SUN Interbrew

Authentic beers of international quality in Russia & Ukraine

2000

Company description

Company description

SUN Interbrew is the second largest brewer in Russia and the largest brewer in Ukraine. Our company is a strategic partnership between the SUN Group, a brewer in the region since 1992, and Interbrew, one of the largest brewers in the world, which entered Eastern Europe in 1996.

In 2000, SUN Interbrew produced ten million hectoliters of beer and soft drinks. Our main brands are Klinskoye, Sibirskaya Korona and Tolstiak in Russia, and Chernigivske in Ukraine.

In both countries, the beer produced in the breweries is then sold to a wholly owned subsidiary, which then distributes on a national basis in each country.

SUN Interbrew is a public company registered in Jersey, whose shares are listed and traded on the Luxembourg, Frankfurt and Berlin exchanges.

Interbrew Core brands in Russia and Ukraine

Index

Index

Introduction	page 3
Financial highlights	page 4
Letter to Shareholders	page 5
Corporate governance	page 6
Chief Executive's review:	
- Highlights of the year	page 7
- Switching to a more profitable business model	page 8
- Increasing our effectiveness	page 12
Management's Discussion & Analysis	page 14
Independent auditors' report	page 17
Financial report	page 18

INTRODUCTION

SUN Interbrew made a deliberate decision at the beginning of last year. We could have concentrated on pure volume, and sought an increase in market share. However, that was not our chosen strategic path, since our current volumes were scarcely profitable. Instead, we focused on growing the value of our volumes. Our target was the profitable Core segment.

We began the year with a 16% market share and low profitability. By the end of the year our volumes had risen with the result that we had a 14% share of a larger market. However, the real change was that our profitability was transformed. A financial loss of € 4.9m was turned into a net profit of € 10.8m.

Automatic cleaning station (CIP) in ROSAR brewery

Image building and aggressive pricing moved our key brands in Russia and Ukraine into a higher market position. We consequently gained a bigger presence in the more profitable Core segment and took a smaller share of the less profitable Value segment. Hence, our new positioning was aligned to current market dynamics as well as good business sense.

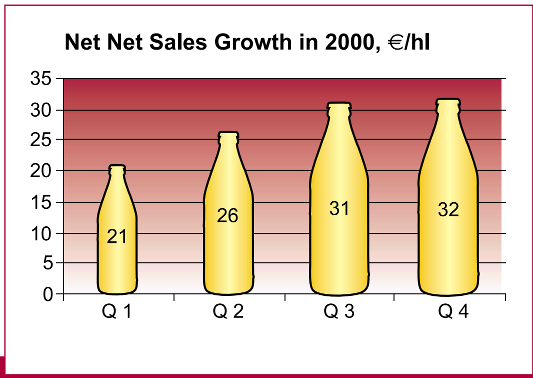
In line with this strategy, we put the main thrust of our investment on quality to achieve a consistent high standard for all our beers. However, capacity was not neglected, and we gained increased output from existing plant through improvements in the brewing process. In addition to this, we began the construction of an additional brewery in Klin to meet anticipated demand.

In the last annual report, we clearly laid out what we planned to do — provide the brand focus and the platform through quality and imagery that would give the consumer a reason to pay more. We also planned to achieve an acceleration in the growth in value of net sales per hectoliter. Today the market can see that we have achieved what we set out to do. Meanwhile a growing beer market gives us all the room we need for further acceleration and improvement. We have the beer quality, brand strength and investment resources to make 2001 another dramatic year.

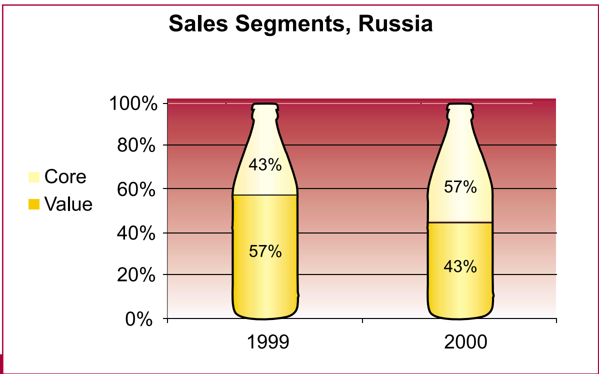
The company provides point of sale material to its customers

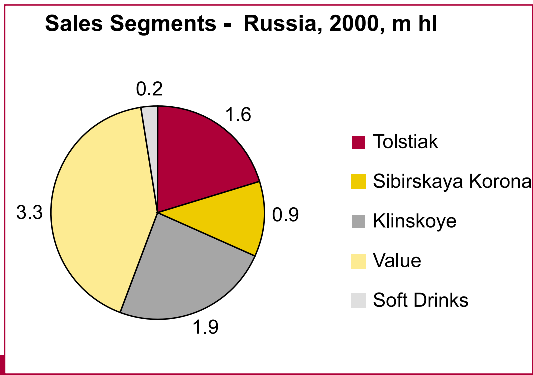
FINANCIAL HIGHLIGHTS

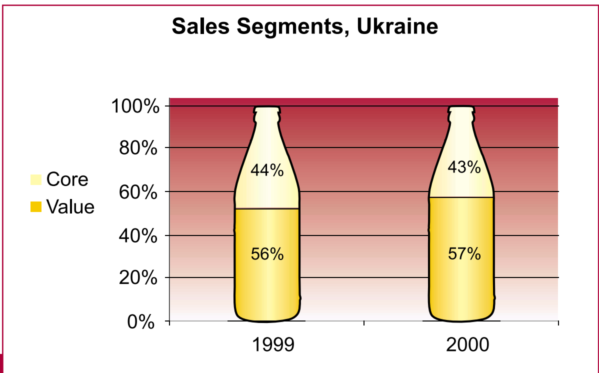
FINANCIAL HIGHLIGHTS

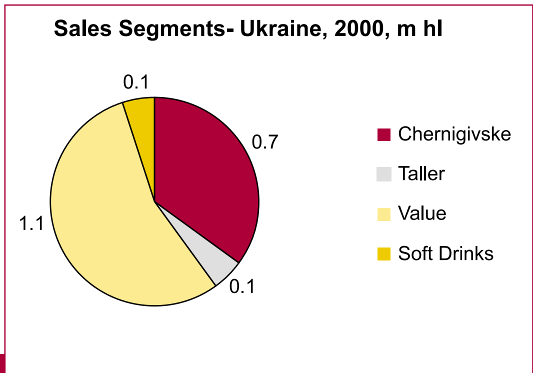


	1999	1999 proforma	2000
Total Net Sales, €m	102.9	197.6	282.9
Gross Margin	34%	33%	34%
EBITDA, €m	13.8	37.6	61.4
Net Income, €m	(4.9)	1.5	10.8

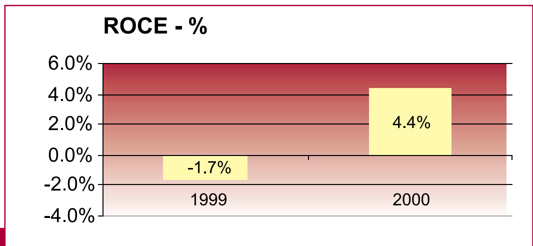








	1999	2000
Investment, €m	16.4	111.9
Cash generated before investment, €m	(12.3)	34.2
Gearing	7%	1%



LETTER TO SHAREHOLDERS

Letter to Shareholders

Nand Khemka - Chairman

THE MEASURE OF THE YEAR It is a pleasure to be able to present results that show the successful implementation of the policies outlined last year. Volumes were in line with plan, reaching 10m hectoliters, and financial performance was better than anticipated. The decision to focus on three major brands in Russia, with ambitious targets for pricing and volume, transformed our profitability. The impact on the market, and the response of the consumer, were extremely positive.

