OAO BALTIKA BREWERY AND SUBSIDIARIES

Preliminary Consolidated Financial Statements

For the six months ended 30 June 2005

Contents

		Six months ended 30 June	
		2005	**2004**
	Note	**'000 EURO**	**'000 EURO**
Gross revenues		496,602	398,864
Excise Taxes		(46,960)	(35,109)
Revenues		449,642	363,755
Cost of sales		(219,084)	(198,187)
Gross profit		**230,558**	**165,568**
Distribution expenses		(112,809)	(80,215)
Administrative expenses	4	(16,659)	(17,175)
Other operating expenses, net	5	(268)	(238)
Profit from operations		100,822	67,940
Financial income	7	6,543	3,955
Financial expenses	7	(6,012)	(3,612)
Income from associates	11	760	732
Profit before tax		102,113	69,015
Income tax expense	8	(20,704)	(13,277)
Net profit for the period		**81,409**	**55,738**

Anton Artemev

President

Alexander Zumberov

Acting Director on finance and economy

The preliminary consolidated income statement is to be read in conjunction with the notes to and forming part of the preliminary consolidated financial statements set out on pages 7 to 34.

	Note	30 June 2005 '000 EURO	31 December 2004 '000 EURO
ASSETS			
Non-current assets			
Property, plant and equipment	9	566,220	518,416
Intangible assets	10	2,632	2,306
Investments in associates	11	8,925	8,666
Other investments	12	14,627	227
		592,404	529,615
Current assets			
Other investments	12	20,533	27,639
Inventories	14	76,268	72,175
Income tax receivable		397	1,306
Trade and other receivables	15	69,593	64,914
Cash and cash equivalents	17	75,743	45,990
		242,534	212,024
Total assets		834,938	741,639
EQUITY AND LIABILITIES			
Equity	18		
Preference shares		2,536	2,536
Ordinary shares		20,081	20,081
Share premium		37,929	37,929
Treasury shares		(235)	(368)
Foreign currency translation reserve		37,653	(15,384)
Retained earnings		540,193	510,977
		638,157	555,771
Non-current liabilities			
Loans and borrowings	19	33,310	33,665
Deferred tax liabilities	13	29,960	27,959
		63,270	61,624
Current liabilities			
Loans and borrowings	19	9,574	45,049
Income tax payable		4,381	-
Trade and other payables	21	119,556	63,308
Provisions	20	-	15,887
		133,511	124,244
Total equity and liabilities		834,938	741,639

The preliminary consolidated balance sheet is to be read in conjunction with the notes to and forming part of the preliminary consolidated financial statements set out on pages 7 to 34.

	Six months ended 30 June	
	2005	2004
	’000 EURO	’000 EURO
OPERATING ACTIVITIES		
Net profit for the year	81,409	55,738
Adjustments for:		
Depreciation and amortisation	32,883	28,846
Loss on disposal of property, plant and equipment	428	262
Income from associates	(760)	(732)
Interest expense	1,987	1,233
Interest income	(2,893)	(919)
Income tax expense	20,704	13,277
Operating profit before changes in working capital and provisions	133,758	97,705
(Increase)/decrease in inventories	2,661	(17,518)
(Increase)/decrease in trade and other receivables	2,883	(18,936)
Increase in trade and other payables	20,827	33,387
Decrease in provisions	(16,670)	-
Cash flows from operations before income taxes and interest paid	143,459	94,638
Income taxes paid	(15,881)	(10,693)
Interest paid	(2,471)	(1,215)
Cash flows from operating activities	125,107	82,730
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	293	102
Interest received	2,889	919
Purchase of investment securities	(13,776)	-
Purchase of bank promissory notes	9,328	5,661
Acquisition of property, plant and equipment and intangible assets	(28,200)	(49,396)
Net change in loans made to third parties	(1,344)	117
Financial revenue received under leases	45	97
Principal payments received under leases	927	824
Cash flows to investing activities	(29,838)	(41,676)
FINANCING ACTIVITIES		
Bank indebtedness	(35,149)	(15,799)
Proceeds from sale of treasury shares	160	415
Proceeds from long-term borrowings	-	4,400
Repayment of long-term borrowings	(5,255)	(1,628)
Payment of finance lease liabilities	(1,420)	(1,830)
Dividends paid	(29,523)	(19,054)
Cash flows to financing activities	(71,187)	(33,496)
Translation differences	5,671	1,210
Net increase/(decrease) in cash and cash equivalents	29,753	8,768
Cash and cash equivalents at beginning of period	45,990	21,940
Cash and cash equivalents at end of period (note 17)	75,743	30,708

