OAO BALTIKA BREWERIES AND SUBSIDIARIES

Consolidated Financial Statements

for the year ended 31 December 2006

Contents

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Independent Auditors' Report

To the Board of Directors

OAO Baltika Breweries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO Baltika Breweries (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

14 March 2007

	Note	2006 '000 EURO	2005 (Restated) '000 EURO
Revenue		1,739,477	1,440,368
Cost of sales		(807,665)	(717,837)
Gross profit		931,812	722,531
Distribution expenses		(442,215)	(359,045)
Administrative expenses	5	(62,387)	(57,675)
Other operating expenses, net	6	(158)	(2,567)
Financial income	8	34,385	19,155
Financial expenses	8	(19,761)	(22,234)
Share of profit of associates		97	972
Profit before tax		441,773	301,137
Income tax expense	9	(103,324)	(65,139)
Profit for the year		338,449	235,998
Attributable to:			
Shareholders of the Company		330,872	232,416
Minority interest		7,577	3,582
		338,449	235,998
Earnings per share			
Basic and diluted earnings per share	20	2.03 EURO	1.50 EURO

These consolidated financial statements were approved by management on 14 March 2007 and were signed on its behalf by:

Anton Artemev	Ekaterina Azimina
President	*Vice-President of finance and economy*

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 46.

	Note	2006	2005 (Restated)
		’000 EURO	’000 EURO
ASSETS			
Non-current assets			
Property, plant and equipment	10	1,004,171	944,430
Intangible assets	11	337,148	263,283
Investments in associates	12	7,669	8,383
Other investments	13	283	286
Total non-current assets		1,349,271	1,216,382
Current assets			
Inventories	16	153,403	121,980
Other investments	13	196,283	131,582
Income tax receivable		10,618	3,786
Trade and other receivables	17	117,028	102,871
Cash and cash equivalents	18	46,396	44,746
Total current assets		523,728	404,965
Total assets		1,872,999	1,621,347
EQUITY AND LIABILITIES			
Equity	19		
Preference shares		2,535	2,536
Ordinary shares		21,374	20,081
Share capital		23,909	22,617
Additional paid-in capital		487,375	365,944
Treasury shares		(3,034)	(1,409)
Foreign currency translation reserve		65,829	94,683
Retained earnings		969,133	757,419
Total equity attributable to shareholders of the Company		1,543,212	1,239,254
Minority interest		-	34,851
Total equity		1,543,212	1,274,105
Non-current liabilities			
Loans and borrowings	21	31,900	140,732
Deferred tax liabilities	15	48,162	39,377
Total non-current liabilities		80,062	180,109
Current liabilities			
Loans and borrowings	21	67,679	18,709
Trade and other payables	23	181,850	146,523
Provisions	22	-	1,901
Income tax payable		196	-
Total current liabilities		249,725	167,133
Total liabilities		329,787	347,242
Total equity and liabilities		1,872,999	1,621,347

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 46.

	2006 '000 EURO	2005 (Restated) '000 EURO
OPERATING ACTIVITIES		
Profit for the year	338,449	235,998
Adjustments for:		
Depreciation	125,538	100,730
Amortisation	3,116	1,471
Loss on disposal of property, plant and equipment	163	2,803
Share of profit of equity accounted investees	(97)	(972)
Interest expense	10,762	10,366
Interest income	(17,058)	(10,833)
Income tax expense	103,324	65,139
Operating profit before changes in working capital and provisions	564,197	404,702
Increase in inventories	(33,788)	(2,458)
(Increase)/decrease in trade and other receivables	(16,283)	18,840
Increase in trade and other payables	41,774	7,595
Decrease in provisions	(1,905)	(15,193)
Cash flows from operations before income taxes and interest paid	553,995	413,486
Income taxes paid	(100,604)	(67,363)
Interest paid	(11,017)	(10,732)
Cash flows from operating activities	442,374	335,391
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	844	1,321
Interest received	15,097	9,758
Dividends received	695	750
Repayment of loans made to banks	59,786	-
Loans made to banks	(59,786)	(14,181)
Acquisition of property, plant and equipment and intangible assets	(192,784)	(142,438)
Acquisition of other investments	-	(34)
Acquisition of bank promissory notes	(181,283)	(111,720)
Proceeds from bank promissory notes	115,466	29,040
Acquisition of minority interest	(5,006)	(18,186)
Net decrease/(increase) in loans made to third parties	342	(229)
Cash flows utilised by investing activities	(246,629)	(245,919)

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 46.

	2006 '000 EURO	2005 (Restated) '000 EURO
FINANCING ACTIVITIES		
Proceeds from the issue of new shares	5,177	-
Proceeds from sale of treasury shares	2,497	2,143
Acquisition of treasury shares	(4,473)	(3,184)
Proceeds from borrowings	136,078	104,948
Repayment of borrowings	(186,371)	(137,136)
Payment of finance lease liabilities	(7,257)	(586)
Dividends paid	(139,047)	(65,335)
Cash flows utilised by financing activities	(193,396)	(99,150)
Net increase/(decrease) in cash and cash equivalents	2,349	(9,678)
Cash and cash equivalents at beginning of year	44,746	49,480
Effect of exchange rate fluctuations on cash and cash equivalents	(699)	4,944
Cash and cash equivalents at end of year (note 18)	46,396	44,746

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 46.

