OAO BALTIKA BREWERIES AND SUBSIDIARIES

Consolidated Financial Statements for the year ended 31 December 2005

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Independent Auditors' Report

To the Board of Directors
Open Joint Stock Company Baltika Breweries

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company Baltika Breweries (the "Company") and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2(a) to the consolidated financial statements, the Group has not fully complied with the requirement of IAS 24 *Related Party Disclosures*.

In our opinion, except for the omission of the information described in the preceding paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG
2 March 2006

ZAO KPMG, a company registered under the Law of Russian Federation, is the Russian member firm of KPMG International, a Swiss cooperative.

	Note	2005 '000 EURO	2004 '000 EURO
Gross revenues		1,077,493	878,721
Excise taxes		(100,262)	(79,059)
Revenues		977,231	799,662
Cost of sales		(469,707)	(418,339)
Gross profit		507,524	381,323
Distribution expenses		(236,000)	(184,856)
Administrative expenses	4	(37,037)	(34,409)
Other operating expenses, net	5	(1,501)	(669)
Provision for restructuring expenses	21	(1,844)	(17,562)
Financial income	7	15,079	9,291
Financial expenses	7	(9,312)	(7,558)
Income from associates	11	945	902
Profit before tax		237,854	146,462
Income tax expense	8	(47,471)	(35,863)
Net profit for the year		190,383	110,599

Basic and diluted earnings per share	24	1.57 EURO	0.89 EURO

The consolidated financial statements for the year ended 31 December 2005 were approved on 2 March 2006 and signed by:

Anton Artemev	Alexander Zumberov
President	*Acting director on finance and economy*

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 40.

	Note	2005 '000 EURO	2004 '000 EURO
ASSETS			
Non-current assets			
Property, plant and equipment	9	567,853	518,416
Intangible assets	10	2,570	2,306
Investments in associates	11	8,383	8,666
Other investments	12	14,772	227
		593,578	529,615
Current assets			
Investments	12	131,582	27,639
Inventories	15	75,584	72,175
Income tax receivable		1,731	1,306
Trade and other receivables	16	52,502	64,914
Cash and cash equivalents	18	41,380	45,990
		302,779	212,024
Total assets		896,357	741,639
EQUITY AND LIABILITIES			
Equity	19		
Preference shares		2,536	2,536
Ordinary shares		20,081	20,081
Share premium		37,929	37,929
Treasury shares		(1,409)	(368)
Foreign currency translation reserve		44,882	(15,913)
Retained earnings		649,696	511,506
		753,715	555,771
Non-current liabilities			
Loans and borrowings	20	33,159	33,645
Deferred tax liabilities	14	29,091	27,959
		62,250	61,604
Current liabilities			
Loans and borrowings	20	2,964	45,069
Trade and other payables	22	75,527	63,308
Provisions	21	1,901	15,887
		80,392	124,264
Total equity and liabilities		896,357	741,639

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 40.

	2005 '000 EURO	2004 '000 EURO
OPERATING ACTIVITIES		
Net profit for the year	190,383	110,599
Adjustments for:		
Depreciation and amortisation	69,943	58,700
Loss on disposal of property, plant and equipment	1,767	730
Income from associates	(945)	(902)
Interest expense	3,428	2,547
Interest income	(9,431)	(2,974)
Income tax expense	47,471	35,863
Operating profit before changes in working capital and provisions	302,616	204,563
Decrease/(increase) in inventories	4,116	(19,791)
Decrease/(increase) in trade and other receivables	18,233	(603)
Increase in trade and other payables	3,860	12,108
(Decrease)/increase in provisions	(15,194)	16,771
Cash flows from operations before income taxes and interest paid	313,631	213,048
Income taxes paid	(49,466)	(27,619)
Interest paid	(3,986)	(2,482)
Cash flows from operating activities	260,179	182,947
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	673	252
Interest received	8,328	2,974
Dividends received	750	319
Purchase of investment securities	(14,080)	-
Loans to banks	(14,180)	-
Purchase of bank promissory notes	(82,649)	(23,588)
Acquisition of property, plant and equipment and intangible assets	(64,950)	(103,216)
Net change in loans made to third parties	(903)	115
Financial revenue received under finance leases	61	195
Principal payments received under finance leases	1,917	1,923
Cash flows used in investing activities	(165,033)	(121,026)
FINANCING ACTIVITIES		
Bank indebtedness	(40,800)	(17,969)
Proceeds from sale of treasury shares	2,143	2,004
Purchase of treasury shares	(3,184)	(1,293)
Proceeds from long-term borrowings	-	32,266
Repayment of long-term borrowings	(6,054)	(5,037)
Payment of finance lease liabilities	(2,991)	(2,944)
Dividends paid	(53,871)	(43,164)
Cash flows used in financing activities	(104,757)	(36,137)
Net increase/(decrease) in cash and cash equivalents	(4,610)	24,050
Cash and cash equivalents at beginning of year	45,990	21,940
Effect of exchange rate fluctuations on cash and cash equivalents	5,001	(1,734)
Cash and cash equivalents at end of year (note 18)	41,380	45,990

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 40.