The preliminary consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the preliminary consolidated financial statements set out on pages 7 to 34.

’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)	1,813	443,959	505,239
Net profit for the year						110,599	110,599
Foreign exchange differences					(17,197)		(17,197)
Net treasury stock acquired				711			711
Dividends to shareholders						(43,581)	(43,581)
Balance at 31 December 2004	2,536	20,081	37,929	(368)	(15,384)	510,977	555,771
Net profit for the period						81,409	81,409
Foreign exchange differences					53,037		53,037
Net treasury stock acquired				133			133
Dividends to shareholders						(52,193)	(52,193)
Balance at 30 June 2005	2,536	20,081	37,929	(235)	37,653	540,193	638,157

The preliminary consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the preliminary consolidated financial statements set out on pages 7 to 34.

1 Background

(a) Organisation and operations

OAO Baltika Brewery (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 nine companies and four branches (referred to collectively as the "Group"), produces and distributes beer and mineral water.

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

The Company's preference shares are 17% owned and controlled by Baltic Beverages Holding AB. The remainder of the preference shares are widely held.

As at the reporting period end the Group consists 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 25.

(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 accompanying preliminary 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 preliminary consolidated financial statements have been prepared following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRSs) with the exception of IAS 33 (*Earnings per Share*), as part of the Group’s preparation for the future adoption of IFRSs. When the Group prepares its first complete set of preliminary consolidated IFRS financial statements, as of and for the year ended 31 December 2005, they will be prepared in accordance with the Standards and Interpretations in effect as of that date.

Accordingly these preliminary consolidated IFRS financial statements, have been prepared by management using its best knowledge of the Standards and Interpretations expected to be in effect at 31 December 2005, and the accounting policies expected to be applied in the Group’s first complete set of consolidated IFRS financial statements with the exception mentioned in the previous paragraph. Any changes to such Standards, Interpretations or accounting policies may require adjustment to these preliminary consolidated IFRS financial statements.

(b) Basis of measurement

The preliminary 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; items of property, plant and equipment aquired before 1 January 2004 were appraised to determine there deemed cost as part of the adoption of IFRSs; and the carrying amounts of share capital and share premium 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 of 1 January 2003.

(c) Functional and presentation currency

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

These preliminary consolidated financial statements are presented in euro (“EURO”) since management believes that this currency is more useful for the users of the 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) Going concern

The accompanying preliminary consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group’s assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (see note 1(b)). The accompanying preliminary consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(e) 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 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 IFRS financial statements are described in the following notes:

- Note 24 – contingencies.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) 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 preliminary consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The preliminary 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.

(iii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the preliminary 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 the respective functional currency of each enterprise in the Group 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 the functional currency 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 the functional currency 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 the functional currency 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.

Where necessary, the assets and liabilities of 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

(i) 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.

(ii) 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.

(iii) 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 only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) 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 50 years
- Machinery and equipment 6 to 10 years
- Kegs 10 years.

(d) Intangible assets

(i) Other intangible assets

Other 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.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised 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 in the income statement.

The fair value of investments available-for-sale is 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) Derivatives

Derivatives are stated at fair value, with any resultant gain or loss recognised in the income statement.

(g) 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.

(h) Trade and other receivables

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

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. 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.

(j) 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.

(i) 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.

(ii) 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.