	Attributable to shareholders of the Company							Minority interest	Total equity
’000 EURO	**Preference Shares**	**Ordinary Shares**	**Additional paid-in capital**	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2005, as previously reported	2,536	20,081	37,929	(368)	(15,913)	511,506	555,771	-	555,771
Acquisitions from entities under common control (refer note 3(a)(ii))	-	-	154,840	-	1,812	84,066	240,718	72,544	313,262
Balance at 1 January 2005, as restated	2,536	20,081	192,769	(368)	(14,101)	595,572	796,489	72,544	869,033
Profit for the year	-	-	-	-	-	232,416	232,416	3,582	235,998
Foreign currency translation differences	-	-	-	-	108,784	-	108,784	-	108,784
Total recognised income and expenses for the year							341,200	3,582	344,782
Dividends to shareholders	-	-	-	-	-	(70,569)	(70,569)	(7,895)	(78,464)
Treasury shares acquired	-	-	-	(4,110)	-	-	(4,110)	-	(4,110)
Treasury shares sold	-	-	-	3,069	-	-	3,069	-	3,069
Acquisition of minority interest	-	-	-	-	-	-	-	(5,813)	(5,813)
Contribution by shareholders	-	-	173,175	-	-	-	173,175	(35,849)	137,326
Participation of minority interest in increase of equity of subsidiary	-	-	-	-	-	-	-	8,282	8,282
Balance at 31 December 2005	2,536	20,081	365,944	(1,409)	94,683	757,419	1,239,254	34,851	1,274,105

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 46.

	Attributable to shareholders of the Company							Minority interest	Total equity
’000 EURO	**Preference Shares**	**Ordinary Shares**	**Additional paid-in capital**	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2006	2,536	20,081	365,944	(1,409)	94,683	757,419	1,239,254	34,851	1,274,105
Profit for the year	-	-	-	-	-	330,872	330,872	7,577	338,449
Foreign currency translation differences	-	-	-	-	(28,854)	-	(28,854)	-	(28,854)
Total recognised income and expenses for the year							302,018	7,577	309,595
Dividends to equity holders	-	-	-	-	-	(119,158)	(119,158)	(2,911)	(122,069)
Ordinary shares issued	-	1,294	121,431	-	-	-	122,725	-	122,725
Redemption of shares	(1)	(1)	-	-	-	-	(2)	-	(2)
Acquisition of minority interest	-	-	-	-	-	-	-	(39,517)	(39,517)
Treasury shares acquired	-	-	-	(4,341)	-	-	(4,341)	-	(4,341)
Treasury shares sold	-	-	-	2,716	-	-	2,716	-	2,716
Balance at 31 December 2006	2,535	21,374	487,375	(3,034)	65,829	969,133	1,543,212	-	1,543,212

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 46.

1 Background

(a) Organisation and operations

OAO Baltika Breweries (the "Company") is an open joint stock company as defined by the Civil Code of the Russian Federation and was registered on 21 July 1992, and through a controlling interest in ten companies and four branches (together referred to as the "Group"), produces and distributes beer and mineral water.

The Company's registered office is situated at 6 Verkhny pereulok, 3. St. Petersburg, 194292, Russia.

As at 31 December 2006 Baltic Beverages Holding AB owned and controlled 90.63% of the Company's ordinary shares and 25.65% of the Company's preference shares. The remainder of the ordinary and preference shares are widely held.

As at 31 December 2006 the Group consisted of ten production plants: Baltika-Saint-Petersburg, Baltika-Tula, Baltika-Rostov, Baltika-Samara, Baltika-Khabarovsk, Baltika-Vena, Baltika-Chelyabinsk, Baltika-Pikra, Baltika-Yaroslavl and Baltika-Voronezh and ten subsidiaries: OOO Baltika-Moscow, OOO Leasing-Optimum, OOO Universalopttorg, OOO Terminal Podolsk, OOO Baltika-Ukraine, OsOO Baltika, Baltika S.R.L., Baltika-Almaty LLP, OOO Baltika-Bel and Baltika Deutschland GmbH.

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

Related party transactions are detailed in note 27.

(b) Group structure

The consolidated financial statements of the Group for the year ended 31 December 2006 comprise the Company and its subsidiaries and the Group's interest in associates. The list of subsidiaries is detailed in note 28. During the periods presented in these consolidated financial statements the Company, OAO Pikra, OAO Vena, OAO Yarpivo and OAO Zolotoy Ural were under the common control of Baltic Beverages Holding AB.

At the extraordinary shareholders' meeting on 7 March 2006, shareholders of the Company voted in favour of the proposed merger of the Company with brewing companies OAO Pikra, OAO Vena (into which OAO Zolotoy Ural had earlier been merged) and OAO Yarpivo.

