OAO BALTIKA BREWERY AND SUBSIDIARIES

Preliminary Consolidated Financial Statements

For the nine months ended 30 September 2005

Contents

		Nine months ended 30 September	
		2005	**2004**
	Note	**’000 EURO**	**’000 EURO**
Gross revenues		835,033	681,240
Excise Taxes		(77,374)	(60,479)
Revenues		757,659	620,761
Cost of sales		(363,174)	(328,215)
Gross profit		**394,485**	**292,546**
Distribution expenses		(176,736)	(135,766)
Administrative expenses	4	(28,701)	(26,223)
Other operating expenses, net	5	(1,468)	(425)
Profit from operations		187,580	130,132
Provision for restructuring expenses	21	(3,986)	-
Financial income	7	11,743	5,227
Financial expenses	7	(8,469)	(5,012)
Income from associates	11	914	728
Profit before tax		187,782	131,075
Income tax expense	8	(33,629)	(31,510)
Net profit for the period		**154,153**	**99,565**

Basic and diluted earnings per share	24	1.32 EURO	0.79 EURO

The preliminary consolidated financial statements for the nine months ended 30 September 2005 were approved on 31 October 2005 and signed by:

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 36.

	Note	30 September 2005 '000 EURO	31 December 2004 '000 EURO
ASSETS			
Non-current assets			
Property, plant and equipment	9	563,856	518,416
Intangible assets	10	2,276	2,306
Investments in associates	11	8,362	8,666
Other investments	12	14,688	227
		589,182	529,615
Current assets			
Other investments	12	44,763	27,639
Inventories	15	77,608	72,175
Income tax receivable		682	1,306
Trade and other receivables	16	59,087	64,914
Cash and cash equivalents	18	106,603	45,990
		288,743	212,024
Total assets		877,925	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		(481)	(368)
Foreign currency translation reserve		41,859	(15,384)
Retained earnings		612,937	510,977
		714,861	555,771
Non-current liabilities			
Loans and borrowings	20	32,931	33,665
Deferred tax liabilities	14	27,658	27,959
		60,589	61,624
Current liabilities			
Loans and borrowings	20	6,756	45,049
Trade and other payables	22	91,589	63,308
Provisions	21	4,130	15,887
		102,475	124,244
Total equity and liabilities		877,925	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 36.

	Nine months ended 30 September 2005 '000 EURO	2004 '000 EURO
OPERATING ACTIVITIES		
Net profit for the year	154,153	99,565
Adjustments for:		
Depreciation and amortisation	51,246	43,866
Loss on disposal of property, plant and equipment	1,659	456
Income from associates	(914)	(728)
Interest expense	2,754	1,767
Interest income	(6,348)	(1,794)
Income tax expense	33,629	31,510
Operating profit before changes in working capital and provisions	236,179	174,642
(Increase)/decrease in inventories	1,704	(18,836)
(Increase)/decrease in trade and other receivables	11,218	(5,133)
Increase in trade and other payables	16,892	18,313
Decrease in provisions	(12,876)	-
Cash flows from operations before income taxes and interest paid	253,117	168,986
Income taxes paid	(35,882)	(19,945)
Interest paid	(2,625)	(1,926)
Cash flows from operating activities	214,610	147,115
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	451	248
Interest received	6,348	1,794
Dividends received	743	322
Purchase of investment securities	673	-
Loans to the banks	(14,608)	-
Purchase of bank promissory notes	(13,866)	(14,487)
Acquisition of property, plant and equipment and intangible assets	(46,403)	(76,149)
Net change in loans made to third parties	-	117
Financial revenue received under leases	57	136
Principal payments received under leases	944	1,239
Cash flows to investing activities	(65,661)	(86,780)
FINANCING ACTIVITIES		
Bank indebtedness	(38,029)	(16,793)
Proceeds from sale of treasury shares	(74)	545
Proceeds from long-term borrowings	-	4,407
Repayment of long-term borrowings	(5,351)	(1,631)
Payment of finance lease liabilities	(2,168)	(2,238)
Dividends paid	(49,938)	(38,070)
Cash flows to financing activities	(95,560)	(53,780)
Translation differences	7,224	494
Net increase/(decrease) in cash and cash equivalents	60,613	7,049
Cash and cash equivalents at beginning of period	45,990	21,940
Cash and cash equivalents at end of period (note 18)	106,603	28,989

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 36.

