprus tax legislations. Certain costs and expenses, including some types of employees' compensation, benefits, and interest, which are included as expenses in the consolidated statements of operations, are not deductible in determining the taxable income. The Company and certain of its subsidiaries, which are registered in Jersey, the Channel Islands, have been granted "Exempt Company" status and are exempt from Jersey income taxes.

The statutory income tax rate applicable to the Ukrainian subsidiaries was changed from 30% to 25%, effective as of January 1, 2004. The statutory income tax rate applicable to the Russian subsidiaries remained the same and amounted to 24%.

The reconciliation of the income tax expense for the year to the amount of income tax expense that would result from applying the statutory tax rate in Jersey to the income before taxes is as follows:

	2003	2002
Income before tax	28,548	1,503
Expected tax expense at Jersey tax rate (0%)	-	-
Effect of different tax rates in different jurisdictions:		
Russian operations	2,155	(320)
Ukraine operations	2,995	2,960
Other international operations	(4,604)	(3,019)
Effect of change in tax rates in Ukraine	(266)	-
Tax concessions for capital investments in Russian operations	(1,157)	(5,711)
Change in valuation allowance	(60)	(541)
Non taxable and non deductible expenses	6,931	9,767
Income tax expense	**5,994**	**3,136**

(000's)

Current tax expense	7,910	6,638
Deferred tax benefit	(1,916)	(3,502)
Income tax expense	**5,994**	**3,136**

As of December 31, 2003 and 2002 temporary differences that give rise to deferred tax liabilities and assets were comprised of the following:

(000's)

	2003	2002
Deferred tax assets:		
Plant and equipment	7,283	9,316
Accounts receivable	72	903
Other current assets	629	840
Tax loss carry forwards	3,544	4,459
Accrued expenses	4,287	935
Total deferred tax assets	**15,815**	**16,453**
Deferred tax liabilities:		
Plant and equipment	(25,590)	(8,086)
Inventories	(810)	(1,061)
Advances received	(132)	(1,268)
Total deferred tax liabilities	**(26,531)**	**(10,415)**
Net deferred tax asset/ (liability)	(10,716)	6,038
Valuation allowance	(492)	(552)
Deferred tax asset/(liability) net of allowance	**(11,208)**	**5,486**

The tax loss carry forwards included in deferred tax assets relate to operations in Russia. In accordance with Russian legislation, tax losses can be carried forward for 10 years.

Realisation of the net deferred tax assets is dependent on future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing temporary differences. Although realisation is not assured, management believes that it is more likely than not that the net deferred tax assets will be realised. The amount of the net deferred tax assets considered realisable, however, could be reduced in the near term if actual future taxable income is lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable temporary differences.

16. Commitments and Contingencies

At December 31, 2003 and 2002 the Group had outstanding contractual commitments totalling approximately €16.8 million and €27.6 million respectively, to purchase capital equipment. In addition, the Group had commitments to purchase raw materials and other materials of €22.1 million at December 31, 2003 and €47.0 million at December 31, 2002.

17. Employee stock option plan

At December 31, 2003 the Group had two stock option plans with about 500,000 options granted under the first plan and 91,000 under the second plan. Each option gives the right to purchase one non-voting share (Class "A"). Under the first plan, options shall be exercised within 10 years after its grant date: 20% of options will vest on the first anniversary after the grant date, 30% of the options will vest on the second anniversary and 50% of the options will vest on the third anniversary of the grant. Under the second plan, 50% of options shall exercised in 2004. The purchase price per share equals USD 3.83 for the first plan and USD 5.33 for the second plan. During 2003 the Group recognized compensation costs of €0.3 million (compared to €0 in 2002) related to the employee stock option plan.

18. Earnings Per Share

The reconciliation of basic earnings (loss) per share and diluted earnings (loss) per share for the year ended December 31, 2003 and 2002 follows:

2003	Loss (Numerator)	Shares (Denominator)	Per share-amount
Basic EPS			
Income available to ordinary (common) shareholders	21,307	115,037,112	0.19
Diluted EPS			
Income available to ordinary (common) shareholders and assumed conversions	21,307	115,037,112	0.19

2002	Loss (Numerator)	Shares (Denominator)	Per share-amount
Basic EPS			
Loss available to ordinary (common) shareholders	(3,616)	108,912,839	(0.03)
Diluted EPS			
Loss available to ordinary (common) shareholders and assumed conversions	(3,616)	108,912,839	(0.03)

19. Segment Information

There are two operating segments in the Group that are organized around geographic areas, Russia and Ukraine. These operating segments have similar economic characteristics and were aggregated into a single operating segment.

2003	Revenues	Long-lived assets
(excluding negative goodwill)		
Russia	404,074	657,292
Ukraine	136,232	107,885
Total	**540,306**	**765,177**

2002	Revenues	Long-lived assets
(excluding negative goodwill)		
Russia	311,018	318,580
Ukraine	121,953	112,549
Total	**432,971**	**431,129**

21. Quarterly Financial Information (Unaudited)

The Group's financial results by quarter were as follows:

2003

(000's)

	1st quarter	2nd quarter	3rd quarter	4th quarter
Net sales	83,165	160,205	173,102	123,834
Operating income (loss)	(1,941)	21,824	29,475	1,062
Net income (loss)	(7,072)	11,566	18,727	(1,914)
Basic earnings (loss) per share	(0.06)	0.10	0.16	(0.02)
Diluted earnings (loss) per share	(0.06)	0.10	0.16	(0.02)

2002

(000's)

Net sales	84,061	128,100	135,466	85,344
Operating income (loss)	(1,669)	14,493	20,018	(9,798)
Net income (loss)	(7,771)	3,537	11,148	(10,530)
Basic earnings (loss) per share	(0.07)	0.03	0.10	(0.10)
Diluted earnings (loss) per share	(0.07)	0.03	0.10	(0.10)

Note: *Quarterly earnings (loss) per share are independently computed using weighted-average shares outstanding for the quarter. As a result, the sum of the quarterly earnings per share will not necessarily equal the annual earnings per share.*

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