Shareholders in OAO Pikra, OAO Vena and OAO Yarpivo (including Baltic Beverages Holding AB) were offered the option of exchanging their shares in OAO Pikra, OAO Vena and OAO Yarpivo for newly issued ordinary shares of the Company or selling their shares to the Company, if they wished to do so. The Company's ordinary shareholders had the opportunity of either selling their shares back to the Company or retaining their shareholding.

The first share exchange between the Company, Baltic Beverages Holding AB and minority shareholders took place on 3 July 2006. This exchange resulted in the Company becoming the new majority shareholder of OAO Pikra, OAO Vena and OAO Yarpivo with 91.90% of the shares in OAO Pikra, 92.76% in OAO Vena and 87.19% in OAO Yarpivo.

The second share exchange between the Company, Baltic Beverages Holding AB and minority shareholders took place on 28 December 2006. Following this exchange, OAO Pikra, OAO Vena and OAO Yarpivo were fully merged into the Company and became branches of the Company.

In accordance with the Group’s accounting policy, the acquisitions have been accounted for as if they had occurred on 1 January 2005 (refer note 3(a)(ii)). Comparatives have, accordingly, been restated.

Shares in OAO Pikra, OAO Vena and OAO Yarpivo purchased after 1 January 2005 by Baltic Beverages Holding AB and transferred to the Company during share exchanges in July and December 2006 were recognized as shareholders’ contributions.

(c) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of judgements, estimates and assumptions

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

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

- Note 11 – Intangible assets
- Note 26 – Contingencies

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Acquisitions of entities under common control

Business combinations arising from transfers of interest in entities that are under the control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity, except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(iii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in the associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to RUR at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to RUR at the exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

The assets and liabilities of Group enterprises are translated to EURO at exchange rates at the reporting date. Income and expenses are translated to EURO at rates approximating exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity in the foreign currency translation reserve.

(c) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date (i.e. the date that the Group commits itself to purchase or sell the asset). Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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.

Accounting for financial income and expenses is discussed in note 3(n).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer note 3(i)(i)), and foreign exchange gains and losses on available-for-sale monetary items (refer note 3(b)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Repurchase transactions

The Group purchases financial instruments under agreements to resell identical financial instruments at a future date at a fixed price. Financial instruments purchased subject to commitments to resell them at a future date are not recognized. The amounts paid are accounted for as held-to-maturity bank loans and included in investments in the balance sheet. The difference between the sale and repurchase prices is recognized as interest over the period of the agreement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. 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.

(ii) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

(d) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date ("deemed cost").

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries and associates.

Acquisitions on or after 1 January 2004

For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Other intangible assets

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

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of other intangible assets are 2-10 years.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Inventories

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

(i) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

(ii) Reversal of impairment

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(iii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 recognized.

(j) Employee benefits

Obligations for contributions to Russia's State pension fund are recognised as an expense in profit and loss when they are due.

(k) Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

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

(l) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, excise taxes, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(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.

(n) Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, losses on the disposal of available-for-sale investments, foreign currency losses and impairment losses recognized on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense 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 period, 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 recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognized.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(q) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity’s financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group’s 2007 financial statements, will require extensive additional disclosures with respect to Group’s financial instruments and share capital.
- IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the “management approach” to segment reporting.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 becomes mandatory for the Group’s 2007 financial statements.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group’s 2007 financial statements, with retrospective application required.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Group’s 2007 financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group’s 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004).
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which is effective for annual periods beginning on or after 1 March 2007. The Interpretation addresses the classification of the share-based payment as equity-settled or cash-settled in the financial statements of the entity receiving the services.
- IFRIC 12 *Service Concession Arrangements,* which is effective for annual periods beginning on or after 1 January 2008. The Interpretation addresses how service concession operators should account for the obligations they undertake and rights they receive in service concession arrangements.

4 Acquisition of subsidiaries and minority interests

(a) Acquisition of subsidiaries

On 3 July 2006 the Company acquired for shares OAO Pikra, OAO Vena (into which OAO Zolotoy Ural had earlier been merged) and OAO Yarpivo from an entity under common control. The acquisition has been accounted for as if it had taken place on 1 January 2005 (refer note 1(b)). The acquisition of subsidiaries had the following effect on the Group's assets and liabilities as at 1 January 2005:

'000 EURO	**OAO Vena**	**OAO Yarpivo**	**OAO Pikra**	**OAO Zolotoy Ural**	**Total**
Non-current assets					
Property, plant and equipment	79,388	142,358	44,243	32,433	298,422
Intangible assets	72,619	2,113	3,755	-	78,487
Deferred tax asset	-	-	633	299	932
Current assets					
Inventories	11,574	16,144	4,753	3,346	35,817
Other investments	31	414	-	-	445
Income tax receivable	412	-	-	725	1,137
Trade and other receivables	18,786	18,919	7,479	4,942	50,126
Cash and cash equivalents	966	2,347	43	134	3,490
Non-current liabilities					
Loans and borrowings	(57,395)	(491)	-	-	(57,886)
Deferred tax liabilities	(1,291)	(6,133)	-	-	(7,424)
Current liabilities					
Loans and borrowings	(3,314)	(23,517)	(12,259)	(145)	(39,235)
Trade and other payables	(21,152)	(15,548)	(7,152)	(4,954)	(48,806)
Income tax payable	(1,478)	(293)	(297)	(175)	(2,243)
Net identifiable assets, liabilities and contingent liabilities	99,146	136,313	41,198	36,605	313,262
Minority interest	(4)	(54,739)	(11,125)	(6,676)	(72,544)
Net identifiable assets, liabilities and contingent liabilities recognised as additional paid-in capital and retained earnings	99,142	81,574	30,073	29,929	240,718