’000 EURO	**Preference Shares**	**Ordinary Shares**	**Share premium**	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2004	2,536	20,081	37,929	(1,079)	-	445,772	505,239
Net profit for the year	-	-	-	-	-	110,599	110,599
Foreign exchange differences	-	-	-	-	(15,913)	-	(15,913)
Total recognised income and expenses							94,686
Treasury stock acquired	-	-	-	(1,293)	-	-	(1,293)
Treasury stock sold	-	-	-	2,004	-	-	2,004
Dividends	-	-	-	-	-	(44,865)	(44,865)
Balance at 31 December 2004	2,536	20,081	37,929	(368)	(15,913)	511,506	555,771
Net profit for the year	-	-	-	-	-	190,383	190,383
Foreign exchange differences	-	-	-	-	60,795	-	60,795
Total recognised income and expenses							251,178
Treasury stock acquired	-	-	-	(3,184)	-	-	(3,184)
Treasury stock sold	-	-	-	2,143	-	-	2,143
Dividends	-	-	-	-	-	(52,193)	(52,193)
Balance at 31 December 2005	2,536	20,081	37,929	(1,409)	44,882	649,696	753,715

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 40.

1 Background

(a) Organisation and operations

OAO Baltika Breweries (the “Company”) is an open joint stock company incorporated under Russian legislation and was registered on 21 July 1992, and through a controlling interest in ten companies and four branches (referred to collectively as the "Group"), produces and distributes beer and mineral water.

Baltic Beverages Holding AB owns and controls 87% of the Company’s ordinary shares and 18% of the Company’s preference shares. The remainder of the ordinary and preference shares are widely held.

As at 31 December 2005 the Group consisted of five production plants: Baltika-Saint-Petersburg, Baltika-Tula, Baltika-Rostov, Baltika-Samara and Baltika-Khabarovsk and ten subsidiaries: OOO Baltika-Moscow, OOO Leasing-Optimum, OOO Universalopttorg, OOO Terminal Podolsk, OOO Baltika-Ukraine, OsOO Baltika, Baltika S.R.L., Baltika-Almaty LLP, OOO Baltika-Bel and Baltika Deutschland GmbH.

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

Related party transactions are detailed in note 27.

(b) Russian business environment

The Russian Federation has 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 the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS 1 *First-time adoption of IFRSs*, except for the non-disclosure of the comparative information for the compensation of key management personnel required by IAS 24 *Related Party Disclosures* for the reasons stated in Note 27 (b). The Group previously prepared consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

The Group has used the exemption available in IFRS 1 relating to cumulative translation differences and, accordingly, the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and investments available-for-sale are stated at fair value; plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the functional currency of the majority of the Company’s subsidiaries, because it reflects the economic substance of the underling events and circumstances of the Group.

These consolidated financial statements are presented in euro (“EURO”) since management believes that this currency is more useful for the users of the consolidated financial statements. All financial information presented in EURO has been rounded to the nearest thousand.

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

(d) Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments made by management in preparing these consolidated financial statements are described in the following notes:

- Note 21 – provisions
- Note 26 – contingencies

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of the Group enterprises are translated into EURO at the exchange rate at the end of the year. Revenues and expenses are translated into EURO using rates approximating exchange rates at the dates of the transactions. The resulting exchange difference is recorded directly in equity in the foreign currency translation reserve.

(c) Property, plant and equipment

Owned assets

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of property, plant and equipment at the date of adopting IFRSs, 1 January 2004, was determined by reference to its fair value at that date ("deemed cost").

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 25 to 40 years
- Machinery and equipment 5 to 10 years
- Kegs 10 years.

(d) Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date the asset is available for use.

The estimated useful lives of other intangible assets are 2-10 years.

(e) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Except as outlined below, investments are accounted for as follows:

- Investments held-to-maturity, including acquired promissory notes, are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of investments available-for-sale is based on their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(f) Repurchase transactions

The Group enters into purchases of investments under agreements to resell identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are accounted for as held-to-maturity bank loans and included in investments in the balance sheet. The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(i) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and bank promissory notes with initial maturity less than 90 days. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of the Group's held-to-maturity investments, and loans and receivables, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Share capital

Preference share capital

Preference share capital, which is non-redeemable and non-cumulative, is classified as equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(m) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(n) Employee benefits

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operational costs are not provided for.

(p) Trade and other payables

Trade and other payables are stated at cost.

(q) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; initial recognition of assets or liabilities that affect neither

accounting nor taxable profit; and investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(s) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, dividend income, foreign exchange gains and losses, and impairment losses and gains and losses on the disposal of available-for-sale investments.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses.

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in associates, dividend income is credited to the investment in the associate. For investments in other companies, dividend income is recognised on the date that the Group becomes entitled to the dividend.

(t) Other expenses

Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations:

IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments.

Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*, which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

IFRIC 4 *Determining whether an Arrangement contains a Lease*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.

The Group is still analyzing the impact of these new pronouncements, which will be adopted when they become effective.