An impairment loss in respect of goodwill is not reversed.

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.

(k) Share capital

(i) Preference share capital

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

(ii) 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.

(iii) Dividends

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

(l) 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.

(m) Employee benefits

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

(n) 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.

(o) Trade and other payables

Trade and other payables are stated at cost.

(p) 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: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent 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.

(q) 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.

(r) 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 gains and losses on the revaluation and disposal of investments available-for-sale.

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

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 dividend is declared.

(s) Other expenses

(i) 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.

(ii) 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.

4 Administrative expenses

	Six months ended 30 June	
	2005	**2004**
	’000 EURO	**’000 EURO**
Wages and salaries	7,392	5,837
Depreciation	2,579	2,616
Payroll taxes	1,365	1,284
Facilities	1,353	1,261
IT and Communications	842	801
Other payroll expenses	758	1,171
Charity	469	876
Other administrative expenses	1,901	3,329
	16,659	17,175

5 Other operating expenses, net

	Six months ended 30 June	
	2005	**2004**
	’000 EURO	**’000 EURO**
Loss on disposal of property, plant and equipment	(428)	(262)
Other income/(expenses)	160	24
	(268)	(238)

6 Total personnel costs

	Six months ended 30 June	
	2005	**2004**
	’000 EURO	**’000 EURO**
Wages and salaries	35,860	29,824
Payroll taxes	7,909	8,524
Other payroll expenses	3,126	3,232
	46,895	41,580

The average number of employees during the six months ended 30 June 2005 was 7,824 (six months ended 30 June 2004: 8,753).

7 Financial income and expenses

	Six months ended 30 June	
	2005	**2004**
	'000 EURO	**'000 EURO**
Financial income		
Interest income	2,893	919
Foreign exchange gain	3,650	3,036
	6,543	3,955
Financial expenses		
Interest expense	1,987	1,233
Other financial expenses	184	-
Foreign exchange loss	3,841	2,379
	6,012	3,612

8 Income tax expense

	Six months ended 30 June	
	2005	**2004**
	'000 EURO	**'000 EURO**
Current tax expense		
Current year	21,337	7,137
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	(633)	6,140
	20,704	13,277

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

Reconciliation of effective tax rate:

	Six months ended 30 June			
	2005		2004	
	’000 EURO	%	’000 EURO	%
Profit before tax	102,113		69,015	
Income tax at applicable tax rate	24,507	24.0	16,564	24.0
Change in tax rate	(2,631)	(2.6)	(435)	(0.6)
Non-deductible items	3,062	3.0	2,424	3.5
Effect of local concessions granted to branches	(1,238)	(1.2)	(650)	(1.0)
Effects of concessions granted in respect of the local portion of the statutory tax rate	(3,066)	(3.0)	(5,629)	(8.2)
Other	70	0.1	1,003	1.5
	20,704	20.3	13,277	19.2

9 Property, plant and equipment

’000 EURO	Land and buildings	Machinery and equipment	Kegs	Construction in progress	Total
Deemed cost					
At 1 January 2005	140,260	371,470	18,299	42,965	572,994
Additions	537	20,594	3,750	6,781	31,662
Disposals	(156)	(1,237)	(680)	-	(2,073)
Reclassification	2,262	22,085	5	(24,352)	-
Foreign currency translation difference	13,467	37,321	1,889	3,320	55,997
At 30 June 2005	156,370	450,233	23,263	28,714	658,580
Depreciation					
At 1 January 2005	(3,605)	(49,098)	(1,875)	-	(54,578)
Depreciation charge	(2,175)	(29,154)	(1,227)	-	(32,556)
Disposals	19	855	477	-	1,351
Foreign currency translation difference	(435)	(5,930)	(212)	-	(6,577)
At 30 June 2005	(6,196)	(83,327)	(2,837)	-	(92,360)
Net book value					
At 1 January 2005	136,655	322,372	16,424	42,965	518,416
At 30 June 2005	150,174	366,906	20,426	28,714	566,220

(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 independent appraisal was used as the deemed cost of property, plant and equipment for the purposes of the beginning IFRS balance sheet as at 1 January 2004.