(b) Acquisition of minority interests

During 2005 and 2006 Baltic Beverages Holding AB acquired minority interests in OAO Pikra, OAO Vena and OAO Yarpivo which resulted in additional goodwill of EURO 168,604 thousand and EURO 10,549 thousand in 2005 and 2006 respectively, recognized for the purposes of these consolidated financial statements. As a result of the acquisition of minority interests in OAO Pikra, OAO Vena and OAO Yarpivo during share exchanges in July and December 2006 the Group recognized additional goodwill of EURO 68,697 thousand (refer note 1(b)).

5 Administrative expenses

	2006	2005 (Restated)
	’000 EURO	’000 EURO
Wages and salaries	19,243	19,159
Depreciation	9,589	7,415
Facilities	4,728	4,260
Other payroll expenses	4,411	2,236
Information technology and communications	4,295	3,525
Payroll taxes	2,992	3,136
Charity	1,640	1,770
Other administrative expenses	15,489	16,174
	62,387	57,675

6 Other operating expenses, net

	2006	2005 (Restated)
	’000 EURO	’000 EURO
Loss on disposal of property, plant and equipment	(163)	(2,803)
Other income	5	236
	(158)	(2,567)

7 Personnel costs

	2006	2005
		(Restated)
	’000 EURO	’000 EURO
Wages and salaries	121,123	106,405
Payroll taxes	24,092	21,572
Other payroll expenses	12,497	11,042
	157,712	139,019

The average number of employees during the year ended 31 December 2006 was 11,045 (year ended 31 December 2005: 11,539).

8 Financial income and expenses

	2006	2005
		(Restated)
	’000 EURO	’000 EURO
Financial income		
Interest income	17,058	10,833
Foreign exchange gain	17,327	8,322
	34,385	19,155
Financial expenses		
Interest expense	10,762	10,366
Foreign exchange loss	8,999	11,868
	19,761	22,234

9 Income tax expense

	2006 ’000 EURO	2005 (Restated) ’000 EURO
Current tax expense		
Current year	93,789	64,088
Deferred tax expense		
Origination and reversal of temporary differences	9,535	1,051
	103,324	65,139

The Group’s applicable tax rate is the corporate income tax rate of 24% (2005: 24%).

Reconciliation of effective tax rate:

	2006 ’000 EURO	%	2005 (Restated) ’000 EURO	%
Profit before tax	441,773		301,137	
Income tax at applicable tax rate	106,025	24.0	72,273	24.0
Non-deductible expenses	17,384	3.9	10,596	3.5
Effects of local concessions granted to branches	(3,794)	(0.8)	(3,106)	(1.0)
Effects of concessions granted in respect of the local portion of the statutory tax rate	(15,803)	(3.6)	(13,016)	(4.4)
Other	(488)	(0.1)	(1,608)	(0.5)
	103,324	23.4	65,139	21.6

10 Property, plant and equipment

’000 EURO	**Land and buildings**	**Machinery and equipment**	**Kegs**	**Construction in progress**	**Total**
Cost/deemed cost					
At 1 January 2005, as previously reported	140,260	371,470	18,299	42,965	572,994
Acquisitions from entities under common control (refer note 3(a)(ii))	84,305	193,853	9,725	36,765	324,648
At 1 January 2005, as restated	224,565	565,323	28,024	79,730	897,642
Additions	5,192	67,670	7,945	63,526	144,333
Disposals	(1,780)	(5,691)	(2,051)	-	(9,522)
Transfers	9,554	41,717	1,415	(52,686)	-
Foreign currency translation difference	24,220	63,311	3,215	8,797	99,543
At 31 December 2005	261,751	732,330	38,548	99,367	1,131,996
At 1 January 2006	261,751	732,330	38,548	99,367	1,131,996
Additions	5,364	93,839	3,919	98,443	201,565
Disposals	(299)	(5,104)	(585)	(654)	(6,642)
Transfers	22,915	23,783	2,506	(49,204)	-
Foreign currency translation difference	(4,328)	(12,761)	(675)	(2,280)	(20,044)
At 31 December 2006	285,403	832,087	43,713	145,672	1,306,875