During the year, action was taken on every aspect of the business. At the end of the first 21 months of our new organisation, strong foundations are now in place for future growth and profitability. The combination of SUN Brewing and Interbrew's FSU operations in April 1999 has exceeded initial expectations, and the amalgamation of SUN Brewing's strong knowledge of the local markets with Interbrew's special skills in production, marketing, and distribution, is proving to be very successful.

IMPROVEMENT IN THE RUSSIAN MARKET It helps our progress that there is a greater sense of stability across Russia. President Putin is managing the political process well, and the government is pushing forward legislation which is more conducive to establishing favourable business conditions. It has been recognised that the detail of doing business in Russia — in relation to tax, the banking system, the legal infrastructure and accounting standards — needs streamlining, and that the necessary steps must be taken. As a result, the context in which we operate is gradually becoming more friendly to enterprise.

Economic conditions are also much improved. We see strong oil prices, the highest foreign exchange reserves in recent history, a revival among some engineering industries, and better consumer demand. Inflation in Russia was 20% in 2000, and the rouble is holding its value against the dollar. In Ukraine, inflation and currency stability are also somewhat improved, although relative to Russia the macro economic picture is still less stable. For the time being at least, the indicators are better.

OUTLOOK FOR SUN INTERBREW It is not often, these days, that a new brewery organisation the size of SUN Interbrew comes into being. The management team has settled in, and continues to gain a better understanding of local conditions. We have put in place the required processes and plans in order to take advantage of a market growing at a significant pace. Ongoing improvements in quality, distribution, financial control, price positioning and branding will give us added impetus. We have a real opportunity to build a world class company.

The future of SUN Interbrew is deeply interlinked with the success and prosperity of the Russian and Ukrainian people. Barring unforeseen situations, we expect stable conditions going forward. Both externally and internally, the indicators for the business have changed for the better in the past year. The evolution of the market, the radical steps we have taken, and the positive response of consumers — all combine to give us an exciting opportunity for growth and profitability.

Nand Khemka - Chairman - 1 March 2001

Corporate governance

As SUN Brewing, we were in the vanguard of corporate developments in Russia, by becoming a public company with its stock traded on international exchanges, and by adopting the US GAAP reporting system. At the present time, SUN Interbrew continues to take a lead in developing best practice in corporate governance. The company follows the Interbrew code of ethical conduct, and has clearly defined the roles and responsibilities of the board of directors and the executives of the company. A large majority of the board is made up of non-executive directors, and approximately a third of board members are totally independent directors, selected for their ability and reputation and with no business ties with either of the two major shareholders.

The board is assisted by two committees, both with a high representation of non-executive directors. The Compensation Committee advises on top level company organisation and remuneration, while the Audit Committee ensures that adequate systems of control are in place, and that the annual accounts reflect the economic reality of the company. The Audit Committee is also responsible for all issues of corporate governance and ensures all commercial activities are on an arms length basis, especially those that involve Interbrew and the SUN Group.

A small Executive Committee, consisting of the Chief Executive Officer plus one representative each from our two main shareholders, SUN and Interbrew, coordinates overall strategy. Finally, the most senior managers of the company come together to form the SUN Interbrew management committee.

SUN Interbrew Management

The Board of Directors
Nand Khemka, Chairman (✱)
Piers Cumberlege (*) (✱)
Stefan Descheemaeker
Shiv Khemka
Uday Khemka (✱)
Christopher Lloyd (*) (✱)
Luc Missorten
Fred Packard (*) (✱)
Georges Soenen (✱)
Andre Weckx

Alternate Directors
Catherine Noirfalisse
Ludo Degelin
Johan Van Biesbroeck
Stephan DuCharme

* indicates independent directors
✱ indicates non-executive directors

Audit Committee
Nand Khemka
Piers Cumberlege
Luc Missorten

Compensation Committee
Shiv Khemka
Luc Missorten
Fred Packard

Chief Executive Officer
Andre Weckx

Executive Committee
Andre Weckx
Shiv Khemka
Stefan Descheemaeker

Management Committee
Andre Weckx, CEO
Ray Graham, General Manager Russia
Joe Strella, General Manager Ukraine
Alan Hibbert, CFO

CHIEF EXECUTIVE'S REVIEW

Highlights of the year

FINANCIAL PERFORMANCE Our results showed a substantial improvement in overall performance, and were well ahead of SUN Interbrew's budgets for 2000 in every quarter. Most of the performance was achieved through a shift in our sales from Value beer to Core beer, and hard pricing of our Core brands. Our expectations were exceeded on both the price increases and volume growth the Russian market could absorb. Consumers proved willing to pay a premium for a better quality, more consistent product with a strong brand image, thereby indicating the focused approach we introduced in 1999. The loss of € 4.9m reported last year was turned into a net profit of € 10.8m.

Klinskoye

2000 was the first full year for SUN Interbrew. Beer sales volumes were up 90%, from 5.1m to 9.7m hectoliters. Total net sales grew 175%, up from € 102.9m to € 282.9m, with additional revenues coming from the first full year of breweries acquired during 1999, as well as price increases and the shift to Core brands. The net sales value per hectoliter, which strips out the acquisition factor, gives a truer measure of our improvement. It grew from € 18 in 1999 to € 28 in 2000, with consistent improvement every quarter — from € 21, to € 26, to € 31, to € 32 for the final quarter. The figures include a currency gain from the conversion of our rouble and hryvna results to a weaker euro.

Rogan event

The shift in our market position drove a strong improvement in EBITDA margin, up from 13% to 22%. Marketing and sales investment substantially increased our cost base, up from € 13.1m to € 40.0m. We also invested in systems, reorganisation and support — an increase in general and administrative expenses of 33%. However, these expenses dropped as a percentage of net sales from 15.4% in 1999 to 7.4% in 2000. As the strategic partnership between the SUN Group and Interbrew is still only two years old, we will have future opportunities to improve our cost profile. Overall profitability was ahead of expectations, leading to an overall tax charge at an effective rate of 55.3%. This rate is high, as the company's tax planning initiatives did not take effect until the last quarter of 2000, and the company will certainly be able to make further improvements in the next several years.

ACQUISITIONS The acquisition of Klin near Moscow was completed at the beginning of the year, giving us a leading brand and a 17% share in one of Russia's most attractive growth markets. We also acquired the Rogan brewery in December, which brought us a 15.9% market share in Ukraine, plus an advantageous extension of our geography in the Kharkiv region. This region is the biggest pocket of wealth outside Kiev, and gives us three strong bases in the country. The acquisition took our total market share to 35.2%, hence we were required by the competition authorities to divest Krym, acquired at the end of 1999. The Yantar brewery, also acquired at that time, was consolidated during the year, helping to grow our total sales volume in Ukraine from 0.8m hectoliters in 1999 to 1.9m hectoliters in 2000. Rogan added a further 1.5m hectoliters. Eighteen months ago, we had no business in Ukraine. Now our company has a bigger business in Ukraine than SUN Brewing had in Russia when SUN Interbrew was formed. We lead the Ukrainian market, and have the potential to grow to approximately 13m hectoliters in the two countries in 2001.

CHIEF EXECUTIVE'S REVIEW

INVESTMENT In 2000, we invested € 111.9m, and planned further investments for 2001 of around € 90m. On top of the company's strong cash generation, we agreed a funding programme to provide an additional € 65m for our plans. Funds were secured at good interest rates, and the programme was oversubscribed by the banks. The response was a vote of confidence in the future of the company, which is viewed as one of the small number of businesses in Russia that are well funded, well managed, and enjoy Western standards of corporate governance.

Switching to a more profitable business model

SHIFTING OUR MARKET POSITION In 2000, our breweries were basically at full capacity, and that capacity was used for more profitable volumes. This was a fundamental switch away from Value brands towards Core brands. In June 1999, 85% of our volume was Value beer. Last year, it was less than half that — only 43%. Since June 1999, the percentage of Core beer has increased almost fourfold, from 15% to 57%. This was the result of our focus on three key brands in Russia— with the initial development of Klinskoye in the Moscow area, Sibirskaya Korona east of the Urals, and Tolstiak in the rest of European Russia — and the repositioning of Chernigivske in Ukraine. Concentrating our marketing expenditure gave us much greater spend effectiveness. This strategy was supported by directing most of our immediate investment towards quality rather than capacity. Meanwhile, we used more advanced brewing processes to cut the time needed for brewing and fermentation, and hence gained extra production.