4 Administrative expenses

	2005	2004
	’000 EURO	’000 EURO
Wages and salaries	12,694	9,462
Depreciation	5,622	5,143
Payroll taxes	2,274	1,842
Facilities	2,834	3,219
Information technology and communications	2,381	1,678
Other payroll expenses	1,334	2,077
Charity	994	3,289
Other administrative expenses	8,904	7,699
	37,037	34,409

5 Other operating expenses, net

	2005	2004
	’000 EURO	’000 EURO
Loss on disposal of property, plant and equipment	(1,767)	(730)
Other income	266	61
	(1,501)	(669)

6 Total personnel costs

	2005	2004
	’000 EURO	’000 EURO
Wages and salaries (excluding redundancy costs for 2004, refer Note 21)	70,669	57,429
Payroll taxes	14,814	14,185
Other payroll expenses	6,905	6,689
	92,388	78,303

The average number of employees during the year ended 31 December 2005 was 7,782 (year ended 31 December 2004: 8,464).

7 Financial income and expenses

	2005 '000 EURO	2004 '000 EURO
Financial income		
Interest income	9,431	2,974
Foreign exchange gain	5,648	6,317
	15,079	9,291
Financial expenses		
Interest expense	3,428	2,547
Foreign exchange loss	5,884	5,011
	9,312	7,558

8 Income tax expense

	2005 '000 EURO	2004 '000 EURO
Current tax expense		
Current year	49,257	26,959
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(1,786)	8,904
	47,471	35,863

The Group's applicable tax rate is the corporate income tax rate of 24% (2004: 24%).

Reconciliation of effective tax rate:

	2005 '000 EURO	%	2004 '000 EURO	%
Profit before tax	237,854		146,462	
Income tax at applicable tax rate	57,085	24.0	35,151	24.0
Non-deductible items	8,136	3.4	11,237	7.7
Effect of local concessions granted to branches	(3,106)	(1.3)	(2,532)	(1.7)
Effects of concessions granted in respect of the local portion of the statutory tax rate	(16,074)	(6.8)	(6,686)	(4.6)
Other	1,430	0.6	(1,307)	(0.9)
	47,471	19.9	35,863	24.5

9 Property, plant and equipment

'000 EURO	Land and buildings	Machinery and equipment	Kegs	Construction in progress	Total
Cost/deemed cost					
At 1 January 2004	110,027	322,307	10,293	54,138	496,765
Additions	14,904	48,117	8,902	23,430	95,353
Disposals	(94)	(2,141)	(447)	-	(2,682)
Transfers	20,134	13,583	-	(33,717)	-
Foreign currency translation difference	(4,711)	(10,396)	(449)	(886)	(16,442)
At 31 December 2004	140,260	371,470	18,299	42,965	572,994
Additions	2,137	45,592	4,231	13,680	65,640
Disposals	(378)	(4,617)	(1,061)	-	(6,056)
Transfers	3,618	29,497	5	(33,120)	-
Foreign currency translation difference	15,043	41,710	2,052	3,949	62,754
At 31 December 2005	160,680	483,652	23,526	27,474	695,332
Depreciation and impairment losses					
At 1 January 2004	-	-	-	-	-
Depreciation charge	(3,807)	(52,108)	(2,037)	-	(57,952)
Disposals	3	1,489	336	-	1,828
Foreign currency translation difference	199	1,521	(174)	-	1,546
At 31 December 2004	(3,605)	(49,098)	(1,875)	-	(54,578)
Depreciation charge	(4,549)	(61,565)	(2,602)	-	(68,716)
Disposals	22	2,836	757	-	3,615
Foreign currency translation difference	(524)	(7,019)	(257)	-	(7,800)
At 31 December 2005	(8,656)	(114,846)	(3,977)	-	(127,479)
Net book value					
At 1 January 2004	110,027	322,307	10,293	54,138	496,765
At 31 December 2004	136,655	322,372	16,424	42,965	518,416
At 31 December 2005	152,024	368,806	19,549	27,474	567,853

(a) Determination of deemed cost

In 2004 management commissioned Lenstroymateriali to independently appraise property, plant and equipment as at 1 January 2004 in order to determine its deemed cost. The fair value of property, plant and equipment as at 1 January 2004, as determined by the independent appraisal, was used as the deemed cost of property, plant and equipment for the purposes of the opening IFRS balance sheet as at 1 January 2004.

The majority of the Company's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and an analysis of the Russian and international markets for similar property, plant and equipment. Various market information was collected from published information, catalogues, statistical data, etc. and industry experts and suppliers of property, plant and equipment were contacted in both the Russian Federation and abroad.

(b) Leased plant and machinery

The Group leased production equipment under a number of finance lease agreements that expire within the next year. At 31 December 2005 the net book value of leased plant and machinery was EURO 6,992 thousand (31 December 2004: EURO 7,155 thousand). The leased equipment secures the lease obligations.

Amortisation of assets held under finance leases is included in cost of sales.

10 Intangible assets

'000 EURO	**Intangible assets**
Cost	
At 1 January 2004	747
Additions	2,563
Disposals	(175)
Foreign currency translation difference	(145)
At 31 December 2004	2,990
Additions	1,246
Foreign currency translation difference	356
At 31 December 2005	4,592

Amortisation	
At 1 January 2004	-
Amortisation charge	(748)
Disposals	26
Foreign currency translation difference	38
At 31 December 2004	(684)
Amortisation charge	(1,227)
Foreign currency translation difference	(111)
At 31 December 2005	(2,022)
Net book value	
At 1 January 2004	747
At 31 December 2004	2,306
At 31 December 2005	2,570

The amortisation charge for the year is included in cost of sales and in distribution and administrative expenses.