(b) Security

As at 30 June 2005 property, plant and equipment includes production equipment amounting to EURO 26,339 thousand (at net book value), that has been pledged under a long term loan agreement with the EBRD. (31 December 2004: EURO 27,126 thousand) (refer note 19).

(c) Leased plant and machinery

The Group leased production equipment under a number of finance lease agreements that expire within the next two years. At 30 June 2005 the net book value of leased plant and machinery was EURO 7,380 thousand (31 December 2004: EURO 7,155 thousand). The leased equipment secures lease obligations.

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

10 Intangible assets

’000 EURO	**Other intangible assets**
Cost	
At 1 January 2005	2,991
Additions	429
Foreign currency translation difference	304
At 30 June 2005	3,724
Amortisation and impairment losses	
At 1 January 2005	(685)
Amortisation charge	(327)
Foreign currency translation difference	(80)
At 30 June 2005	(1,092)
Net book value	
At 1 January 2005	2,306
At 30 June 2005	2,632

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 Petersbourg	Russia	30%

This company produces malt. The Group's share of post-acquisition total recognised gains and losses in associates as of 30 June 2005 was EURO 7,160 thousand (31 December 2004: EURO 7,054 thousand).

12 Other investments

	30 June 2005 '000 EURO	31 December 2004 '000 EURO
Non-current		
Available-for-sale investments:		
Stated at cost	14,627	227
Current		
Investments held-to-maturity:		
Promissory notes	20,533	27,639

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.

13 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	
	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004
Property, plant and equipment	610	2,585	(33,464)	(30,182)	(32,854)	(27,597)
Intangible assets	-	-	(129)	(133)	(129)	(133)
Investments	-	-	(545)	(363)	(545)	(363)
Inventories	-	22	(1,158)	(546)	(1,158)	(524)
Trade and other receivables	2,675	109	(78)	(59)	2,597	50
Trade and other payables	2,129	608	-	-	2,129	608
Net tax assets/(liabilities)	5,414	3,324	(35,374)	(31,283)	(29,960)	(27,959)

14 Inventories

	30 June 2005 '000 EURO	31 December 2004 '000 EURO
Raw materials and consumables	47,257	52,227
Work in progress	7,859	6,750
Finished goods and goods for resale	21,152	13,198
Inventory stated at net realisable value	76,268	72,175

15 Trade and other receivables

	30 June 2005 '000 EURO	31 December 2004 '000 EURO
Accounts receivable, trade	35,070	32,155
VAT receivable	15,468	19,601
Advances to suppliers	11,618	8,301
Other receivables	8,378	6,151
	70,534	66,208
Provision for doubtful debtors	(941)	(1,294)
	69,593	64,914

16 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 based on market related interest rates. During 2005 the Group leased out plant and equipment with a cost of EURO 4,051 thousand to Vena, a company with which the Group has a Parent in common. The contract expires during 2005. Other receivables include the following finance lease receivables:

	30 June 2005	31 December 2004
	'000 EURO	'000 EURO
Gross investment in finance leases	1,012	1,820
Unearned finance income	(20)	(66)
Net investment in finance leases	992	1,754
Gross investment in finance leases, with remaining maturities		
Less than one year	1,012	1,820
Net investment in finance leases, with remaining maturities		
Less than one year	992	1,754

Income on finance leases is recognized in interest income.

17 Cash and cash equivalents

	30 June 2005 '000 EURO	31 December 2004 '000 EURO
Bank balances	62,841	19,045
Bank deposits	12,902	26,945
Cash and cash equivalents in the balance sheet and in the statement of cash flows	75,743	45,990

18 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	Ordinary shares	Ordinary shares	Preference shares	Preference shares
	30 June 2005	31 December 2004	30 June 2005	31 December 2004
Authorised shares				
Par value	RUR 1	RUR 1	RUR 1	RUR 1
On issue at beginning of year	117,158,530	117,158,530	13,545,150	13,545,150
On issue at end of year, fully paid	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 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 11,573 of its own ordinary shares and 2,758 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 30 June 2005 the euro equivalent of the amount available for distribution for the Parent company and its subsidiaries, calculated based on statutory retained earnings in roubles of the entities constituting the Group at the period end rate, is EURO 481,868 thousand (2004: EURO 403,529 thousand).