Depreciation and impairment losses					
At 1 January 2005, as previously reported	(3,605)	(49,098)	(1,875)	-	(54,578)
Acquisitions from entities under common control (refer note 3(a)(ii))	(2,971)	(22,401)	(854)	-	(26,226)
At 1 January 2005, as restated	(6,576)	(71,499)	(2,729)	-	(80,804)
Depreciation charge	(7,997)	(88,738)	(3,995)	-	(100,730)
Disposals	757	3,554	1,103	-	5,414
Transfers	(400)	400	-	-	-
Foreign currency translation difference	(935)	(10,214)	(297)	-	(11,446)
At 31 December 2005	(15,151)	(166,497)	(5,918)	-	(187,566)
At 1 January 2006	(15,151)	(166,497)	(5,918)	-	(187,566)
Depreciation charge	(8,512)	(110,046)	(6,980)	-	(125,538)
Disposals	93	5,030	517	-	5,640
Transfers	480	(480)	-		-
Foreign currency translation difference	356	4,207	197	-	4,760
At 31 December 2006	(22,734)	(267,786)	(12,184)	-	(302,704)
Net book value					
At 1 January 2005, restated	217,989	493,824	25,295	79,730	816,838
At 31 December 2005	246,600	565,833	32,630	99,367	944,430
At 31 December 2006	262,669	564,301	31,529	145,672	1,004,171

Depreciation expenses of EUR 76,423 thousand have been included in cost of goods sold (2005: EUR 66,719 thousand), EUR 42,871 thousand in distribution expenses (2005: EUR 27,224 thousand) and EUR 6,244 thousand in administrative expense (2005: EUR 6,787 thousand).

(a) Leased plant and machinery

The Group leased production equipment under various finance lease agreements that expired during 2006. As at 31 December 2006 the net book value of leased plant and machinery was nil (31 December 2005: EURO 12,980 thousand). The leased equipment secured the lease obligations.

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

11 Intangible assets

’000 EURO	Goodwill	Software and licences	Total Intangible assets
Cost			
At 1 January 2005, as previously reported	-	2,990	2,990
Acquisitions from entities under common control (refer note 3(a)(ii))	78,044	621	78,665
At 1 January 2005, as restated	78,044	3,611	81,655
Additions	168,604	1,515	170,119
Disposals	-	(25)	(25)
Foreign currency translation difference	13,565	430	13,995
At 31 December 2005	260,213	5,531	265,744
At 1 January 2006	260,213	5,531	265,744
Additions	79,246	2,944	82,190
Disposals	-	-	-
Foreign currency translation difference	(5,165)	(131)	(5,296)
At 31 December 2006	334,294	8,344	342,638
Amortisation			
At 1 January 2005, as previously reported	-	(684)	(684)
Acquisitions from entities under common control (refer note 3(a)(ii))	-	(178)	(178)
At 1 January 2005, as restated	-	(862)	(862)
Amortisation charge	-	(1,471)	(1,471)
Disposals	-	9	9
Foreign currency translation difference	-	(137)	(137)
At 31 December 2005	-	(2,461)	(2,461)
At 1 January 2006	-	(2,461)	(2,461)
Amortisation charge	-	(3,116)	(3,116)
Disposals	-	-	-
Foreign currency translation difference	-	87	87
At 31 December 2006	-	(5,490)	(5,490)

Net book value			
At 1 January 2005, restated	78,044	2,749	80,793
At 31 December 2005	260,213	3,070	263,283
At 31 December 2006	334,294	2,854	337,148

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

(a) Impairment testing of goodwill

For the purposes of impairment testing, goodwill is considered at the Group level and has not been allocated to individual plants. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the Group's plants represents the value in use as determined by discounting the future cash flows generated from their continuing use.

The following key assumptions were used in determining the recoverable amount of the Group's plants:

- Cash flows were projected based on actual operating results and the five-year business plan.
- Total production at the plants for 2006 was approximately 37,160,000 hectoliters. The anticipated annual production growth included in the cash flow projections was from 5% to 13% for the years 2007 to 2011.
- Cash flows for a further five years were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.
- A discount rate of 12.5% was applied in determining the recoverable amount of the Group's plants. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on an average industry debt to total capital ratio of 16% at a market interest rate of 8.75%.

The values assigned to the key assumptions represent management's assessment of future trends in the beer production industry and are based on both external and internal sources.

Although no impairment loss was recognised in respect of goodwill, the determination of the recoverable amount is sensitive to the rate at which the Group achieves its planned growth in production. If actual production were to be below estimated production by 24% in 2007 and subsequent years, the value in use would approximate the carrying amount of the plants.

12 Investments in associates

The Group has the following investments in associates:

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

This company produces malt. The Group's share of post-acquisition total recognised gains and losses in associates as of 31 December 2006 was EURO 5,913 thousand (31 December 2005: EURO 6,601 thousand).

13 Other investments

	2006	2005 (Restated)
	'000 EURO	'000 EURO
Non-current		
Available-for-sale investments:		
Stated at cost	283	286
Current		
Investments held-to-maturity:		
Promissory notes	181,459	116,670
Loans to banks	14,824	14,912
	196,283	131,582

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

Investments held-to-maturity represent bank promissory notes purchased from a range of Russian based banks. The initial maturity period on acquisition 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 14).