11 Investments in associates

The Group has the following investments in associates:

	Country	Ownership/Voting
Malterie Soufflet Saint Petersburg ("Soufflet")	Russia	30%

This company produces malt. The Group's share of post-acquisition total recognised gains and losses in associates as of 31 December 2005 was EURO 6,601 thousand (31 December 2004: EURO 7,054 thousand).

12 Other investments

	2005 '000 EURO	2004 '000 EURO
Non-current		
Available-for-sale investments:		
Stated at cost	14,772	227

Current		
Investments held-to-maturity:		
Promissory notes	116,670	27,639
Originated loans and receivables:		
Loans to banks	14,912	-
	131,582	27,639

Available-for-sale investments stated at cost comprise unquoted equity securities in the brewery industry. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. However, the investments were acquired during the current year and management believes it unlikely that the fair value at the end of year would differ significantly from their carrying amount.

Investments held-to-maturity represent bank promissory notes purchased from a range of Russian based banks. The initial maturity period of these promissory notes is more than 90 days and they are recorded at amortised cost which approximates their fair value.

Originated loans and receivables represent purchases of financial instruments under agreements to resell them at future dates with one of the Russian banks (refer note 13).

13 Repurchase agreements

The Group purchases financial instruments under agreements to resell them at future dates. The seller commits to repurchase the same or similar instruments at an agreed future date. Repurchase agreements are commonly used as a tool for short-term financing. As at 31 December 2005 assets purchased subject to agreements to resell them were as follows:

	Carrying amount of receivables	**Fair value of assets held as collateral**	**Repurchase dates**	**Repurchase price**
	'000 EURO	**'000 EURO**		**'000 EURO**
Loans to banks	14,912	21,136	13 February 2006 11 July 2006	15,127

As at 31 December 2004 there were no assets purchased subject to agreements to resell them in the future.

Total interest income earned in connection with repurchase agreements for the year ended 31 December 2005 was EURO 351 thousand (2004: nil)

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

’000 EURO	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	411	2,586	(34,213)	(30,182)	(33,802)	(27,596)
Intangible assets	-	-	(74)	(133)	(74)	(133)
Investments	-	-	(493)	(363)	(493)	(363)
Inventories	547	22	(663)	(546)	(116)	(524)
Trade and other receivables	1,471	109	(244)	(59)	1,227	50
Trade and other payables	4,167	607	-	-	4,167	607
Net tax assets/(liabilities)	6,596	3,324	(35,687)	(31,283)	(29,091)	(27,959)

During the year ended 31 December 2005 EURO 1,786 thousand of the movement in the deferred tax liability was recognized in the income statement as a reversal of temporary differences and EURO 2,918 thousand, representing foreign exchange differences, was recognized in equity.

During the year ended 31 December 2004 EURO 8,904 thousand of the movement in the deferred tax liability was recognized in the income statement as an accrual of temporary differences and EURO 992 thousand, representing foreign exchange differences, was recognized in equity.

15 Inventories

	2005	2004
	’000 EURO	’000 EURO
Raw materials and consumables	59,269	52,227
Work in progress	6,406	6,750
Finished goods and goods for resale	12,852	13,198
	78,527	72,175
Provision for obsolete inventory	(2,943)	-
Inventory stated at net realisable value	75,584	72,175

16 Trade and other receivables

	2005 '000 EURO	2004 '000 EURO
Accounts receivable - trade	29,800	32,155
VAT receivable	10,257	19,601
Advances to suppliers	9,250	8,301
Other receivables	4,405	6,151
	53,712	66,208
Provision for doubtful debtors	(1,210)	(1,294)
	52,502	64,914

17 Finance lease receivables

The Group acts as a lessor of plant and equipment under finance leases. The leases typically run for a period of between 2 to 3 years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease using the effective yield method. During 2005 the Group leased out plant and equipment with a cost of EURO 4,051 thousand to Vena, a company which has the same parent company as the Group. This contract expired during 2005 and there are no finance lease receivables as at 31 December 2005.

	2005 '000 EURO	2004 '000 EURO
Gross investment in finance leases	-	1,820
Unearned finance income	-	(66)
Net investment in finance leases	-	1,754
Gross investment in finance leases, with remaining maturities		
Less than one year	-	1,820
Net investment in finance leases, with remaining maturities		
Less than one year	-	1,754

Income on finance leases is recognized in interest income.

18 Cash and cash equivalents

	2005 '000 EURO	2004 '000 EURO
Bank balances	20,237	19,045
Bank deposits and bank promissory notes	21,143	26,945
Cash and cash equivalents in the balance sheet and in the statement of cash flows	41,380	45,990

19 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	Ordinary shares 2005	Ordinary shares 2004	Preference shares 2005	Preference shares 2004
Authorised shares				
Par value	RUR 1	RUR 1	RUR 1	RUR 1
On issue - opening balance	117,158,530	117,158,530	13,545,150	13,545,150
On issue - closing balance	117,158,530	117,158,530	13,545,150	13,545,150

Preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to the nominal value of the shares multiplied by the interest rate of the Savings Bank of the Russian Federation, plus 10%. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation.