The following table demonstrates declared dividends for the periods ended 30 June 2005 and 31 December 2004:

	RUR per share	EURO per share equivalent	Thousands EURO
31 December 2004			
Preference shares			
Dividends for 2003 (first instalment)	9.08	0.26	3,417
Dividends for 2003 (second instalment)	6.05	0.17	2,277
Total dividends declared on preference shares in 2004			5,694
Ordinary shares			
Dividends for 2003 (first instalment)	7.00	0.20	22,784
Dividends for 2003 (second instalment)	4.64	0.13	15,103
Total dividends declared on ordinary shares in 2004			37,887
30 June 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 equivalent to EURO 52,193 thousand.

19 Loans and borrowings

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

	30 June 2005 '000 EURO	31 December 2004 '000 EURO
Non-current		
Borrowings under financing agreement with the EBRD	-	1,468
Borrowings under financing agreement with Calyon Corporate and Investment Bank	3,852	3,971
Bonds issued	28,966	26,448
Finance lease obligation	492	1,778
	33,310	33,665
Current		
Current portion of secured bank loans	1,285	4,091
Unsecured bank facility	4,994	38,273
Bonds issued	256	-
Current portion of finance lease obligation	3,039	2,685
	9,574	45,049

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

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 are trading through and outside of the Moscow Interbank Currency Exchange (MICEX).

The EBRD loan represents a revolving credit facility with a loan amount not exceeding $14,000 thousand. Under the terms of the EBRD borrowing agreement the Group is required to follow the specified levels of cash flow in relation to the amounts borrowed in order to be able to declare or pay dividends, distribute any of its share capital, purchase, redeem or acquire any of its shares, or make any payment of principal on any subordinated debt. As at 30 June 2005 the loan was fully repaid by the Group.

In July 2003 the Group signed a financing agreement with Calyon Corporate and Investment Bank (formerly Credit Lyonnais S.A.) under which the Group was granted a credit line. The terms of the credit facility are determined for each individual withdrawal. The credit line should not exceed 30,000 thousand US dollars ("USD").

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

For more information about the Group's exposure to interest rate and foreign currency risk refer note 22.

(a) Terms and debt repayment schedule

'000 EURO	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
USD – variable at LIBOR+1.4%	5,137	1,285	3,852	-
Bond issues:				
RUR – fixed at 8.75%	29,222	256	28,966	-
Finance lease:				
USD – variable at LIBOR+5%	3,531	3,039	492	-
Unsecured bank loans:				
USD – variable at LIBOR+ 1.4 %	4,994	4,994	-	-
	42,884	9,574	33,310 -	-

(b) Finance lease liabilities

Finance lease liabilities are payable as follows:

	30 June 2005			31 December 2004		
'000 EURO	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	3,241	202	3,039	2,941	256	2,685
Between one and five years	503	11	492	1,845	67	1,778
	3,744	213	3,531	4,786	323	4,463

20 Provisions

Provision for restructuring	**30 June 2005**
	'000 EURO
Balance at 1 January 2005	15,887
Provisions used during period	(16,797)
Translation difference	910
Balance at 30 June 2005	-

In order to rationalise its operations the Group has adopted a long-term strategic plan that resulted in redundancies and associated costs. In 2004 the Group recorded EURO 17,562 thousand in respect of these redundancies and associated costs. During 2004 EURO 791 thousand of such costs were paid and charged against the accrued liability, and EURO 884 thousand recorded as foreign currency loss. The provision has been fully utilised during six months ended 30 June 2005.