’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						99,565	99,565
Foreign exchange differences					10,123		10,123
Net treasury stock sold				512			512
Dividends to shareholders						(43,581)	(43,581)
Balance at 30 September 2004	2,536	20,081	37,929	(567)	11,936	499,943	571,858
Net profit						11,034	11,034
Foreign exchange differences					(27,320)		(27,320)
Net treasury stock sold				199			199
Balance at 31 December 2004	2,536	20,081	37,929	(368)	(15,384)	510,977	555,771
Net profit						154,153	154,153
Foreign exchange differences					57,243		57,243
Net treasury stock acquired				(113)			(113)
Dividends to shareholders						(52,193)	(52,193)
Balance at 30 September 2005	2,536	20,081	37,929	(481)	41,859	612,937	714,861

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 36.

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 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 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), as part of the Group’s preparation for the future adoption of IFRSs. When the Group prepares its first complete set of preliminary consolidated 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 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. Any changes to such Standards, Interpretations or accounting policies may require adjustment to these preliminary consolidated 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 their 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 preliminary 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 preliminary consolidated financial statements are described in the following notes:

- Note 26 – 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.
- Loans originated by the Group are classified as originated loans and receivables. Loans are reported net of allowances to reflect the estimated recoverable amounts.

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) 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 recognized as loans to banks and included in Other 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) Derivatives

Derivatives are stated at fair value, with any resultant gain or loss recognised 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 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.

(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.

(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.

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

(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.

(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.

(i) 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: 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.

(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 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.

(t) 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.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective and have not been applied in preparing these preliminary consolidated financial statements for the nine months ended 30 September 2005. 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 not be adopted until their respective effective dates.

4 Administrative expenses

	Nine months ended 30 September	
	2005	2004
	’000 EURO	’000 EURO
Wages and salaries	13,733	8,234
Depreciation	4,010	3,914
Payroll taxes	2,488	1,743
Facilities	2,087	2,203
Information technology and communications	1,416	1,174
Other payroll expenses	1,051	1,655
Charity	621	1,897
Other administrative expenses	3,295	5,403
	28,701	26,223

5 Other operating expenses, net

	Nine months ended 30 September	
	2005	2004
	’000 EURO	’000 EURO
Loss on disposal of property, plant and equipment	(1,659)	(456)
Other income/(expenses)	191	31
	(1,468)	(425)

6 Total personnel costs

	Nine months ended 30 September	
	2005	2004
	’000 EURO	’000 EURO
Wages and salaries	58,924	44,237
Payroll taxes	12,794	11,757
Other payroll expenses	4,865	4,965
	76,583	60,959

The average number of employees during the nine months ended 30 September 2005 was 7,874 (nine months ended 30 September 2004: 8,649).

7 Financial income and expenses

	Nine months ended 30 September	
	2005	**2004**
	'000 EURO	**'000 EURO**
Financial income		
Interest income	6,348	1,794
Foreign exchange gain	5,395	3,433
	11,743	5,227
Financial expenses		
Interest expense	2,754	1,767
Foreign exchange loss	5,715	3,245
	8,469	5,012

8 Income tax expense

	Nine months ended 30 September	
	2005	**2004**
	'000 EURO	**'000 EURO**
Current tax expense		
Current year	36,611	21,500
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	(2,982)	10,010
	33,629	31,510

The Group's applicable tax rate is the corporate income tax rate of 24% (2004: 24%) and 24% for measuring deferred taxes (2004: 24%).

Reconciliation of effective tax rate:

	Nine months ended 30 September			
	2005		**2004**	
	’000 EURO	**%**	**’000 EURO**	**%**
Profit before tax	187,782		131,075	
Income tax at applicable tax rate	45,068	24.0	31,458	24.0
Change in tax rate	(2,806)	(1.4)	(988)	(0.8)
Non-deductible items	5,142	2.7	5,074	3.9
Effect of local concessions granted to branches	(2,461)	(1.3)	(1,353)	(1.0)
Effects of concessions granted in respect of the local portion of the statutory tax rate	(11,540)	(6.2)	(5,613)	(4,3)
Other	226	0.1	2,932	2.2
	33,629	17.9	31,510	24.0