Chernigivske

IMPORTANCE OF THE MOSCOW MARKET Moscow really matters to the company because it accounts for 20% of the Russian market and has the right characteristics for our business — a higher average price and a small Value segment representing only 15% to 20% of the whole. In a one-off repositioning of our brand Klinskoye, we increased prices by 49%, well ahead of inflation. Volumes were held back by lack of capacity, yet the brand's sales grew by 14% and moved alongside the market leader. The real potential is still to come. The brand was not advertised until September, when 85% of the year's sales were over. The full relaunch will be delayed until April 2001, when extra capacity becomes available as the new Klin brewery comes on stream.


Tolstiak

THE SUCCESS OF TOLSTIAK We identified Tolstiak as a brand with a particular appeal for Russians. We repositioned it as a Core brand, with a key role to substitute our previous volume in the Value segment. We relaunched it in June, slightly late in the season, once consistent quality had been achieved in the four breweries producing it. Pricing increased by 79%, yet volumes rose 70%, comfortably exceeding our internal targets.

SUN Interbrew sponsored event in Moscow

Chief executive's review

Chief executive's review

Tolstiak accounted for half our sales in the Urals area and around Volgograd, and it became the number one brand in the Povolzhe region. It also showed promise in the Moscow area, and was launched in Siberia after the year end. The success of Tolstiak was further endorsed when it was named Brand of the Year in the Russian consumer awards, and won a special prize for its advertising. Brands are not built in a year, but we certainly made a good start. The real results will be seen in three or four years' time.

THE GROWTH OF SIBIRSKAYA KORONA This was already a strong brand, but in a limited geographical area around Omsk. Our intention was to achieve wider distribution, as our priority brand east of the Urals. Consequently, we focused on other cities in Western Siberia, Eastern Siberia and the Far East. Sibirskaya Korona was relaunched in March, positioned as an upper Core brand, with prices up 40%. Sales rose by 64%. Nonetheless, we still have only a 10% share in new cities, which gives us a platform for substantial growth.

Rogan logo

DEVELOPMENTS IN UKRAINE Ukraine is a more price sensitive market characterised by smaller incomes, higher inflation, and lower per capita consumption. Our key brand is Chernigivske, which we moved solidly into the Core segment, with prices up 26% for last year, thus outpacing competition and inflation. Taller, already positioned as a local premium beer, increased its volumes by 17% for 2000. Both beers were brewed in Yantar, as well as Desna, the first step in our plan for more flexible production. The newly acquired Yantar proved to be a very acceptable brand, and we see considerable potential. Our latest acquisition, the Rogan brewery, produces unpasteurised beers priced at the lower end of the scale.

Klinskoye Mug

THE FUNDAMENTALS OF A BEER BUSINESS We made investments of € 111.9m last year, mostly in quality improvements, to give consumers a reason to pay more. The quality scores of our beers are now between four and six, with Core brands consistently achieving five or six. A score of five represents beer without technical defect, on strict criteria, and even the precise definition of colour. Further investment is planned to replace equipment that could compromise quality. Improvements in shelf life were also achieved, relating to bottling performance, as well as the quality of the beer. Our three Core brands in Russia, representing 58% of volume, achieved the 60-day target, or were under test for 90-day approval. The rest were under test for 30-day approval, compared with a previous shelf life of a few weeks. Our long-term target is six months for all brands.

Beer is a business about brands, and our success last year was a brand success. Our analysis of how the market was segmenting and growing proved to be correct, and fits perfectly with our intention to introduce Stella Artois in 2001. The focus on Core brands will continue, while we ensure that SUN Interbrew is represented in all segments of the markets, and captures a significant market share of all price sectors.

Tolstiak award-winning TV commercial

Chief executive's review

Increasing our effectiveness

Russia sales conference, January 2001

INTERNATIONAL BEST PRACTICE SUN Interbrew is now a business under closer operational and systems control, after installation of management infrastructure, which gives us quicker feedback of better data within a context of agreed plans. Information on profit, previously available within 60 days of the quarter ending, is now provided monthly within a week. More powerful management information permitted regular reforecasting, and a swifter response to market conditions. Our results were also published more promptly. In 1999, we reported each quarter's results to the market in 87 days, and in 2000 in 74 days.

Investment in IT enabled us to put in the systems typical of an international company. We completed the pilot phase of the introduction of EFAS — a fully integrated data system exchange within the group, which covers order taking, invoicing, stock management, replenishment and accounting. The IT costs incurred in 2000 and planned for 2001 will begin to bring benefits in the latter half of the current year.

We also started applying the best international techniques to our human resources practice. Business objectives and development plans were set for headquarters staff and senior management teams in breweries, with the achievement of these objectives linked to the bonus system. To encourage a change in working culture, we held team building workshops for senior brewery managers. In another vital step to bring our practices up to the level of the best, we began assessing the skills and competencies of managers at various levels, so as to be able to plan management succession in a more structured and efficient manner.

NEW DRIVE ON CUSTOMER SERVICE SUN Interbrew can achieve an edge in the market not just through a better image of our brands. Almost more important is a better service to the customer. In the West, where customer service is entrenched, failing to deliver brings companies real penalties, while performing well is no more than normal. In countries like Russia and Ukraine, where the customer is not yet king, high service levels can bring true competitive advantage. Failing to deliver carries fewer penalties, but performing well creates a real distinction. SUN Interbrew intends to be a leader in this field, by organising the company not to suit production convenience but to satisfy customer needs. The first sales convention held after the year end for the top 300 sales people underlined this ambition, taking customer satisfaction as its theme.

To deliver a step change in service requires a phase of intensive training. We initiated a programme in Russia to train sales managers, logistics managers, territorial sales representatives and merchandisers. This was based on our own interactive training package, which adapts standard training to the reality of our business. SUN Interbrew also started a process of coaching sales people from independent distributors, which are important customers of the company. Key performance indicators were defined and implemented for the first time, as a basis for effective working by sales teams. Their work is underpinned by SUN Interbrew's newly implemented sales policy, which puts the partnership with customers on a more transparent footing.

CHIEF EXECUTIVE'S REVIEW

In Ukraine, we set up a National Sales and Distribution company in June, which handled Desna volumes from July, and Krym and Yantar volumes from August. The introduction of merchandisers increased our presence throughout the country from 1,925 outlets to 6,600 outlets, with a target of 19,000 for 2001. The sales and distribution process was monitored, and improvements identified, through a dealer advisory council, meeting every two months. In Russia, Rosar and Povolzhe were integrated into the unified sales and distribution system, with Klin to follow in July 2001. We also started work on analysing the supply chain in order to get the most efficient distribution network at the lowest cost.

MAKING THE MOST OF OUR PEOPLE Our business has grown from less than 5m hectoliters 21 months ago to an amount of approximately 13m hectoliters in the current year. However, the benefits of that volume have yet to be achieved, in terms of overall synergies. We strengthened the organisation by appointing a general manager for Russia and a general manager for Ukraine, and SUN Interbrew Ukraine was set up as a stand alone entity to address synergies between breweries in fields such as finance, human resources, purchasing, IT and technical assistance.

The business unit concept was confirmed in order to orientate our business more closely to the market. In 2001, business unit directors will switch their focus from production in the breweries to sales and distribution to our customers. They will pass responsibility to the technical people for bringing consistency to each of the facilities. Plant managers and technical directors will work directly with the technical director for each country.

During the year, SUN Interbrew became a more local business. Bench strength was increased, and of the 41 middle to senior managers appointed during the year only two were foreign nationals. As local talent was brought into our organisation, the number of expatriates dropped to 10. Russians now make up more than a third of the top team, accounting for five of the 14 members of the management committee. This change is an expression of our belief that, the more local you can be in your expertise, the better.