21 Trade and other payables

	30 June 2005	**31 December 2004**
	'000 EURO	**'000 EURO**
Accounts payable, trade	47,255	22,215
Other taxes payable	26,904	20,017
Dividends payable	25,811	2,019
Accrued salaries, wages and benefits	15,278	8,190
Payables to associates (Soufflet)	1,061	1,883
Other payables and accrued expenses	3,247	8,984
	119,556	63,308

22 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 require 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.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Russian rouble. The currencies giving rise to this risk are primarily USD and euro.

(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.

23 Commitments

As at 30 June 2005 the Group had the following major capital commitments for projects to be completed in 2005 (31 December 2004: EURO 5,431 thousand):

Project	**'000 EURO**
St. Petersburg plant	8,720
Baltika-Tula plant	914
Baltika-Khabarovsk plant	488
Total	10,122

24 Contingencies

Financial Guarantees

As at 30 June 2005 the Group has issued guarantees aggregating EURO 787 thousand on borrowings by its affiliate, 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 accrued for 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 preliminary consolidated IFRS financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2004 the tax authorities performed on-site tax audits of the Company with regard to all major taxes. The total amount of additional taxes, penalties and interest fines imposed by the tax authorities based on the results of the audits was approximately EURO 1,226 thousand. The most significant portion of additional tax, penalties and interest fines of EURO 1,030 thousand related to profits tax. The tax authorities challenged whether the Company was entitled to deduct expenses related to the tax base for the transitional period and expenses related to the maintenance of an aeroplane. The Company had two hearings in the arbitration court in this regard. The second was held on 19 April 2005. Both decisions were in favour of the Company.

The tax authorities have also completed an audit of OOO Leasing-Optimum covering all the major taxes, including VAT, for the period from 27 May 2002 to 31 December 2003. The total amount of additional taxes, penalties and interest fines imposed by the tax authorities based on the results of the audits was approximately EURO 8,518 thousand. The first hearing in the arbitration court was held on 11 April 2005. The decision was in favour of the Company. The second hearing will be held on 25 August 2005.

25 Related party transactions

(a) Control relationships

The Company’s Parent Company is Baltic Beverages Holding AB. In addition, the Group has a controlling relationship over all of its subsidiaries (refer note 26 for a list of significant subsidiaries).

(b) Transactions with related parties

Related parties comprise the shareholders of the Parent Company and all other companies in which those shareholders, either individually or together, have a controlling interest.

Sales to related parties for the period were as follows:

	Six months ended 30 June	
	2005	**2004**
	’000 EURO	**’000 EURO**
Sales of goods	6,011	-
Services provided	1,109	1,093
	7,120	1,093

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

	Six months ended 30 June	
	2005	**2004**
	’000 EURO	**’000 EURO**
Purchases of raw materials	9,163	12,339
Royalties	368	281
	9,531	12,620

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

	30 June 2005	**31 December 2004**
	’000 EURO	**’000 EURO**
Receivables	3,778	-
Loans	1,395	-
Finance lease	992	1,754
	6,165	1,754

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

	30 June 2005	**31 December 2004**
	’000 EURO	**’000 EURO**
Trade payables	1,598	2,555
Royalties payable	249	106
	1,847	2,661

During the six months ended 30 June 2005 the Group purchased raw materials (i.e. malt) from Soufflet, an associate of the Group, amounting to EURO 8,054 thousand, (excluding VAT) or 16% of the total malt purchases, and 29,947 tons, or 15% of the total malt purchases by volume. During the six months ended 30 June 2004 the Group's purchases from Soufflet amounted to EURO 12,339 thousand (excluding VAT) or 20% of the total malt purchases, and 43,318 tons, or 23% of the total malt purchases by volume.

The liability to Soufflet for malt purchases amounted to EURO 787 thousand and EURO 1,883 thousand as at 30 June 2005 and 31 December 2004, respectively.