14 Repurchase agreements

The Group purchases financial instruments under agreements to resell them at future dates. The seller commits to repurchase the same or similar instruments at an agreed future date. Repurchase agreements are commonly used as a tool for short-term financing. As at 31 December 2006 financial instruments 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	14,824	26,676	11 April 2007 16 April 2007	15,159

Total interest income earned in connection with repurchase agreements for the year ended 31 December 2006 was EURO 1,083 thousand (31 December 2005: EURO 357 thousand).

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

’000 EURO	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
		(Restated)		(Restated)		(Restated)
Property, plant and equipment	-	411	(55,517)	(47,543)	(55,517)	(47,132)
Intangible assets	117	-	-	(62)	117	(62)
Investments	-	-	(433)	(493)	(433)	(493)
Inventories	-	565	(1,083)	(1,007)	(1,083)	(442)
Trade and other receivables	4,258	1,816	-	-	4,258	1,816
Trade and other payables	4,574	6,936	(78)	-	4,496	6,936
Net tax assets/(liabilities)	8,949	9,728	(57,111)	(49,105)	(48,162)	(39,377)

During the year ended 31 December 2006 EURO 9,535 thousand (2005: EURO 1,051 thousand) of the movement in the net deferred tax liability was recognized in the income statement and EURO 750 thousand (2005: EURO 3,875 thousand), relating to foreign exchange differences, was recognized directly in equity.

16 Inventories

	2006	2005 (Restated)
	’000 EURO	’000 EURO
Raw materials and consumables	112,921	94,389
Work in progress	10,038	8,730
Finished goods and goods for resale	30,444	18,861
	153,403	121,980
Write-down of inventories in the current year	474	1,448
Reversal of previous write-down of inventories	-	-

17 Trade and other receivables

	2006	2005 (Restated)
	’000 EURO	’000 EURO
Accounts receivable - trade	59,778	58,274
VAT receivable	9,379	24,249
Advances to suppliers	32,769	13,955
Other receivables	18,671	9,633
	120,597	106,111
Accumulated impairment losses on receivables	(3,569)	(3,240)
	117,028	102,871

18 Cash and cash equivalents

	2006	2005 (Restated)
	’000 EURO	’000 EURO
Bank balances	35,534	21,651
Bank deposits and bank promissory notes	10,862	23,095
Cash and cash equivalents in the balance sheet and in the statement of cash flows	46,396	44,746

19 Equity

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	**Ordinary shares 2006**	**Ordinary shares 2005**	**Preference shares 2006**	**Preference shares 2005**
Authorised shares				
Par value	RUR 1	RUR 1	RUR 1	RUR 1
On issue at beginning of the year	117,158,530	117,158,530	13,545,150	13,545,150
Issued for cash	189,860	-	-	-
Redemption	(7,095)	-	(5,035)	-
Issued for share exchanges in subsidiaries	44,201,849	-	-	-
On issue at end of the year, fully paid	161,543,144	117,158,530	13,540,115	13,545,150

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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 Company held 85,020 of its own ordinary shares and 31,875 of its own preference shares (31 December 2005: no ordinary and 60,508 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. As at 31 December 2006 the Company had retained earnings, including profit for the current year of EURO 710,861 thousand (31 December 2005: EURO 594,754 thousand).

The following table details the dividends declared by the Company for the years ended 31 December 2006 and 31 December 2005:

	RUR per share	EURO per share equivalent	'000 EURO
31 December 2005			
Preference shares			
Dividends for 2004 (first instalment)	10.87	0.30	4,091
Dividends for 2004 (second instalment)	7.25	0.20	2,728
Total dividends declared on preference shares in 2005			6,819
Ordinary shares			
Dividends for 2004 (first instalment)	8.36	0.23	27,212
Dividends for 2004 (second instalment)	5.58	0.16	18,162
Total dividends declared on ordinary shares in 2005			45,374
31 December 2006			
Preference shares			
Dividends for 2005	24.33	0.71	9,553
Ordinary shares			
Dividends for 2005	24.33	0.71	82,629

The Shareholders' meeting held on 30 May 2006 approved dividends amounting to EURO 92,182 thousand.

During the year ended 31 December 2006 the following dividends were declared by OAO Vena, OAO Yarpivo and OAO Pikra to Baltic Beverage Holding AB and minority shareholders (refer note 3(a)(ii)): OAO Vena - EURO 16,723 thousand, OAO Yarpivo – EURO 13,164 thousand (during 2005: OAO Vena – EURO 4,646 thousand, OAO Yarpivo – EURO 20,592 thousand, OAO Pikra – EURO 1,033 thousand).

20 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Group has no potentially dilutive securities.

Weighted average number of ordinary shares

Number of shares unless otherwise stated	**2006**	**2005**
Issued shares at 1 January	117,158,530	117,158,530
Shares issued in July and December 2006 to Baltic Beverages Holding AB deemed to have been issued as at 1 January 2005	25,513,046	25,513,046
Shares issued in July and December 2006 to Baltic Beverages Holding AB deemed to have been issued During 2005 and 2006	14,666,287	7,272,871
Effect of own shares held	(59,648)	(22,238)
Effect of shares issued in July and December 2006 to minority shareholders	1,035,500	-
Weighed average number of shares for the year ended 31 December	158,313,715	149,922,209

Profit attributable to ordinary shareholders

	2006	**2005**
		(Restated)
	’000 EURO	**’000 EURO**
Net profit for the year attributable to shareholders of the Company	330,872	232,416
Preference dividends recognised during the year	(9,553)	(6,819)
Net profit attributable to ordinary shares	321,319	225,597

21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 24.