Biggest brewery in Siberia – ROSAR

OUTLOOK The next two to three years will be important investment years, as we exploit the expanding opportunities of an industry growing at a fast rate. Since 1997, consumption has risen in Ukraine from 11 to 20 liters per capita in 2000, and in Russia from 20 to 38 liters per capita. Funding is in place for our investments in 2001, and planning for 2002/3 is already underway.

This time last year we had a strategic vision. Today we have tangible proof that our strategy is sound. We can build on this foundation in order to plan the next stages in the company's development. Meanwhile, investment is occurring in every aspect of the business — in the physical infrastructure, in people, and in brands. Yet, despite that addition to costs, SUN Interbrew is still delivering satisfactory results. In years to come, we expect our results to improve significantly, based on a clear strategic vision and focused investments. We anticipate an exciting future.

Management's Discussion & Analysis

Management's Discussion & Analysis

SUMMARY

During 2000, SUN Interbrew continued building the foundations for its business in Russia and Ukraine. We improved our brand portfolio, invested in management infrastructure, and strengthened our presence in both countries through strategic acquisitions. A stronger financial performance is already evident.

Summer cafes sponsored by Chernigivske

The company invested € 81.2m in acquisitions during the year. In January 2000, we acquired from Interbrew a 74.25% interest in the Klin Brewery, located 120 km from Moscow. The Klin Brewery, the fourth largest in Russia, produced and sold 1.6m hectoliters of beer in 1999, making it a major player in the Moscow market.

In December 2000, SUN Interbrew completed the acquisition of a 86.4% stake in the Rogan Brewery, the second largest brewery in Ukraine. As a result, we became the country's number one brewer, with a 34% market share.

During 2000, the company increased its voting control in the Klin, Perm, Saransk, Kursk, Bavaria, Yantar, Desna and Krym breweries.

We also embarked on an extensive investment programme, focused on quality improvement and the construction of new facilities in Klin. New machinery and equipment was installed at all our breweries in Russia and Ukraine, in a capital investment programme worth € 111.9m, compared with our spend of € 16.4m in 1999.

RESULTS OF OPERATIONS

SUN Interbrew is one of the largest brewing operations in Russia and Ukraine. We based our financial results on the full year consolidation of our eight Russian breweries plus Desna and Yantar in Ukraine, as well as the December results of our new acquisition, Rogan. In order to comply with the Antimonopoly Committee approval of Rogan, we gave up operational control of Krym from December 1, 2000. Krym's financial results were consolidated up to that date, with December figures included using the equity method of consolidation.

Consolidated net net sales for the year ended December 31, 2000 were € 283.0m as compared with € 102.9m for 1999, and € 197.6m on a proforma basis for the same breweries. Beer sales volumes in 2000 totaled 9.7m hectoliters, a 90% increase over the 5.1m hectoliters sold in 1999.

The increase in net sales can be attributed not only to the acquisition of new breweries in Russia and Ukraine, but also to the increased sales price of SUN Interbrew's beers, the higher representation of Core brands in 2000 sales, and weaker euro exchange rates during 2000.

The gross margin in 2000, as a percentage of net sales, was 34.1% compared with 33.8% in 1999.

Management's Discussion & Analysis

During the year, we invested heavily in our brand strategy, and repositioned the local brands Klinskoye, Sibirskaya Korona and Tolstiak as regional Core brands with the potential to become national brands. As a result, selling and distribution expenses rose from € 13.1m in 1999 to € 40.0m in 2000 — a per hectoliter increase from € 2.57 in 1999 to € 4.12 in 2000. As a result of all these strategic changes, these brands are now positioned for strong growth.

General and administrative expenses rose by 33%, from € 15.8m to € 21.0m. Over half of this increase is attributable to the general services fees which are calculated at 1.75% of net net sales. Additionally, we set up a national sales and distribution network in Ukraine to capture the efficiency benefits the company enjoys in Russia.


It is not only work (during sales conference)

Russian and Ukrainian tax regulations limit the deductibility of certain expenses vital to a consumer goods company, including marketing, employee training, business travel and insurance. Therefore, the tax rate for SUN Interbrew for 2000 was effectively 55.3%. Management has begun the implementation of a number of tax initiatives which will lower the effective tax rate in 2001.

The net income for 2000 was € 10.8m, or € 0.11 per basic and diluted share, as compared to a net loss of € 49m, or (€ 0.10) per basic and fully diluted share for 1999.

CURRENCIES AND INFLATION

The euro was continuously devaluing during 2000 against the dollar, resulting in better overall operational results for the Company. However, in December 2000, the euro has strengthened, creating currency exposure since our monetary position is mostly denominated in roubles, hryvnas and US dollars. Overall, the foreign exchange result for 2000 represents an income for 11 months and a loss for December, reflecting the overall trend of euro exchange rates. It also includes specific losses that Company realised in May, while offsetting its US Dollar denominated liabilities by euro proceeds from a Charter Capital increase.

During 2000, inflation, calculated based on the consumer price index, was 20% in Russia and 24% in Ukraine, which created an overall favourable framework for the market and the Company.

LEVERAGE

The debt to total asset ratio decreased from 30.6% to 21.9% during the year. The amount of debt also includes convertible debt that will be funded in 2001 through share issuance. The adjusted ratio, assuming that this debt is converted, will be 15.3%. At the same time, the Company had almost no long-term debt.

MANAGEMENT'S DISCUSSION & ANALYSIS

OUTLOOK

During 2000, SUN Interbrew made significant progress. The company received a substantial capital injection, and together with its improved profitability, it now generates substantial cash flows from its operations.

Klin Brewery celebrated its 25th anniversary

The company has ambitious plans for the future, backed up by a solid financial position which will enable it to grow further both organically and by acquisition where appropriate.

FORWARD-LOOKING STATEMENTS

From time to time, SUN Interbrew may publish forward-looking statements relating to anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbour for forward-looking statements.

All statements other than statements of historical fact included in the annual report, including, without limitation, the statements under "Management's Discussion and Analysis" are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: a) general economic factors including, but not limited to, changes in interest rates, foreign currency translation rates, trends in disposable income, changes in consumer demand for goods produced, and cyclical or other downturns; b) cost and availability of raw materials, labour and natural and other resources; c) domestic and foreign competition; d) domestic and foreign governmental regulations and trade policies; e) reliance on major customers; f) success of marketing, advertising and promotional campaigns; or g) inability to achieve cost reductions through consolidations and restructuring of acquired companies.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of SUN Interbrew Limited and Subsidiaries:

We have audited the accompanying consolidated balance sheets of SUN Interbrew Limited and Subsidiaries (the "Company") as of December 31, 1999 and 2000 and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Rosar Brewery, Chernigiv Beer Enterprise, Beer and Soft Drinks Plant "Krym", Klin Brewery and Rogan Brewery (the consolidated subsidiaries) for the years ended December 31, 1999 and 2000, which statements reflect total assets constituting 18% and 49.3%, respectively, of consolidated total assets as of December 31, 1999 and 2000, and total revenues constituting 11% and 49.5%, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SUN Interbrew Limited and Subsidiaries as of December 31, 1999 and 2000, and the consolidated results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for returnable packaging during 1999.