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	1,082	32,422	3,803	9,107	46,414
Disposals	(137)	(3,526)	(1,024)	-	(4,687)
Reclassification	2,820	23,403	5	(26,228)	-
Foreign currency translation difference	14,126	39,050	1,936	3,668	58,780
At 30 September 2005	158,151	462,819	23,019	29,512	673,501
Depreciation					
At 1 January 2005	(3,605)	(49,098)	(1,875)	-	(54,578)
Depreciation charge	(3,326)	(45,224)	(1,908)	-	(50,458)
Disposals	20	1,827	730	-	2,577
Foreign currency translation difference	(479)	(6,477)	(230)	-	(7,186)
At 30 September 2005	(7,390)	(98,972)	(3,283)	-	(109,645)
Net book value					
At 1 January 2005	136,655	322,372	16,424	42,965	518,416
At 30 September 2005	150,761	363,847	19,736	29,512	563,856

(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.

(b) Security

As at 30 September 2005 property, plant and equipment includes production equipment, amounting to EURO 24,651 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 20).

(c) Leased plant and machinery

The Group leased production equipment under a number of finance lease agreements that expire within the next year. At 30 September 2005 the net book value of leased plant and machinery was EURO 7,181 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	**Other intangible assets**
Cost	
At 1 January 2005	2,991
Additions	537
Foreign currency translation difference	317
At 30 September 2005	3,845
Amortisation and impairment losses	
At 1 January 2005	(685)
Amortisation charge	(788)
Foreign currency translation difference	(96)
At 30 September 2005	(1,569)
Net book value	
At 1 January 2005	2,306
At 30 September 2005	2,276

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 30 September 2005 was EURO 6,590 thousand (31 December 2004: EURO 7,054 thousand).

12 Other investments

	30 September 2005 '000 EURO	31 December 2004 '000 EURO
Non-current		
Available-for-sale investments:		
Stated at cost	14,688	227
Current		
Investments held-to-maturity:		
Promissory notes	30,155	27,639
Originated loans and receivables:		
Loans to banks	14,608	-
	44,763	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.

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 30 September 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	14,608	19,971	14 December 2005 13 February 2006	14,998

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

Total interest income on repurchase agreements for the nine months ended 30 September 2005 was EURO 77 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	
	30 September 2005	31 December 2004	30 September 2005	31 December 2004	30 September 2005	31 December 2004
Property, plant and equipment	510	2,585	(34,185)	(30,182)	(33,675)	(27,597)
Intangible assets	-	-	(81)	(133)	(81)	(133)
Investments	-	-	(493)	(363)	(493)	(363)
Inventories	-	22	(762)	(546)	(762)	(524)
Trade and other receivables	1,704	109	(76)	(59)	1,628	50
Trade and other payables	5,725	608	-	-	5,725	608
Net tax assets/(liabilities)	7,939	3,324	(35,597)	(31,283)	(27,658)	(27,959)

During the nine months ended 30 September 2005 EURO 2,982 thousand of the movement in the deferred tax liability was recognized in the income statement as a reversal of temporary differences and EURO 2,681 thousand, representing foreign exchange differences, was recognized in equity.

15 Inventories

	30 September 2005 '000 EURO	31 December 2004 '000 EURO
Raw materials and consumables	56,507	52,227
Work in progress	6,270	6,750
Finished goods and goods for resale	15,933	13,198
Provision for obsolete inventory	(1,102)	-
Inventory stated at net realisable value	77,608	72,175

16 Trade and other receivables

	30 September 2005 '000 EURO	31 December 2004 '000 EURO
Accounts receivable, trade	32,706	32,155
VAT receivable	11,374	19,601
Advances to suppliers	10,548	8,301
Other receivables	5,478	6,151
	60,106	66,208
Provision for doubtful debtors	(1,019)	(1,294)
	59,087	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 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 which has the same Parent company as the Group. The contract expires during 2005. Other receivables include the following finance lease receivables:

	30 September 2005 '000 EURO	31 December 2004 '000 EURO
Gross investment in finance leases	501	1,820
Unearned finance income	(6)	(66)
Net investment in finance leases	495	1,754

Gross investment in finance leases, with remaining maturities

Less than one year	501	1,820

Net investment in finance leases, with remaining maturities

Less than one year	495	1,754

Income on finance leases is recognized in interest income.