	2006	**2005**
		(Restated)
	'000 EURO	**'000 EURO**
Non-current		
Unsecured bank facility	1,760	3,254
Secured bank loans	30,140	63,869
Loans from parent company	-	41,138
Bonds issued	-	29,253
Finance lease liabilities	-	3,218
	31,900	140,732
Current		
Unsecured bank facility	25,686	14,074
Current portion of secured bank loans	12,895	-
Loans from parent company	-	194
Bonds issued	29,098	273
Current portion of finance lease liabilities	-	4,168
	67,679	18,709

Bank loans are secured by the guarantee of the Company's parent company, Baltic Beverages Holding AB, for the full amount.

(a) Finance lease liabilities

Finance lease liabilities are payable as follows:

	2006			2005 (Restated)		
'000 EURO	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	-	-	-	4,647	479	4,168
Between one and five years	-	-	-	3,512	294	3,218
	-	-	-	8,159	773	7,386

22 Provisions

Provision for restructuring expenses	**2006**
	'000 EURO
Balance at 1 January 2006	1,901
Provision used during the year	(614)
Provision reversed during the year	(1,628)
Foreign currency translation difference	341
Balance at 31 December 2006	-

In order to streamline its operations, the Group adopted a long-term strategic plan. During the year ended 31 December 2005 the Group raised a provision of EURO 1,901 thousand in relation to the proposed restructuring of its distribution network as a result of the restructuring of the Group's operations. Part of the provision was used during 2006 and the remainder was reversed as it was no longer required.

23 Trade and other payables

	2006	**2005 (Restated)**
Trade and other payables	**'000 EURO**	**'000 EURO**
Accounts payable - trade	120,830	67,110
Taxes payable	23,472	22,491
Accrued salaries, wages and benefits	23,313	26,338
Dividends payable	2,060	17,811
Payables to associates	1,978	2,169
Other payables and accrued expenses	10,197	10,604
	181,850	146,523

24 Financial instruments

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

(a) Credit risk

The Group requires collateral in respect of financial assets in excess of a certain amount. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

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

(b) Interest rate risk

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

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

2006	Average interest rate				
’000 EURO	**Contractual**	**Effective**	**0-6 mths**	**6-12 mths**	**Total**
Assets					
Loans to banks					
RUR	8.14%	8.14%	14,824	-	14,824
Held to maturity investments					
RUR	6.99%	6.99%	148,048	-	148,048
USD	4.79%	4.79%	27,255	-	27,255
EURO	5.4%	5.4%	6,156	-	6,156
Cash and cash equivalents					
RUR	5.73%	5.73%	10,862	-	10,862
Liabilities					
Secured bank loans					
USD	LIBOR+0.75%	6.12%	(43,035)	-	(43,035)
Unsecured bank loans:					
USD	LIBOR+1%	6.37%	(9,807)	-	(9,807)
USD	LIBOR+0.65%	6.27%	(2,933)	-	(2,933)
RUR	7.11%	7.11%	(14,706)	-	(14,706)
Unsecured bond issues:					
RUR*	8.75%	8.75%	(276)	(28,822)	(29,098)
			136,388	(28,822)	107,566

* Fixed rate debt does not reprice until contractual maturity.

2005 (Restated)	**Average interest rate**					
’000 EURO	**Contractual**	**Effective**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**Total**
Assets						
Loans to banks						
RUR	7.76%	7.76%	12,416	2,496	-	14,912
Held to maturity investments						
RUR	7.52%	7.52%	75,061	23,924	-	98,985
USD	6.02%	6.02%	14,652	-	-	14,652
EURO	5.4%	5.4%	3,033	-	-	3,033
Cash and cash equivalents						
RUR	6.41%	6.41%	23,095	-	-	23,095
Liabilities						
Secured bank loans						
USD	LIBOR+1.5%	6.16%	(63,869)	-	-	(63,869)
Unsecured bank loans:						
USD	LIBOR+0.65 %	3.92%	(4,557)	-	-	(4,557)
RUR	8.93%	8.93%	(12,771)	-	-	(12,771)
Loans from parent company						
USD	LIBOR+2%	6.21%	(41,332)	-	-	(41,332)
Unsecured bond issues:						
RUR*	8.75%	8.75%	(273)	-	(29,253)	(29,526)
Finance lease liabilities						
USD	LIBOR+5%	7.81%	(7,386)	-	-	(7,386)
			(1,931)	26,420	(29,253)	(4,764)

* Fixed rate debt does not reprice until contractual maturity.