During the six months ended 30 June 2005 the Group purchased raw materials (i.e. malt) from Dannish Malting Group, a company affiliated to Carlsberg, amounting to EURO 1,110 thousand (excluding VAT) or 2% of the total malt purchases, and 4,498 tons, or 2% of the total malt purchases by volume. During the six months ended 30 June 2004 the Group purchased raw materials (i.e. malt) from Dannish Malting Group, a company, affiliated to Carlsberg, amounting to EURO 1,478 thousand (excluding VAT) or 2.4% of the total malt purchases, and 5,143 tons, or 2.7% of the total malt purchases by volume. The liability to Dannish Malting Group for malt purchased amounted to EURO 537 thousand as at 30 June 2005 and EURO 672 thousand as at 31 December 2004.

During the six months ended 30 June 2005 the Group leased out certain plant and equipment to Vena for an amount of EURO 4,051 thousand.

The liability to Carlsberg for royalties amounted to EURO 249 thousand and EURO 106 thousand as at 30 June 2005 and 31 December 2004, respectively.

During the six months ended 30 June 2005 the Group sold beer to Carlsberg, Scottish&Newcastle and to companies owned by the parent company for EURO 6,011 thousand or 1.3% of the total sales and 137,563 HL or 1.3% of the total sales by volume.

26 Significant subsidiaries

As at 30 June 2005 the subsidiary companies, which are included in the consolidation, comprise the following:

Name	Nature of Business	Country of Incorporation	Ownership
OOO Baltika-Moscow	Distribution of Baltika beer	Russia	100%
OOO Leasing-Optimum	Leasing	Russia	100%
OOO Batika-Ukraine	Distribution of Baltika beer	Ukraine	100%
Baltika S.R.L.	Distribution of Baltika beer	Moldova	100%
Baltika-Almaty LLP	Distribution of Baltika beer	Kazakhstan	100%
OsOO Baltika	Distribution of Baltika beer	Kirgizia	100%

Name	Nature of Business	Country of Incorporation	Ownership
OOO Baltika-Bel	Distribution of Baltika beer	Belorussia	100%
OOO Terminal Podolsk	Warehouse	Russia	100%
OOO Universalopttorg	Warehouse	Russia	100%
Baltika Deutschland GmbH	Distribution of Baltika beer	Germany	100%

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

27 Explanation of transition to IFRSs

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 values were translated into EURO values using the period end EURO/USD rates for balance sheet captions. As at 31 December 2004, 30 June 2004 and 31 December 2003 the rates were 0.7339, 0.8225 and 0.7999, respectively. For profit and loss captions the USD values were translated into EURO values using the average EURO/USD rates for the period. For the six months ended 30 June 2004 and the year ended 31 December 2004 the rates were 0.8141 and 0.8045, respectively.

Reconciliation of equity

		31 December 2003			30 June 2004			31 December 2004		
		Previous GAAP	**Transition to IFRS**	**IFRS**	**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**	**’000 EURO**	**’000 EURO**	**’000 EURO**
ASSETS										
Non-current assets										
Property, plant and equipment		526,187	(29,422)	496,765	566,120	(27,464)	538,656	541,747	(23,331)	518,416
Intangible assets		766	(19)	747	772	(12)	760	2,306	-	2,306
Investments in associates		8,610	-	8,610	9,351	-	9,351	8,666	-	8,666
Other investments		233	-	233	1,226	-	1,226	227	-	227
		535,796	(29,441)	506,355	577,469	(27,476)	549,993	552,946	(23,331)	529,615
Current assets										
Other nvestments		5,435	-	5,435	-	-	-	27,639	-	27,639
Inventories		54,858	-	54,858	74,788	-	74,788	72,175	-	72,175
Income tax receivable		700	-	700	4,384	-	4,384	1,306	-	1,306
Trade and other receivables		68,873	-	68,873	85,009	-	85,009	64,914	-	64,914
Cash and cash equivalents		21,940	-	21,940	30,708	-	30,708	45,990	-	45,990
		151,806		151,806	194,889		194,889	212,024		212,024
Total assets		687,602	(29,441)	658,161	772,358	(27,476)	744,882	764,970	(23,331)	741,639
EQUITY AND LIABILITIES										
Equity										
Preference shares		2,372	164	2,536	2,439	97	2,536	2,176	360	2,536
Ordinary shares		19,095	986	20,081	19,636	445	20,081	17,520	2,561	20,081
Share premium		32,050	5,879	37,929	32,956	4,973	37,929	29,406	8,523	37,929
Treasury shares		(1,079)	-	(1,079)	(710)	-	(710)	(368)	-	(368)
Foreign currency translation reserve		24,661	(22,848)	1,813	33,834	(11,160)	22,674	54,861	(70,245)	(15,384)
Retained earnings		451,339	(7,380)	443,959	472,184	(16,068)	456,116	470,554	40,423	510,977
		528,438	(23,199)	505,239	560,339	(21,713)	538,626	574,149	(18,378)	555,771