18 Cash and cash equivalents

	30 September 2005	31 December 2004
	’000 EURO	’000 EURO
Bank balances	18,432	19,045
Bank deposits	88,171	26,945
Cash and cash equivalents in the balance sheet and in the statement of cash flows	106,603	45,990

19 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	Ordinary shares	Ordinary shares	Preference shares	Preference shares
	30 September 2005	31 December 2004	30 September 2005	31 December 2004
Authorised shares				
Par value	RUR 1	RUR 1	RUR 1	RUR 1
On issue at opening balance	117,158,530	117,158,530	13,545,150	13,545,150
On issue at 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 19,064 of its own ordinary shares and 3,508 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 30 September 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 562,164 thousand (2004: EURO 403,529 thousand).

The following table demonstrates declared dividends for the nine months ended 30 September 2005 and twelve months ended 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	3,417
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 September 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.

20 Loans and borrowings

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

	30 September 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	3,845	3,971
Bonds issued	29,086	26,448
Finance lease obligations	-	1,778
	32,931	33,665
Current		
Current portion of secured bank loans	1,339	4,091
Unsecured bank facility	1,752	38,273
Bonds issued	899	-
Current portion of finance lease obligations	2,766	2,685
	6,756	45,049

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 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 US Dollars ("USD"). Under the terms of the EBRD borrowing agreement the Group is required to comply with 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 September 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 facility. The terms of the credit line facility are determined for each individual withdrawal. The credit line facility amount should not exceed USD 30,000 thousand.

As at 30 September 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) 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%	5,184	1,339	3,845	-
Bond issues:				
RUR – fixed at 8.75%	29,985	899	29,086	-
Finance lease:				
USD – variable at LIBOR+5%	2,766	2,766	-	-
Unsecured bank loans:				
USD – variable at LIBOR+ 1.4 %	1,752	1,752	-	-
	39,687	6,756	32,931	-

(b) Finance lease liabilities

Finance lease liabilities are payable as follows:

	30 September 2005			31 December 2004		
'000 EURO	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	2,915	149	2,766	2,941	256	2,685
Between one and five years	-	-	-	1,845	67	1,778
	2,915	149	2,766	4,786	323	4,463

21 Provisions

Provision for restructuring	**30 September 2005**
	'000 EURO
Balance at 1 January 2005	15,887
Provisions made during the period	3,986
Provisions used during period	(17,103)
Translation difference	1,360
Balance at 30 September 2005	4,130

In order to rationalise its operations, the Group adopted a long-term strategic plan that resulted in redundancies and associated costs. In 2004 the Group recorded a provision of 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 provision, and EURO 884 thousand was recorded as foreign currency losses. During the nine months ended 30 September 2005 the Group used the remainder of the provision. During the nine months ended 30 September 2005 the Group has raised a further provision of EURO 3,986 thousand in relation to the proposed restructuring of its distribution network as a result of the restructuring of the Group's operations.

22 Trade and other payables

	30 September 2005	**31 December 2004**
Trade and other payables	**'000 EURO**	**'000 EURO**
Accounts payable, trade	43,218	22,215
Other taxes payable	17,202	20,017
Accrued salaries, wages and benefits	23,196	8,190
Dividends payable	5,119	2,019
Payables to associates (Soufflet)	271	1,883
Other payables and accrued expenses	2,583	8,984
	91,589	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.

(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 derivative contracts.

The Group does not use hedge accounting for its foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognised in the income statement.

As at 30 September 2005 the amount of outstanding forward contracts for the purchase of EURO for USD amounted to USD 1,600 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.

24 Earnings per share

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

Weighted average number of ordinary shares

Number of shares unless otherwise stated	**Nine months ended 30 September**	
	2005	**2004**
Issued shares at 1 January	117,158,530	117,158,530
Effect of own shares held	(19,064)	(42,883)
Weighed average number of shares at 30 September	117,139,466	117,115,647

Profit attributable to ordinary shareholders

	Nine months ended 30 September	
	'000 EURO	**'000 EURO**
	2005	**2004**
Profit for period	154,153	99,565
Dividends to non-redeemable nun-cumulative preference shares	-	(6,819)
Profit attributable to ordinary shareholders	154,153	92,746

25 Commitments

As at 30 September 2005 the Group had the following major capital commitments for projects to be completed in the next 12 months (31 December 2004: EURO 5,431 thousand):

Project	**'000 EURO**
St. Petersburg plant	13,594
Baltika-Rostov plant	1,078
Baltika-Tula plant	414
Baltika-Khabarovsk plant	414
Total	15,500

26 Contingencies

Financial Guarantees

As at 30 September 2005 the Group has issued guarantees aggregating EURO 388 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 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 1,231 thousand. The most significant portion of additional taxes, penalties and interest fines of EURO 1,035 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 three hearings in the arbitration court in this regard and all the 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 8,554 thousand. Two hearings were held in the arbitration court and both decisions were in favour of the Company.