(c) Foreign currency risk

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

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

As at 31 December 2006 the amount of outstanding forward contracts for the purchase of EURO for RUR amounted to RUR 125,919 thousand (31 December 2005: RUR 53,388 thousand) and for the purchase of EURO for USD amounted to USD 4,807 thousand (31 December 2005: USD 1,965 thousand).

(d) Fair values

The fair value of investments is discussed in note 13. In other cases management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

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

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

Loans and borrowings. Expected future principal and interest cash flows were discounted at rates between 6 and 9 %, these rates were not materially different from the contractual interest rates.

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

25 Commitments

As at 31 December 2006 the Group had the following capital commitments (31 December 2005: EURO 49,509 thousand):

Project	2006 '000 EURO
St. Petersburg plant	32,800
Baltika-Samara plant	24,500
Baltika-Tula plant	8,100
Baltika-Rostov plant	3,300
Baltika-Chelyabinsk plant	3,300
Baltika-Khabarovsk plant	1,200
Baltika-Yaroslavl plant	600
Total	73,800

26 Contingencies

Taxation contingencies

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

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

In particular, the Group is currently involved in several litigations related to the right to apply a property tax concession and profits tax concessions granted by the local legislation of St. Petersburg. Provision has been made in these consolidated financial statements in relation to the property tax disputes as management believe that it is probable that an outflow of funds will be required to settle these obligations. No provision has been made in relation to the profits tax concessions disputes as management believe that there is a remote likelihood that an outflow of funds will be required to settle these obligations.

27 Related party transactions

(a) Control relationships

The Company's parent company is Baltic Beverages Holding AB (refer note 1(a)). Baltic Beverages Holding AB is owned by Pripps Ringnes AB (50%) and Oy Hartwall AB (50%). The ultimate parent company of Pripps Ringnes AB is Carlsberg Breweries A/S. The ultimate parent company of Oy Hartwall AB is Scottish & Newcastle plc.

No publicly available financial statements are produced for the Company's parent company.

(b) Management remuneration

Key management personnel received EURO 7,903 thousand as salaries and bonuses during the year ended 31 December 2006 (EURO 7,148 thousand during the year ended 31 December 2005), which is included in personnel costs.

(c) Transactions with other related parties

The Group's other related party transactions are disclosed below.

	2006	**2005 (Restated)**
	'000 EURO	**'000 EURO**
Sale of goods:		
Fellow subsidiaries	6,539	11,373
Royalties received:		
Fellow subsidiaries	562	-
Services provided:		
Associate	1,929	1,790
	9,030	13,163

	2006	**2005 (Restated)**
	’000 EURO	**’000 EURO**
Purchase of raw materials:		
Fellow subsidiaries	-	2,061
Associate	15,668	21,271
Services received:		
Fellow subsidiaries	437	868
Royalties paid:		
Fellow subsidiaries	2,769	1,690
Interest on borrowings:		
Parent company	2,187	2,002
	21,061	27,892

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

	2006	**2005 (Restated)**
	’000 EURO	**’000 EURO**
Receivables:		
Fellow subsidiaries	1,399	1,663

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

	2006	2005 (Restated)
	’000 EURO	’000 EURO
Trade payables:		
Fellow subsidiaries	853	260
Associate	1,978	2,169
Royalties payable:		
Fellow subsidiaries	563	470
Financial liabilities		
Parent company	-	54,525
Fellow subsidiaries	84	-
	3,478	57,424

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

During the year ended 31 December 2006 the Group purchased malt from Soufflet, an associate of the Group, amounting to EURO 15,668 thousand (excluding VAT) or 11.3% of the total value of malt purchases and 63,759 tons or 10.9% of the total volume of malt purchases. During the year ended 31 December 2005 the Group's malt purchases from Soufflet amounted to EURO 21,271 thousand (excluding VAT) or 14.6% of the total value of malt purchases and 79,361 tons or 14.1% of the total volume of malt purchases.

The liability to Soufflet for malt purchases amounted to EURO 1,978 thousand and EURO 2,169 thousand as at 31 December 2006 and 31 December 2005, respectively.

During the years ended 31 December 2006 and 2005 the Group provided various services to Soufflet and received various services from Soufflet for insignificant amounts.

28 Subsidiaries

Name	Nature of business	Country of incorporation	Ownership/ voting 31 December 2006	Ownership/ voting 31 December 2005
OOO Baltika-Moscow	Distribution of Baltika beer	Russia	100%	100%
OOO Leasing-Optimum	Leasing	Russia	100%	100%
OOO Batika-Ukraine	Distribution of Baltika beer	Ukraine	100%	100%
Baltika S.R.L.	Distribution of Baltika beer	Moldova	100%	100%
Baltika-Almaty LLP	Distribution of Baltika beer	Kazakhstan	100%	100%
OsOO Baltika	Distribution of Baltika beer	Kirgizia	100%	100%
OOO Baltika-Bel	Distribution of Baltika beer	Belorussia	100%	100%
OOO Terminal Podolsk	Warehouse	Russia	100%	100%
OOO Universalopttorg	Warehouse	Russia	100%	100%
Baltika Deutschland GmbH	Distribution of Baltika beer	Germany	100%	100%