Deloitte & Touche

February 23, 2001

Deloitte Touche Tohmatsu

SUN Interbrew and Subsidiaries
Consolidated Statements of Operations
For the Years Ended December 31, 1999 and 2000
(in thousands, except per share amounts)

		1999		2000
Net Sales	€	102,945	€	282,999
Cost of goods sold		68,187		186,470
Gross Margin		34,758		96,529
Selling and distribution expenses		13,142		39,974
General and administrative expenses		15,804		21,008
Operating Income		5,812		35,547
Other Income (Expense)				
Interest income		306		2,285
Interest expense		(1,930)		(4,585)
Foreign exchange loss		(6,593)		(3,382)
Loss from equity investment		-		(1,228)
Other – net		1,438		1,272
Total other expense		(6,779)		(5,638)
Income (loss) before income taxes and minority interest		(967)		29,909
Income taxes		(4,727)		(16,552)
Income (loss) before minority interest		(5,694)		13,357
Minority interest		273		(2,544)
Net Income (Loss) Before Cumulative Effect of a Change in Accounting Principles		(5,421)		10,813
Cumulative Effect on Prior Years of Retroactive Application of Depreciation for Packaging Material		556		-
Net Income (Loss)	€	(4,865)	€	10,813
Basic Earnings (Loss) per Share Before Cumulative Effect of Accounting Change		(0.11)		0.11
Accounting Change		0.01		-
Basic Earnings (Loss) per Share		(0.10)		0.11
Diluted Earnings (Loss) per Share Before Cumulative Effect of Accounting Change		(0.11)		0.11
Accounting Change		0.01		-
Diluted Earnings (Loss) per Share		(0.10)		0.11

See Notes to Consolidated Financial Statements

SUN Interbrew and Subsidiaries
Consolidated Balance Sheets
As of December 31, 1999 and 2000
(in thousands)

		1999		2000
ASSETS				
Current Assets				
Cash and cash equivalents	€	30,179	€	44,665
Accounts receivable, net		9,430		10,049
Inventories		30,171		61,958
Assets held for disposal		-		13,771
Deferred tax assets		2,401		1,081
Other current assets		20,494		17,543
Total Current Assets		92,675		149,067
Plant and equipment, net		199,851		307,287
Goodwill		14,568		26,261
Long-term deferred tax assets		1,696		6,589
Other long-term assets, net		6,206		8,720
Total Assets	€	314,996	€	497,923
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	€	20,548	€	36,630
Taxes payable		3,889		7,752
Deferred tax liabilities		746		864
Accrued expenses		4,790		13,825
Short-term obligations		41,129		6,584
Convertible debt		16,914		32,782
Current portion of long-term debt		1,523		-
Total Current Liabilities		89,539		98,437
Long-term deferred tax liabilities		3,593		9,947
Loans payable		3,060		-
Other long-term liabilities		335		719
Total Liabilities		96,527		109,103
Minority interests in equity of subsidiaries		46,950		49,319
Shareholders' Equity				
Class "A" shares, one pence par; authorised 98,000,000 shares in 1999 and 125,278,614 shares in 2000; issued 38,122,734 shares in 1999 and 80,739,380 shares in 2000		587		1,304
Class "B" shares, one pence par; authorised 30,000,000 shares; issued 27,796,220 shares		387		387
Additional paid-in capital		162,856		319,308
Retained earnings		7,689		18,502
Total Shareholders' Equity		171,519		339,501
Total Liabilities and Shareholders' Equity	€	314,996	€	497,923

See Notes to Consolidated Financial Statements

SUN Interbrew and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 1999 and 2000
(in thousands)

		1999		2000
Operating Activities:				
Net Income (Loss)	€	(4,865)	€	10,813
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:				
Depreciation		13,129		29,189
Minority interest		(273)		2,544
Deferred taxes		3,987		1,284
Allowance for doubtful accounts		(738)		3,149
Accounting change		(556)		-
Other non-cash items		(6,097)		2,916
Changes in current assets and current liabilities net of effect from acquisitions:				
Accounts receivable		866		(1,777)
Inventories		(7,398)		(25,236)
Other current assets		(318)		4,143
Taxes payable		(659)		(29)
Accounts payable		(7,850)		4,821
Accrued expenses		(1,576)		2,418
Net cash provided by (used in) operations		(12,348)		34,235
Investing Activities:				
Purchase of plant and equipment		(16,366)		(105,015)
Acquisitions of consolidated subsidiaries (net of cash acquired)		(6,338)		(40,170)
Cash acquired in acquisitions of breweries		21,108		27,836
Net cash used in investing activities		(1,596)		(117,349)
Financing Activities:				
Net proceeds from issuance of shares		33,025		123,071
(Payment) proceeds of loans payable – related parties		20,427		(13,982)
(Payment) proceeds from loans		(508)		(11,489)
Put option share repurchase		(12,750)		-
Other long-term liabilities		(315)		-
Net cash provided by financing activities		39,879		97,600
Increase (decrease) in cash and cash equivalents		25,935		14,486
Cash and cash equivalents, beginning of year		4,244		30,179
Cash and cash equivalents, end of year	€	30,179	€	44,665

Cash Paid During the Period for:		
Interest	2,243	5,364
Income taxes	6,866	16,998
Supplemental Schedule of Non-cash Investing and Financing Activities:		
Issuance of stock to acquire breweries	64,704	35,258
Issuance of convertible debt to acquire breweries	16,914	32,782

See Notes to Consolidated Financial Statements

Financial report

SUN Interbrew and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 1999 and 2000
(in thousands)

	Share Capital Class "A" Shares	Share Capital Class "B" Shares	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
Balances at January 1, 1999	€ -	€ 213	€ 43,561	€ 12,834	€ 56,608
Reversal of contingent share repurchase commitment	-	49	33,992	-	34,041
Shares issued to Interbrew	-	145	34,046	-	34,191
Shares issued – bonus issue	280	-	-	(280)	-
Share repurchase from STI and subsequent cancellation	-	(20)	(14,146)	-	(14,166)
Shares issued for acquisition of Rosar and Desna breweries	307	-	64,725	-	65,032
Shares issued to Interbrew – share price adjustment	-	-	1,006	-	1,006
Purchase price accounting adjustment related to Rosar acquisition	-	-	(328)	-	(328)
Net income	-	-	-	(4,865)	(4,865)
Balances at December 31, 1999	587	387	162,856	7,689	171,519
Shares issued for acquisition of Klin brewery	246	-	35,012	-	35,258
Proceeds from charter capital increase	471	-	121,440	-	121,911
Net income	-	-	-	10,813	10,813
Balances at December 31, 2000	€ 1,304	€ 387	€ 319,308	€ 18,502	€ 339,501

See Notes to Consolidated Financial Statements

SUN Interbrew Limited and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 1999 and 2000

1. Description of business

SUN INTERBREW Limited (the "Company") is incorporated in Jersey, Channel Islands, and through a controlling interest in 12 breweries manufactures, markets and distributes beer, malt and soft drinks primarily in the Russian Federation ("Russia") and Ukraine.

The Company's voting shares (Class "B") are 34% owned and controlled by S.U.N. 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 circulated.

The Company's non-voting shares (Class "A") are owned and controlled by Interbrew, with an interest of 77% and STI, with an interest of 12% as of December 31, 2000. The remainder of the non-voting shares are widely circulated.

2. Summary of significant accounting policies

CHANGES IN ACCOUNTING POLICIES

EURO

During the third quarter of 1999, the Company has changed its reporting currency from the United States Dollar ("$") to the Euro ("€") to conform the Company's accounting policy to that of Interbrew. As more fully discussed in the "Foreign Currency Translation" section, the euro has also been designated as the functional currency. The 1998 balances were restated through retroactive application of the exchange rate as of January 1, 1999. The exchange rate at January 1, 1999 was € 1=$ 1.1666. The comparative financial statements reported in euro depict the same trends as would have been presented if the company had continued to present financial statements in US dollar. However, the financial statements for the periods to January 1, 1999 are not comparable to the financial statements of other companies that report in euro and financial statements with restated amounts from currencies other than the US dollar. After January 1, 1999, the company has translated the financial information to euro based upon the daily €/$ exchange rate. During 2000, US dollar exchange rate to euro has constantly decreased: the exchange rate at December 31, 1999 was € 1=$ 1.0046 and at December 31, 2000 – € 1=$ 0.8684. The 2000 average exchange rate was € 1=$ 0.9242. Exchange rates of local Russia and Ukraine currencies (Rouble "RUR" and Hryvna "UAH" respectively) to euro have also decreased during 2000 from 27.23 RUR and 5.240 UAH for € 1 respectively at December 31, 1999 to 26.14 RUR and 5.057 UAH for € 1 respectively at December 31, 2000.