27 Related party transactions

(a) Control relationships

The Company's Parent Company is Baltic Beverages Holding AB (refer note 1 (a) for 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 & Newcatle plc. In addition, the Group has a controlling relationship over all of its subsidiaries (refer note 28 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:

	Nine months ended 30 September	
	2005	**2004**
	’000 EURO	**’000 EURO**
Sales of goods	12,274	-
Services provided	1,502	1,361
	13,776	1,361

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

	Nine months ended 30 September	
	2005	**2004**
	’000 EURO	**’000 EURO**
Purchases of raw materials	12,561	21,435
Royalties	675	587
	13,236	22,022

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

	30 September 2005	**31 December 2004**
	’000 EURO	**’000 EURO**
Receivables	3,703	-
Finance leases	495	1,754
	4,198	1,754

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

	30 September 2005	**31 December 2004**
	’000 EURO	**’000 EURO**
Trade payables	351	2,555
Royalties payable	475	106
	826	2,661

During the nine months ended 30 September 2005 the Group purchased raw materials (i.e. malt) from Soufflet, an associate of the Group, amounting to EURO 10,522 thousand, (excluding VAT) or 13.7% of the total malt purchases, and 38,971 tons, or 13% of the total malt purchases by volume. During the nine months ended 30 September 2004 the Group's purchases from Soufflet amounted to EURO 17,689 thousand (excluding VAT) or 20% of the total malt purchases, and 62,142 tons, or 22% of the total malt purchases by volume.

The liability to Soufflet for malt purchases amounted to EURO 271 thousand and EURO 1,883 thousand as at 30 September 2005 and 31 December 2004, respectively.

During the nine months ended 30 September 2005 the Group purchased raw materials (i.e. malt) from Danish Malting Group, a company affiliated to Carlsberg, amounting to EURO 2,039 thousand (excluding VAT) or 2.7% of the total malt purchases, and 8,292 tons, or 2.7% of the total malt purchases by volume. During the nine months ended 30 September 2004 the Group purchased raw materials (i.e. malt) from Danish Malting Group, a company, affiliated to Carlsberg, amounting to EURO 3,746 thousand (excluding VAT) or 4.1% of the total malt purchases, and 12,008 tons, or 4.3% of the total malt purchases by volume. The liability to Danish Malting Group for malt purchased amounted to EURO 672 thousand as at 31 December 2004.

During the nine months ended 30 September 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 475 thousand and EURO 106 thousand as at 30 September 2005 and 31 December 2004, respectively.

During the nine months ended 30 September 2005 the Group sold beer to Carlsberg and Scottish & Newcastle and to companies owned by the Parent company for EURO 12,274 thousand or 1.6% of the total sales and 324,691 hectolitres or 1.8% of the total sales by volume. Receivables related to these sales amounted to EURO 3,703 thousand and liabilities amounted to EURO 80 thousand as at 30 September 2005 (nil as at 31 December 2004).

28 Significant subsidiaries

As at 30 September 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.

29 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 September 2004 and 31 December 2003 the rates were 0.7339, 0.8118 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 nine months ended 30 September 2004 and the year ended 31 December 2004 the rates were 0.8117 and 0.8045, respectively.