In the event of liquidation, preference shareholders first receive any declared unpaid dividends and the par value of the preference shares ("liquidation value"). Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(b) Treasury shares

At the balance sheet date the Group held none of its own ordinary shares and 60,508 of its own preference shares (31 December 2004: 28,295 ordinary and 4,308 preference shares).

(c) Dividends

In accordance with Russian legislation distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements, prepared in accordance with Russian Accounting Principles. At 31 December 2005 the EURO equivalent of the amount available for distribution for the Company, calculated based on the

statutory retained earnings in roubles of the Company at the year end rate, is EURO 594,754 thousand (2004: EURO 403,529 thousand).

The following table details the declared dividends for the years ended 31 December 2005 and 31 December 2004:

	RUR per share	EURO per share equivalent	‘000 EURO
31 December 2004			
Preference shares			
Dividends for 2003 (first instalment)	9.08	0.26	3,517
Dividends for 2003 (second instalment)	6.05	0.17	2,344
Total dividends declared on preference shares in 2004			5,861
Ordinary shares			
Dividends for 2003 (first instalment)	7.00	0.20	23,456
Dividends for 2003 (second instalment)	4.64	0.13	15,548
Total dividends declared on ordinary shares in 2004			39,004
31 December 2005			
Preference shares			
Dividends for 2004 (first instalment)	10.87	0.30	4,091
Dividends for 2004 (second instalment)	7.25	0.20	2,728
Total dividends declared on preference shares in 2005			6,819
Ordinary shares			
Dividends for 2004 (first instalment)	8.36	0.23	27,212
Dividends for 2004 (second instalment)	5.58	0.16	18,162
Total dividends declared on ordinary shares in 2005			45,374

The Shareholder’s meeting held on 30 March 2005 approved dividends amounting to EURO 52,193 thousand.

20 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	2005	2004
	'000 EURO	'000 EURO
Non-current		
Secured bank loans	-	1,448
Unsecured bank facility	3,906	3,971
Bonds issued	29,253	26,448
Finance lease liability	-	1,778
	33,159	33,645
Current		
Current portion of secured bank loans	-	2,976
Unsecured bank facility	651	39,168
Bonds issued	273	240
Current portion of finance lease liability	2,040	2,685
	2,964	45,069

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

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

The initial placement was conducted on 26 October 2004 in the form of a private subscription to ZAO Raiffeisenbank Austria. The coupon payments are to be made every 182 days at an effective semi-annual coupon rate of 8.75% per annum. The maturity period of the issue is three years.

Since 23 November 2004 the bonds have been trading through and outside of the Moscow Interbank Currency Exchange (MICEX).

The unsecured bank facility includes a loan from Calyon Corporate and Investment Bank (formerly Credit Lyonnais S.A.) that was raised in the form of the credit line facility. The terms of the credit facility are determined for each individual withdrawal. The credit line facility amount should not exceed USD 30,000 thousand.

As at 31 December 2005 the liability represents a loan received to finance the purchase of equipment for the production of malt for an amount not exceeding EURO 7,179 thousand to be repaid in USD. The loan is repayable in 10 semi-annual instalments, which commenced on 30 December 2004.

For more information about the Group's exposure to interest rate and foreign currency risk refer note 23.

(a) Finance lease liabilities

Finance lease liabilities are payable as follows:

	2005			2004		
’000 EURO	**Payments**	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	2,127	87	2,040	2,941	256	2,685
Between one and five years	-	-	-	1,845	67	1,778
	2,127	87	2,040	4,786	323	4,463

21 Provisions

Provision for restructuring	**2005**
	’000 EURO
Balance at 1 January 2005	15,887
Provisions raised during the year	1,844
Provisions used during year	(17,368)
Foreign currency translation difference	1,538
Balance at 31 December 2005	1,901

In order to streamline its operations, the Group adopted a long-term strategic plan that resulted in redundancies. In 2004 the Group recorded a provision of EURO 17,562 thousand in respect of these redundancies. During 2004 EURO 791 thousand of such costs were paid and charged against the provision, and EURO 884 thousand was recorded as foreign currency losses. During the year ended 31 December 2005 the Group used the remainder of the provision raised in 2004. During the year ended 31 December 2005 the Group raised a further provision of EURO 1,844 thousand in relation to the proposed restructuring of its distribution network as a result of the restructuring of the Group’s operations, this additional provision has not been used during the year ended 31 December 2005.

22 Trade and other payables

	2005	**2004**
Trade and other payables	**’000 EURO**	**’000 EURO**
Accounts payable - trade	34,698	28,927
Taxes payable	15,359	20,017
Accrued salaries, wages and benefits	19,273	8,190
Dividends payable	1,628	2,019
Payables to associates (Soufflet)	195	1,883
Other payables and accrued expenses	4,374	2,272
	75,527	63,308

23 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The Group requires collateral in respect of trade receivables above a set amount. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be subject to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The following table shows the period in which interest-bearing financial liabilities reprice.