Non-current liabilities									
Loans and borrowings	11,525	-	11,525	13,145	-	13,145	33,665	-	33,665
Deferred tax liabilities	26,289	(6,242)	20,047	32,832	(5,763)	27,069	32,912	(4,953)	27,959
	37,814	(6,242)	31,572	45,977	(5,763)	40,214	66,577	(4,953)	61,624
Current liabilities									
Loans and borrowings	64,089	-	64,089	50,953	-	50,953	45,049	-	45,049
Income tax payable	-	-	-	-	-	-	-	-	-
Trade and other payables	57,261	-	57,261	115,090	-	115,090	63,308	-	63,308
Provisions	-	-	-	-	-	-	15,887	-	15,887
	121,350	-	121,350	166,042	-	166,042	124,244	-	124,244
Total equity and liabilities	687,602	(29,441)	658,161	772,358	(27,476)	744,882	764,970	(23,331)	741,639

Reconciliation of net profit for 2004

		Sixe months ended 30 June 2004			**Year ended 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**
Gross revenues		398,864	-	398,864	878,721	-	878,721
Excise Taxes		(35,109)	-	(35,109)	(79,059)	-	(79,059)
Revenues		363,755	-	363,755	799,662	-	799,662
Cost of sales		(209,811)	11,624	(198,187)	(441,796)	23,457	(418,339)
Gross profit		153,944	11,624	165,568	357,866	23,457	381,323
Distribution expenses		(74,352)	(5,863)	(80,215)	(172,255)	(12,601)	(184,856)
Administrative expenses		(14,558)	(2,617)	(17,175)	(46,828)	(5,143)	(51,971)
Other operating expenses, net		(331)	93	(238)	(1,210)	541	(669)
Profit from operations		64,703	3,237	67,940	137,573	6,254	143,827
Financial income		3,955	-	3,955	9,291	-	9,291
Financial expenses		(3,612)	-	(3,612)	(6,942)	(616)	(7,558)
Income from associates		732	-	732	902	-	902
Profit before tax		65,778	3,237	69,015	140,824	5,638	146,462
Income tax expense		(12,529)	(748)	(13,277)	(34,673)	(1,190)	(35,863)
Profit after tax		53,249	2,489	55,738	106,151	4,448	110,599
Net profit for the year		53,249	2,489	55,738	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 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, EURO 27,464 thousand at 30 June 2004 and EURO 23,311 thousand Euro at 31 December 2004.

Due to the fact that property, plant and equipment has been recored at a 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 six months ended 30 June 2004 of EURO 3,144 thousand and EURO 90 thousand, respectively; and for the year ended 31 December 2004 EURO 5,713 thousand and EURO 514 thousand, respectively, 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, EURO 5,763 thousand at 30 June 2004 and EURO 4,953 thousand at 31 December 2004.

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, EURO 542 thousand at 30 June 2004 and EURO 2,921 thousand at 31 December 2004; and an increase in share premium of EURO 5,879 thousand; EURO 4,973 thousand and EURO 8, 523 thousand, respectively.