RETURNABLE PACKAGING MATERIALS

In June 1999, the Company changed its method of accounting for returnable packaging materials to record such items as fixed assets and depreciate such packaging over its estimated useful life. Payments from distributors for returnable packaging materials are recorded as a deposit liability. Previously, the Company recorded both the purchase of new and used packaging materials from suppliers or distributors in inventory and upon sale included the cost of packaging in the cost of good sold. Proceeds received from distributors for such packaging was included in sales. While the Company's previous method of accounting was also in accordance with generally accepted accounting principles, the Company believes that Interbrew's experience and the trends in the industry indicate that the new principle is preferable. The change results in a significant reduction of both net sales and cost of goods sold, and an increase in depreciation expense.

In accordance with Accounting Principles Board Opinion ("APB") No.20, "Accounting Changes", the Company has applied this change retroactively from the beginning of 1999. The cumulative effect of the accounting change resulted in an increase to income of € 0.6m (€ .01 per share basic and € .01 per share diluted), net of tax and minority interest charge of € 0.1m.

CHANGE IN ESTIMATION OF USEFUL LIVES OF FIXED ASSETS

Concurrent with the investment by Interbrew, the Company has changed its estimates of the useful lives utilised for depreciation of certain categories of plant and equipment. The change is to be applied on a prospective basis to assets acquired after June 30, 1999. Assets placed in service prior to the effective date of the change continue to be depreciated using the prior estimated useful lives. The Company believes the new schedule of useful lives more accurately reflects the actual useful lives based upon Interbrew's experience in the industry. The Company believes that the change should not have a material effect on net income or earnings per share.

BASIS OF PRESENTATION

The accompanying 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 the Russian Federation and Ukraine (the "Russian subsidiaries" and "Ukrainian subsidiaries") maintain accounting records and prepare their financial statements in Russian roubles and Ukrainian Hryvnas in accordance with the requirements of Russian and Ukrainian accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in Russia and Ukraine in that 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 accounts of majority-owned subsidiaries (except as described below). All significant intercompany transactions have been eliminated.

The Company records its ownership in non majority-owned subsidiaries where the Company believes it does not have significant influence on the cost method. The Company has recorded its majority interest in YBC on the cost method due to its conclusion that it does not control the assets, nor has the ability to exercise authority and influence over YBC.

As of December 1, 2000 the Company changed its accounting for Krym brewery from the consolidation to the equity method (See Note 14).

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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

The Company follows a translation policy in accordance with Statement on Financial Accounting Standards No. 52, "Foreign Currency Translation" ("FAS 52"). Under such standard, a company operating in hyperinflation economies, such as Russia and Ukraine, should use their reporting currency as their functional currency. As more fully discussed in the "Changes to Accounting Policies – Euro", the Company has changed its reporting currency to the euro and therefore the euro has been designated as the Company's functional currency. Under FAS 52 all foreign currency financial statements are translated into euro using the remeasurement method. Monetary assets and liabilities are translated into reporting currency at the rate as of the balance sheet date. Non-monetary balance sheet amounts are translated at the rate prevailing on the date of the transaction. Revenue and expenses are translated at the monthly average rate for the month in which such transactions occurred except for the periods when the exchange rate fluctuated significantly. In such instances, a daily translation of revenue and expense has been applied. Translation (remeasurement) gains and losses are separately disclosed in other income (expense). Prior years financial statements have been restated from US dollars to euro as discussed in Changes in Accounting Policies.

The Russian rouble is not a fully convertible currency outside of the territory of the Russian Federation. As it relates to the Russian Subsidiaries, the translation of rouble denominated assets and liabilities into euro for the purpose of these financial statements does not indicate that the Company could realise or settle in euro the reported values of the assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported euro values of capital and retained earnings to its shareholders.

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 it is not probable that some portion or all of the deferred tax assets will be realised.

REVENUE RECOGNITION

Sales are recognised when products are delivered to customers.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company has adopted the provisions of Statement of Financial Accounting Standards Number 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 Company 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. In accordance with the provisions of SFAS 123 the effect of these options as it relates to the proforma disclosures of compensation was not significant.

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 antidilutive.

CASH AND CASH EQUIVALENTS

All highly liquid investments that are so near their maturity that they present negligible risk of change in value because of changes in interest rate, are considered to be cash equivalents. The Company's cash and cash equivalents at December 31, 1999 and 2000 consist of cash in banks and investments in commercial paper.

CONCENTRATION OF CREDIT RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Company places the majority of its excess cash in recognised financial institutions outside of the Russian Federation and fully registered branches of international banks within Russia and Ukraine. The Company also limits the amount of credit exposure to any one institution. A small portion of the Company's cash is deposited in Russian banks both in US dollar and rouble accounts. The Company has not experienced significant losses on such accounts. Management constantly monitors the status of banks where deposits are maintained.

The Company's customer base includes primarily beer and soft drink distributors throughout the European portion of the Russian Federation and Ukraine. The Company 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 fair value due to the short-term maturities of these instruments.

CONCENTRATION OF BUSINESS RISK

The Company's principal operating activities are within Russia and Ukraine. Laws and regulations affecting businesses operating in these countries are subject to rapid changes and the Company's assets and operations could be at risk due to negative changes in the political and business environment.

INVENTORIES

Inventories are recorded at the lower of cost or market value, with costs determined on a first-in, first-out (FIFO) basis.

PLANT AND EQUIPMENT

Plant and equipment are recorded at cost. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest costs associated with significant capital additions. Depreciation on production assets is recorded within cost of goods sold. Normal maintenance and repairs are expensed. Depreciation is computed under the straight-line method utilising estimated useful lives as follows:

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

LONG-TERM ASSETS

The Company continually reviews and evaluates whether changes have occurred that would suggest the carrying value of its long lived assets and identifiable intangibles, including goodwill, may be impaired based on the estimated cash flows of the entity acquired on an undiscounted basis over the remaining amortisation period. If this review indicates that the remaining useful life requires revision or that the asset is not recoverable, the carrying amount of the asset is reduced by the estimated shortfall of cash flows on a discounted basis. Goodwill is amortised using the straight-line method over the shorter of the estimated useful life or 20 years. Estimated useful lives of goodwill range from 13 to 20 years.

SHORT-TERM OBLIGATIONS

Short-term obligations consist primarily of short-term loans and overdraft facilities from banks with varying interest rates from 10% to 37%.

ADVERTISING

Advertising costs are charged to expense as incurred and amounted to € 1.8m and € 12.1m for the years ended December 31, 1999 and 2000, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made, where appropriate, to prior years' amounts to conform to the current presentation.

INTERIM FINANCIAL INFORMATION

The unaudited quarterly consolidated financial information and disclosures presented herein have been prepared by the Company without audit and, in the opinion of management contain all adjustments necessary to present fairly and on a basis consistent with the consolidated financial statements for the years ended December 31, 1999 and 2000. The results of operations for any interim period are not necessarily indicative of the results to be expected for the entire year.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137 (SFAS 137), "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133". SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities, and SFAS 137 defers its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company will adopt SFAS 133 in the first fiscal quarter of 2001, and does not expect the adoption to have a material effect on its financial condition or results of operations.