2005	**Average interest rate**									
’000 EURO	**Contract**	**Effective**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**	**Total**
Liabilities										
Unsecured bank loans:										
USD	LIBOR+0.65%	3.92%	4,557	-	-	-	-	-	-	4,557
Unsecured bond issues:										
RUR*	8.75%	8.75%	273	-	29,253	-	-	-	-	29,526
Finance lease liabilities										
USD	LIBOR+5%	7.81%	2,040	-	-	-	-	-	-	2,040
			6,870	-	29,253	-	-	-	-	36,123

2004	**Average interest rate**									
’000 EURO	**Contract**	**Effective**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**	**Total**
Liabilities										
Secured bank loans:										
USD	LIBOR+2.5%	6.5%	4,424	-	-	-	-	-	-	4,424
Unsecured bank loans:										
USD	LIBOR+0.65%	2.23%	43,139	-	-	-	-	-	-	43,139
Unsecured bond issues:										
RUR*	8.75%	9.68%	240	-	-	26,448	-	-	-	26,688
Finance lease liabilities										
USD	LIBOR+5%	6.68%	4,463	-	-	-	-	-	-	4,463
			52,266	-	-	26,448	-	-	-	78,714

* Fixed rate debt does not reprice until contractual maturity.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than RUR. The currencies giving rise to this risk are primarily USD and EURO. Management does not fully hedge the Group's exposure to foreign currency risk. Monetary items denominated in a foreign currency are economically hedged using foreign currency forward contracts.

The Group does not use hedge accounting for its foreign currency forward contracts. All gains and losses arising in connection with foreign currency contracts are recognised in the income statement.

As at 31 December 2005 the amount of outstanding forward contracts for the purchase of EURO for USD amounted to USD 1,965 thousand (31 December 2004: USD 1,450 thousand) and for the purchase of EURO for RUR amounted to RUR 53,388 thousand (31 December 2004: nil). As at 31 December 2005 there were no outstanding forward contracts for purchase of USD for RUR (31 December 2004: RUR 155,123 thousand).

(d) Fair values

The fair value of investments is discussed in note 12.

In other cases fair value has been determined as at the balance sheet date by discounting the estimated future cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair values of its financial assets and liabilities approximate their carrying amounts.

In assessing fair values, management used the following major methods and assumptions:

Quoted securities. Quoted market prices at the balance sheet date without any deduction for transaction costs.

Loans and borrowings. Expected future principal and interest cash flows were not discounted as market rates are not materially different from the contractual interest rates.

Trade and other receivables and payables. For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material.

24 Earnings per share

Earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighed average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

Weighted average number of ordinary shares

Number of shares unless otherwise stated	**2005**	**2004**
Issued shares at 1 January	117,158,530	117,158,530
Effect of own shares held	(22,100)	(57,231)
Weighed average number of shares at 31 December	117,136,430	117,101,299

Net profit attributable to ordinary shares

	2005	**2004**
	’000 EURO	**’000 EURO**
Net profit for the year	190,383	110,599
Dividends declared during the year on preference shares	(6,819)	(5,861)
Net profit attributable to ordinary shares	183,564	104,738

25 Commitments

As at 31 December 2005 the Group had the following major capital commitments (31 December 2004: EURO 5,431 thousand):

Project	**’000 EURO**
St. Petersburg plant	13,303
Baltika-Rostov plant	2,357
Baltika-Tula plant	3,031
Baltika-Samara plant	2,357
Total	21,048

26 Contingencies

Guarantees

As at 31 December 2005 the Group has issued guarantees aggregating EURO 393 thousand relating to borrowings by its affiliate company, Soufflet. The Group monitors the financial performance of this affiliate. It is expected that the Group will not be required to make payments under these guarantees and no amount has been provided in connection with the Group's obligation under these guarantee arrangements.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2005 the tax authorities performed an on-site tax audit which covered all major taxes for the 4th quarter of 2003 and the first 9 months of 2004. The total amount of additional taxes assessed by the tax authorities, based on the results of the tax audit, was approximately EURO 11,789 thousand plus penalties equal to 20% of the additional taxes assessed.

A provision of EURO 1,826 thousand has been made in these consolidated financial statements because management believe that it is likely that an outflow of funds will be required to settle certain aspects of the tax assessment.

The major part of the rest of the tax assessment, amounting to EURO 9,963 thousand plus penalties, relates to finance lease costs. According to the tax authorities, the portion of lease costs, which relates to the purchase of the leased fixed assets, is deductible only after the lessee (the Group) has exercised its right to purchase the assets from the lessor. Correspondingly, the deduction of the input VAT related to this portion of lease costs is also only available after this date.

The Group's management believes that it will be successful in defending its position in the Arbitration Court and that it is not probable that an outflow of funds will be required to settle this aspect of the tax assessment.

27 Related party disclosures

(a) Control relationships

The Company's parent company is Baltic Beverages Holding AB (refer note 1(a) for the interest controlled). Baltic Beverages Holding AB is owned by Pripps Ringnes (50%) and Hartwall (50%). The ultimate parent company of Pripps Ringnes is Carlsberg Breweries A/S. The ultimate parent company of Hartwall is Scottish & Newcastle plc. In addition, the Company has a controlling relationship over all of its subsidiaries (refer note 28 for a list of significant subsidiaries).

(b) Management remuneration

Key management personnel received EURO 4,795 thousand as salaries and bonuses during the year ended 31 December 2005, which is included in personnel costs (refer Note 6). Due to certain

confidentiality agreements the Group is precluded from providing comparative information for the year ended 31 December 2004.