Reconciliation of equity

		31 December 2003			30 September 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	559,922	(24,901)	535,021	541,747	(23,331)	518,416
Intangible assets		766	(19)	747	607	(18)	589	2,306	-	2,306
Investments in associates		8,610	-	8,610	9,021	-	9,021	8,666	-	8,666
Other investments		233	-	233	723	-	723	227	-	227
		535,796	(29,441)	506,355	570,273	(24,919)	545,354	552,946	(23,331)	529,615
Current assets										
Other nvestments		5,435	-	5,435	19,832	-	19,832	27,639	-	27,639
Inventories		54,858	-	54,858	74,685	-	74,685	72,175	-	72,175
Income tax receivable		700	-	700	1,045	-	1,045	1,306	-	1,306
Trade and other receivables		68,873	-	68,873	73,082	-	73,082	64,914	-	64,914
Cash and cash equivalents		21,940	-	21,940	28,989	-	28,989	45,990	-	45,990
		151,806	-	151,806	197,633	-	197,633	212,024	-	212,024
Total assets		687,602	(29,441)	658,161	767,906	(24,919)	742,987	764,970	(23,331)	741,639
EQUITY AND LIABILITIES										
Equity										
Preference shares		2,372	164	2,536	2,407	129	2,536	2,176	360	2,536
Ordinary shares		19,095	986	20,081	19,380	701	20,081	17,520	2,561	20,081
Share premium		32,050	5,879	37,929	32,528	5,401	37,929	29,406	8,523	37,929
Treasury shares		(1,079)	-	(1,079)	(567)	-	(567)	(368)	-	(368)
Foreign currency translation reserve		24,661	(22,848)	1,813	30,312	(18,376)	11,936	54,861	(70,245)	(15,384)
Retained earnings		451,339	(7,380)	443,959	507,876	(7,933)	499,943	470,554	40,423	510,977
		528,438	(23,199)	505,239	591,936	(20,078)	571,858	574,149	(18,378)	555,771

Non-current liabilities									
Loans and borrowings	11,525	-	11,525	9,523	-	9,523	33,665	-	33,665
Deferred tax liabilities	26,289	(6,242)	20,047	35,214	(4,841)	30,373	32,912	(4,953)	27,959
	37,814	(6,242)	31,572	44,737	(4,841)	39,896	66,577	(4,953)	61,624
Current liabilities									
Loans and borrowings	64,089	-	64,089	46,011	-	46,011	45,049	-	45,049
Income tax payable	-	-	-	-	-	-	-	-	-
Trade and other payables	57,261	-	57,261	85,222	-	85,222	63,308	-	63,308
Provisions	-	-	-	-	-	-	15,887	-	15,887
	121,350	-	121,350	131,233	-	131,233	124,244	-	124,244
Total equity and liabilities	687,602	(29,441)	658,161	767,906	(24,919)	742,987	764,970	(23,331)	741,639

Reconciliation of net profit for 2004

		Nine months ended 30 September 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		681,240	-	681,240	878,721	-	878,721
Excise Taxes		(60,479)	-	(60,479)	(79,059)	-	(79,059)
Revenues		620,761	-	620,761	799,662	-	799,662
Cost of sales		(345,912)	17,697	(328,215)	(441,796)	23,457	(418,339)
Gross profit		274,849	17,697	292,546	357,866	23,457	381,323
Distribution expenses		(126,544)	(9,222)	(135,766)	(172,255)	(12,601)	(184,856)
Administrative expenses		(22,309)	(3,914)	(26,223)	(46,828)	(5,143)	(51,971)
Other operating expenses, net		(1,096)	671	(425)	(1,210)	541	(669)
Profit from operations		124,900	5,232	130,132	137,573	6,254	143,827
Financial income		5,227	-	5,227	9,291	-	9,291
Financial expenses		(5,012)	-	(5,012)	(6,942)	(616)	(7,558)
Income from associates		728	-	728	902	-	902
Profit before tax		125,843	5,232	131,075	140,824	5,638	146,462
Income tax expense		(29,941)	(1,569)	(31,510)	(34,673)	(1,190)	(35,863)
Profit after tax		95,902	3,663	99,565	106,151	4,448	110,599
Net profit for the year		95,902	3,663	99,565	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, EURO 24,901 thousand at 30 September 2004 and EURO 23,311 thousand at 31 December 2004.

Due to the fact that property, plant and equipment has been recorded 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 nine months ended 30 September 2004 of EURO 4,561 thousand and EURO 671 thousand, respectively; and for the year ended 31 December 2004 EURO 5,713 thousand and EURO 541 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 4,841 thousand at 30 September 2004 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, EURO 830 thousand at 30 September 2004 and EURO 2,921 thousand at 31 December 2004; and an increase in share premium of EURO 5,879 thousand; EURO 5,401 thousand and EURO 8,523 thousand, respectively.