3. NET SALES

Net sales for the years ended December 31, 1999 and 2000 consisted of the following:

(000's)

	1999	2000
Beer	€ 93,900	€ 272,650
Soft drinks	2,010	4,914
Malt	2,107	788
Other	4,928	4,647
	€ 102,945	€ 282,999

4. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 1999 and 2000 consisted of the following:

(000's)

	1999	2000
Accounts receivable	€ 12,213	€ 14,730
Less: allowance for doubtful accounts	2,783	4,681
Accounts receivable, net	€ 9,430	€ 10,049

5. INVENTORIES

Inventories as of December 31, 1999 and 2000 consisted of the following:

(000's)

		1999		2000
Raw materials	€	10,281	€	33,625
Work-in-process		3,944		10,332
Finished goods		11,474		10,779
Other		4,472		7,222
	€	30,171	€	61,958

6. OTHER CURRENT ASSETS

Other current assets as of December 31, 1999 and 2000 consisted of the following:

(000's)

		1999		2000
Advances to suppliers	€	3,165	€	4,685
Prepaid taxes		5,481		7,909
Deposits and other prepaids		11,848		4,949
	€	20,494	€	17,543

7. PLANT AND EQUIPMENT

Plant and equipment as of December 31, 1999 and 2000 consisted of the following:

(000's)

		1999		2000
Buildings	€	55,767	€	70,271
Machinery and equipment		124,471		180,112
Transportation and other		16,359		25,941
Packaging materials		21,372		25,865
Construction-in-progress		20,436		62,312
		238,405		364,501
Less: accumulated depreciation		38,554		57,214
Plant and equipment, net	€	199,851	€	307,287

Construction-in-progress is not depreciated until an asset is placed into service.

8. RELATED PARTY TRANSACTIONS

On January 1, 1998 the Company entered into an agreement that transfers back a cereal plant (the "plant") located at one of the breweries originally acquired from a related party, pursuant to a protocol dated December 31, 1994. The agreement also provides for the transfer of certain assets at the Ivanovo Brewery and for the lease of the Moscow office. As of December 31, 2000, the transfer of the cereal plant had been completed. In consideration of the original agreement, which considered the plant outside of the acquisition, and due to the intention of the brewery to transfer the assets and liabilities of the plant, the Company has excluded from its consolidated financial statements the plant's assets, liabilities and results of operations and the effect of the plant's transfer.

The Company 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 and marketing and various other services, which both STI and Interbrew will provide to the Company. Under the general services agreement, a fee equal to 0.875 per cent of net sales revenue, is payable by the Company to each of STI and Interbrew per annum. Additionally the Company obtains specific services from Interbrew and STI as needed. Such services are purchased at a daily rate.

During 1999, and 2000, the Company had expenditures of € 2.0m and € 11.5m, respectively under these agreements.

In 1999, the Company had € 16.9m convertible debt from Interbrew. The loan was converted into Class "A" shares in May 2000, as a part of the Charter Capital increase.

In 2000, the Company has entered into an agreement with Interbrew to obtain short-term financing of up to € 50.0m. At December 31, 2000, the Company has drawn down € 32.8m at an interest rate of 7%. The proceeds were used to finance acquisition of Rogan brewery.

9. SHORT-TERM OBLIGATIONS

Short-term obligations as of December 31, 1999 and 2000 consisted of the following:

(000's)

		1999		2000
Short-term loans payable	€	9,276	€	3,202
Related party loans		26,721		1,460
Other short-term obligations		5,132		1,922
	€	41,129	€	6,584

The interest rates on short-term loans payable varied between 17% and 37% on hryvna denominated loans, between 8% and 9% on US dollar denominated loans and 10% on euro denominated loans.

In addition, one brewery has direct loans from Interbrew of € 0.7m at an interest rate 9%.

10. LOANS PAYABLE AND OTHER LONG-TERM LIABILITIES

(000's)

		1999		2000
Loans payable	€	4,583	€	-
Other long-term liabilities		335		719
		4,919		719
Less current portion		(1,523)		-
	€	3,395	€	719

Other Long-term liabilities represents provision for pension costs in Klin brewery.

11. INCOME TAXES

Income taxes are provided based on taxable income and the varying tax rates as required by Russian Federation, Ukrainian and Cyprus tax legislation. Certain costs and expenses, including some types of employees' compensation and benefits, and interest, which are included as expenses in the consolidated statements of operations, are not deductible for determining Russian and Ukrainian 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.

A reconciliation between income taxes based on the application of the Russian and Ukrainian statutory federal income tax rates (30-35%) to income before taxes and the provision for income taxes as set forth in the Consolidated Statements of Operations:

(000's)

		1999		2000
Provision for income taxes at statutory rates	€	(290)	€	8,973
Effect of loss and different tax rates		(4)		6,180
Investment credits		(1,361)		(9,583)
Permanent differences		4,432		13,058
Income tax provision		-		(793)
Change in valuation allowance		1,950		(1,283)
	€	4,727	€	16,552

The Company's permanent differences include: foreign exchange differences, differences in the accounting for returnable packaging materials, non-deductible expenses, and items not subject to taxation.

The company did not offset Deferred tax liabilities and assets attributable to different tax-paying components of the Company. As of December 31, 1999 and 2000 temporary differences that give rise to deferred tax liabilities and assets were comprised of the following:

(000's)

		1999		2000
Deferred tax liabilities:				
Differences in fixed assets valuation and depreciation rates	€	(705)	€	(3,229)
Differences of inventory valuation vs. tax base		(1,128)		(2,707)
Other		(107)		-
Deferred tax liabilities		(1,940)		(5,936)
Deferred tax assets:				
Accrued expenses	€	2,183	€	1,319
Allowance for doubtful accounts		1,042		1,721
Differences related to advances received		19		423
Other		401		-
Deferred tax assets		3,645		3,462
Net deferred tax assets / (liability)		1,706		(2,474)
Less: valuation allowance		(1,950)		(667)
Deferred tax asset / (liability) net of allowance	€	(244)	€	(3,141)

A valuation allowance was provided in 1999 and 2000 because of the uncertainty as to the recoverability of deferred tax assets in the Ukrainian breweries.

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.

12. POST RETIREMENT BENEFITS

Russian and Ukrainian entities are required by federal laws to contribute an amount to state pension funds for certain of their employees. The Company'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 totaled € 3.1m and € 4.6m for 1999 and 2000, respectively.

FINANCIAL REPORT

With minor exceptions the Company did not provide private pensions or other post-retirement benefits to its employees. As of December 31, 2000 a provision for post retirement benefits amounted to € 0.7m and has been included in other long-term obligations.

13. ACQUISITIONS

During 1999 and 2000, the Company increased its ownership interest in some of its breweries. In accordance with Accounting Principles Board Opinion Number 16, "Business Combinations," the portion of the prior period earnings of a subsidiary which are acquired by a parent company are accounted for as movements in the retained earnings account of the parent and are not accounted for as current earnings.

The purchase agreement with Interbrew as discussed in Note 15, assumed the Company purchase intermediary holding companies that own 80% of Rosar and 64% of Desna, respectively. The transaction occurred effective September 30, 1999 in exchange for 15,997,644 and 3,848,471 shares for Rosar and Desna, respectively.

Effective January 1, 2000, the Company acquired from Interbrew S.A. ("Interbrew") a 74.25% interest in the Klin Brewery, located in Klin, a city 120 km from Moscow. The Company issued 15,338,032 Class "A" shares to Interbrew and recorded the investment under the purchase method at Interbrew's basis.

Subsequently, in July 2000, the Company acquired a significant portion of the outstanding minority interests in the Klin Brewery, increasing its voting control to more then 99%.

In December 2000, SUN Interbrew completed the acquisition of an 86.4% majority stake in the Rogan Brewery (Rogan) in Kharkiv, the second largest brewery in Ukraine. Following this acquisition, it has become the number one brewer in Ukraine, with a 34% market share. The transaction was approved by the Ukrainian Anti-Monopoly Committee, subject to an undertaking to dispose of the Krym Brewery (Sympheropol) by December 31, 2001.

14. SHAREHOLDERS' EQUITY

Under a put option granted to STI on May 8, 1997, STI had the right to require the Company to repurchase certain GDRs at € 9.64 on May 8, 1999 which were also in turn issued to certain investors. In June 1999, the Company repaid its remaining obligations under the put option.

At an extraordinary meeting of the Shareholders of the Company approval was obtained to create the Class "A" Shares. Holders of Class "A" Shares are entitled to receive dividends at the same rates as Class "B" shares. The Class "A" Shares were initially distributed to the Shareholders, in the form of Class "A" Shares and/or Class "A" GDRs on a pro-rata basis to their existing holdings of Class "B" Shares, including the 5,626,619 Class "B" Shares that are in issue but that are not currently listed, by way of a bonus issue for no consideration on the basis of one Class "A" Share and/or one Class "A" GDR for each Class "B" Share or Class "B" GDR held by each holder there of at the close of business on April 8, 1999 (the "Record Date") and subsequent transferees acquiring Class "B" Shares in issue at the Record Date, prior to or on the Payment Date.