(c) Transactions with related parties

The Group's related party transactions are disclosed below.

Sales to related parties for the year were as follows:

	2005	2004
	'000 EURO	'000 EURO
Sales of goods:		
Fellow subsidiaries	15,622	-
Services provided:		
Associate	1,790	1,755
	17,412	1,755

Purchases of raw materials and services from related parties for the year were as follows:

	2005	2004
	'000 EURO	'000 EURO
Purchases of raw materials:		
Fellow subsidiaries	2,769	5,238
Associate	13,431	21,786
Services purchased:		
Associate	768	-
Royalties:		
Fellow subsidiaries	839	759
	17,807	27,783

Trade and other receivables due by related parties at the end of the year were as follows:

	2005	2004
	'000 EURO	'000 EURO
Receivables:		
Fellow subsidiaries	3,399	-
Finance leases:		
Fellow subsidiaries	-	1,754
	3,399	1,754

Trade and other payables due to related parties at the end of the year were as follows:

	2005	2004
	’000 EURO	’000 EURO
Trade payables:		
Fellow subsidiaries	878	672
Associate	195	1,883
Royalty payable:		
Fellow subsidiaries	98	106
	1,171	2,661

All outstanding balances with related parties are to be settled in cash within one or two months of the balance sheet date. None of the balances are secured.

During the year ended 31 December 2005 the Group purchased malt from Soufflet, an associate of the Group, amounting to EURO 13,431 thousand, (excluding VAT) or 14% of the total value of malt purchases, and 51,334 tons, or 13% of the total volume of malt purchases. During the year ended 31 December 2004 the Group's purchases from Soufflet amounted to EURO 21,786 thousand (excluding VAT) or 18% of the total value of malt purchases, and 77,351 tons, or 20% of the total volume of malt purchases.

The liability to Soufflet for malt purchases amounted to EURO 195 thousand and EURO 1,883 thousand as at 31 December 2005 and 2004, respectively.

During the year ended 31 December 2005 the Group purchased malt from Danish Malting Group, a company affiliated to Carlsberg, amounting to EURO 2,769 thousand (excluding VAT) or 3% of the total value of malt purchases, and 11,217 tons, or 3% of the total volume of malt purchases. During the year ended 31 December 2004 the Group purchased malt from Danish Malting Group, amounting to EURO 5,238 thousand (excluding VAT) or 4% of the total value of malt purchases, and 17,536 tons, or 5% of the total volume of malt purchases. The liability to Danish Malting Group for malt purchased was EURO 672 thousand as at 31 December 2004 and nil as at 31 December 2005.

During the year ended 31 December 2005 the Group leased out certain plant and equipment to Vena for an amount of EURO 4,110 thousand. This contract expired during 2005.

The Group paid royalties of EURO 839 thousand and EURO 759 thousand to Carlsberg for 2005 and 2004, respectively. The liability to Carlsberg for royalties amounted to EURO 98 thousand and EURO 106 thousand as at 31 December 2005 and 2004, respectively.

During the year ended 31 December 2005 the Group sold beer to fellow subsidiaries for EURO 15,622 thousand or 2% of the total value of sales and 386,510 hectolitres or 2% of the total volume of sales. Accounts receivable related to sale transactions with fellow subsidiaries amounted to EURO 3,399 thousand as at 31 December 2005 (nil as at 31 December 2004).

During 2005 and 2004 the Group provided various services to its associate Soufflet and received various services from Soufflet for insignificant amounts.

28 Significant subsidiaries

As at 31 December 2005 the Company's subsidiary companies, all of which are included in the consolidation, comprise the following:

Name	Nature of business	Country of incorporation	Ownership/ voting	Ownership/ voting
			2005	**2004**
OOO Baltika-Moscow	Distribution of Baltika beer	Russia	100%	100%
OOO Leasing-Optimum	Leasing	Russia	100%	100%
OOO Batika-Ukraine	Distribution of Baltika beer	Ukraine	100%	100%
Baltika S.R.L.	Distribution of Baltika beer	Moldova	100%	100%
Baltika-Almaty LLP	Distribution of Baltika beer	Kazakhstan	100%	100%
OsOO Baltika	Distribution of Baltika beer	Kirgizia	100%	100%
OOO Baltika-Bel	Distribution of Baltika beer	Byelorussia	100%	-
OOO Terminal Podolsk	Warehouse	Russia	100%	100%
OOO Universalopttorg	Warehouse	Russia	100%	100%
Baltika Deutschland GmbH	Distribution of Baltika beer	Germany	100%	100%

On 7 April 2005 the Group established a new subsidiary, OOO Baltika-Bel, with an authorized share capital equivalent to EURO 1,742.

29 Explanation of transition to IFRSs

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2005, the comparative information presented in these consolidated financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, its former basis of accounting.

The presentation currency used for the US GAAP financial statements was the USD. For convenience purposes in order to demonstrate the reconciliation of equity from US GAAP to IFRS,

the USD amounts were translated into EURO using the year-end EURO/USD rates for balance sheet captions. As at 31 December 2004 and 31 December 2003 the rates were 0.7339 and 0.7999, respectively. For income statement captions, the USD amounts were translated into EURO using the average EURO/USD rate for the year ended 31 December 2004 of 0.8045.