On March 16, 1999, the Bonus Issue of the Class "A" Shares was approved by a meeting of the Board of Directors of the Company and the issue of the Class "A" Shares and the Class "A" GDRs was made to Shareholders on June 15, 1999. The Bonus Issue of Class "A" Shares will not apply in respect of the 9,519,601 Class "B" Shares being issued to Interbrew on the Closing Date. As of the Record Date, Class "B" Shares in issue as at that date were traded cumulative-dividend until the exempt dividend date of June 15, 1999.

On March 3, 1998, the Company's shareholders approved an increase in authorised share capital to Pounds Sterling 600,000, thereby creating 30 million additional shares. Shareholders also authorised the Board of Directors to allot up to five percent of the issued share capital to employees or officers of, or persons seconded to, the Company or any of its subsidiaries. In December 1998, the Company entered into the "1998 Stock Option and Management Incentive Plan" (the "Plan") with certain key employees and directors aggregating an allocation of 300,000 option shares of which 200,000 option shares have been granted. The Employees will be granted three options each year for three consecutive years. The vesting schedule for each year's grant provides for 50% to vest on the second anniversary and 50% to vest on the third anniversary of the grant. The exercise period for each grant has 30% exercisable for two years, 40% for three years and 30% for four years. Option prices range from € 3.72 to € 8.27 depending on the vesting and exercise schedule. The share price and per share amounts under the Plan are subject to adjustment for changes in the Company's capital structure and the Plan will be amended to reflect the bonus issue of shares in 1999.

During 1999, the Company received shareholder approval and authorised a capital increase of 0.68m Pounds Sterling by the issuance of 68,000,000 Class "A" Shares of 1 pence each to rank "pari passu" with the existing Class "A" Shares of the Company.

On February 4, 2000, the Company's Board of Directors approved a capital increase in an amount of € 121.9m from existing shareholders by the issuance of Class "A" shares. A majority of these shares were subscribed to by Interbrew. The proceeds of the issuance were used to fund capital expenditures and acquisitions.

15. INVESTMENT BY INTERBREW S.A.

On April 2, 1999, the Company entered into an investment agreement with Interbrew (the "Agreement"). The Agreement provided that Interbrew subscribe for 9,519,601 of the Company's Class "B" Shares for an initial investment of approximately € 39.5m (the "Cash Contribution"). Expenses associated with the Agreement totaled € 4.3m. On June 15, 1999, the Cash Contribution was completed and the name of the Company was changed to SUN Interbrew Limited.

The Agreement also called the Company to acquire 80% of CJSC Rosar Brewery (Rosar) and 64% of CJSC Chernigiv Beer Enterprise (Desna) from Interbrew in exchange for Class "A" shares.

On March 3, 2000 the Company acquired from Interbrew a 74.25% interest in CJSC Klin Brewery (Klin), voting control of which has been increased to almost 100% in July 2000.

In the event that Effective Managerial Control (as defined in the Agreement, "Control") of the Yekaterinburg Brewing Company ("YBC") brewery is regained, the shareholders as of the date such control is obtained (other than Interbrew) are to be compensated for the additional value thus added to the Company.

16. COMMITMENTS AND CONTINGENCIES

The Company's breweries are situated and operate in the Russian Federation and Ukraine where the legal, regulatory, political and business environments are still evolving. In particular the laws, rules and regulations governing businesses are sometimes vague, frequently rewritten, and can conflict with one another. The tax, legal and banking regulatory system is constantly evolving as the governments continue the transformation from a command to a market-oriented economy. There are many new banking, tax and foreign currency laws and related regulations which are not always clearly written and are, at times, conflicting. In addition, the interpretation of laws and regulations are subject to the opinions of a variety of local, regional and federal tax inspectors, Central Bank officials and the Ministry of Finance. Instances of inconsistent opinions among and between these authorities are not unusual.

Russia and Ukraine continue to experience economic difficulties. Consequently, individual national currencies continue to devalue, prices of debt and equity securities are depressed, the rate of inflation has increased and confidence in the banking sector has yet to be fully restored. In addition, laws and regulations affecting businesses operating within the CIS continue to change rapidly. The region's return to economic stability is dependent to a large extent on the efficacy of fiscal measures taken by the government, decisions of international lending organizations, and other actions beyond the Company's control. The Company's assets and operations could be at risk if there are any further significant adverse changes in the political and business environment.

FINANCIAL REPORT

The Company's subsidiaries and breweries are subject to a number of proceedings arising out of the normal conduct of its business, mostly relating to tax matters. In most cases, the Company has prevailed in various lower tax courts and is awaiting the results of appeals made by the federal tax inspectorates. Management expects that the lower court decisions will be upheld and that the resolution of these matters will not have a materially adverse impact on the results of operations or the financial position of the Company.

The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the tax and legal systems, the ultimate taxes, as well as penalties and interest, if any, assessed may be in excess of the amounts paid to date and accrued. Management believes, based upon its best estimates, that the Company has paid or accrued all taxes that are applicable for the current and prior years, and complied with all essential provisions of laws and regulations. In management's opinion, the ultimate determination of the Company's overall tax liability and potential loss contingencies, to the extent not previously provided for, will not have a material effect on the financial position of the Company.

At December 31, 1999 and 2000 the Company had outstanding contractual commitments totaling approximately € 17.3m and € 22.7m respectively, to purchase capital equipment. In addition, the Company had commitments to purchase raw materials of € 3.6m at December 31, 1999 and € 7.9m at December 31, 2000.

17. EARNINGS PER SHARE

The reconciliation of basic earnings per share and diluted earnings per share for the year ended December 31, 1999 and 2000 follows:

	1999 Income (Numerator)	Shares (Denominator)	Per share- amount
Net Loss	€ (4,865)		
Basic EPS Income available to ordinary (common) shareholders	€ (4,865)	47,277,263	€ (0.10)
Diluted EPS Income available to ordinary (common) shareholders and assumed conversions	€ (4,865)	47,277,263	€ (0.10)

The Company had 128,657 potentially dilutive shares which were not included due to their anti-dilutive effect on EPS.

	2000 Income (Numerator)	Shares (Denominator)	Per share- amount
Net Income	€ 10,813		
Basic EPS Income available to ordinary (common) shareholders	€ 10,813	101,715,947	€ 0.11
Diluted EPS Income available to ordinary (common) shareholders and assumed conversions	€ 10,813	101,715,947	€ 0.11

The company has no potentially dilutive shares at December 31, 2000.

FINANCIAL REPORT

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

1999 (000's)	1st quarter	2nd quarter	3rd quarter	4th quarter
Net sales	€ 14,910	€ 25,305	€ 30,276	€ 32,454
Operating income (loss)	€ 1,003	€ 5,437	€ 2,798	€ (3,426)
Net income (loss)	€ 1,905	€ 2,024	€ (995)	€ (7,799)
Basic earnings (loss) per share	€ 0.06	€ 0.04	€ (0.02)	€ (0.12)
Diluted earnings (loss) per share	€ 0.06	€ 0.04	€ (0.02)	€ (0.12)

2000 (000's)	1st quarter	2nd quarter	3rd quarter	4th quarter
Net sales	€ 43,091	€ 75,796	€ 93,411	€ 70,701
Operating income (loss)	€ (414)	€ 8,808	€ 21,353	€ 5,800
Net income (loss)	€ (2,364)	€ 887	€ 12,076	€ 214
Basic earnings (loss) per share	€ (0.03)	€ 0.01	€ 0.11	€ 0.00
Diluted earnings (loss) per share	€ (0.03)	€ 0.01	€ 0.11	€ 0.00

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.