An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables. There was no impact on cash flows.

Reconciliation of equity

		1 January 2004			**31 December 2004**		
		Previous GAAP	**Transition to IFRS**	**IFRS**	**Previous GAAP**	**Transition to IFRS**	**IFRS**
	Note	**'000 EURO**	**'000 EURO**	**'000 EURO**	**'000 EURO**	**'000 EURO**	**'000 EURO**
ASSETS							
Non-current assets							
Property, plant and equipment		526,187	(29,422)	496,765	541,747	(23,331)	518,416
Intangible assets		766	(19)	747	2,306	-	2,306
Investments in associates		8,610	-	8,610	8,666	-	8,666
Other investments		233	-	233	227	-	227
		535,796	(29,441)	506,355	552,946	(23,331)	529,615
Current assets							
Other investments		5,435	-	5,435	27,639	-	27,639
Inventories		54,858	-	54,858	72,175	-	72,175
Income tax receivable		700	-	700	1,306	-	1,306
Trade and other receivables		68,873	-	68,873	64,914	-	64,914
Cash and cash equivalents		21,940	-	21,940	45,990	-	45,990
		151,806	-	151,806	212,024	-	212,024
Total assets		687,602	(29,441)	658,161	764,970	(23,331)	741,639

		1 January 2004			31 December 2004		
		Previous GAAP	**Transition to IFRS**	**IFRS**	**Previous GAAP**	**Transition to IFRS**	**IFRS**
	Note	**’000 EURO**	**’000 EURO**	**’000 EURO**	**’000 EURO**	**’000 EURO**	**’000 EURO**
EQUITY AND LIABILITIES							
Equity							
Preference shares		2,372	164	2,536	2,176	360	2,536
Ordinary shares		19,095	986	20,081	17,520	2,561	20,081
Share premium		32,050	5,879	37,929	29,406	8,523	37,929
Treasury shares		(1,079)	-	(1,079)	(368)	-	(368)
Foreign currency translation reserve		24,661	(24,661)	-	54,861	(70,774)	(15,913)
Retained earnings		451,339	(5,567)	445,772	470,554	40,952	511,506
		528,438	(23,199)	505,239	574,149	(18,378)	555,771
Non-current liabilities							
Loans and borrowings		11,525	-	11,525	33,645	-	33,645
Deferred tax liabilities		26,289	(6,242)	20,047	32,912	(4,953)	27,959
		37,814	(6,242)	31,572	66,557	(4,953)	61,604
Current liabilities							
Loans and borrowings		64,089	-	64,089	45,069	-	45,069
Trade and other payables		57,261	-	57,261	63,308	-	63,308
Provisions		-	-	-	15,887	-	15,887
		121,350	-	121,350	124,264	-	124,264
Total equity and liabilities		687,602	(29,441)	658,161	764,970	(23,331)	741,639

Reconciliation of net profit for 2004

		Year ended 31 December 2004		
		Previous GAAP	Transition to IFRS	IFRS
	Note	'000 EURO	'000 EURO	'000 EURO
Gross revenues		878,721	-	878,721
Excise Taxes		(79,059)	-	(79,059)
Revenues		799,662	-	799,662
Cost of sales		(441,796)	23,457	(418,339)
Gross profit		357,866	23,457	381,323
Distribution expenses		(172,255)	(12,601)	(184,856)
Administrative expenses		(29,266)	(5,143)	(34,409)
Other operating expenses, net		(1,210)	541	(669)
Profit from operations		155,135	6,254	161,389
Provision for restructuring expenses		(17,562)	-	(17,562)
Financial income		9,291	-	9,291
Financial expenses		(6,942)	(616)	(7,558)
Income from associates		902	-	902
Profit before tax		140,824	5,638	146,462
Income tax expense		(34,673)	(1,190)	(35,863)
Net profit for the year		106,151	4,448	110,599

In 2004 management commissioned Lenstroymateriali to independently appraise property, plant and equipment as at 1 January 2004 in order to determine its deemed cost. The fair value of property, plant and equipment as at 1 January 2004 as determined by the independent appraisal was used to record property, plant and equipment as at 1 January 2004.

The effect on the financial statements as compared to previous GAAP was to decrease property, plant and equipment by EURO 29,422 thousand at 31 December 2003 and EURO 23,331 thousand at 31 December 2004.

Due to the fact that property, plant and equipment has been recorded at deemed cost, which was less than the cost of property, plant and equipment under previous GAAP, there was a decrease in depreciation and other operating expenses for the year ended 31 December 2004 EURO 5,713 thousand and EURO 541 thousand, respectively, or EURO 6,254 thousand in total, as compared to previous GAAP.

As a result of the above adjustments, deferred tax liabilities were reduced by EURO 6,242 thousand at 31 December 2003 and EURO 4,953 thousand at 31 December 2004, respectively.

Due to the fact that the functional currency of the Group is the RUR, the Group has performed a recalculation of the amounts of share capital and share premium by applying the indexes to the

movements in these accounts prior to 1 January 2003. The effect of the recalculation was an increase in share capital of EURO 1,150 thousand at 31 December 2003 and EURO 2,921 thousand at 31 December 2004; and an increase in share premium of EURO 5,879 thousand and EURO 8,523 thousand, respectively.