OAO BALTIKA BREWERIES AND SUBSIDIARIES

Consolidated Financial Statements

for the six months ended
30 June 2006

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		Six months ended 30 June	
		2006	**2005**
	Note	**'000 EURO**	**'000 EURO**
Gross revenues		586,975	496,602
Excise taxes		(55,406)	(46,960)
Revenues		531,569	449,642
Cost of sales		(244,656)	(219,084)
Gross profit		286,913	230,558
Distribution expenses		(141,618)	(112,809)
Administrative expenses	4	(20,315)	(16,659)
Other operating expenses, net	5	(110)	(268)
Provision for restructuring expenses	20	278	-
Financial income	7	9,729	6,543
Financial expenses	7	(4,720)	(6,012)
Income/(loss) from associates		(134)	760
Profit before tax		130,023	102,113
Income tax expense	8	(35,363)	(20,704)
Net profit for the period		94,660	81,409

Basic and diluted earnings per share	23	0.73 EURO	0.64 EURO

Anton Artemev
President

Ekaterina Azimina
Vice-President on finance and economy

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 36.

	Note	30 June 2006 '000 EURO	31 December 2005 '000 EURO
ASSETS			
Non-current assets			
Property, plant and equipment	9	586,401	567,853
Intangible assets	10	2,571	2,570
Investments in associates	11	8,265	8,383
Other investments	12	19,890	14,772
		617,127	593,578
Current assets			
Other investments	12	182,540	131,582
Inventories	15	86,289	75,584
Income tax receivable		519	1,731
Trade and other receivables	16	121,442	52,502
Cash and cash equivalents	17	21,583	41,380
		412,373	302,779
Total assets		1,029,500	896,357
EQUITY AND LIABILITIES			
Equity	18		
Preference shares		2,536	2,536
Ordinary shares		20,087	20,081
Share premium		43,123	37,929
Treasury shares		(2,505)	(1,409)
Foreign currency translation reserve		48,115	44,882
Retained earnings		652,174	649,696
		763,530	753,715
Non-current liabilities			
Loans and borrowings	19	32,513	33,159
Deferred tax liabilities	14	33,554	29,091
		66,067	62,250
Current liabilities			
Loans and borrowings	19	7,247	2,964
Income tax payable		7,460	-
Trade and other payables	21	183,561	75,527
Provisions	20	1,635	1,901
		199,903	80,392
Total equity and liabilities		1,029,500	896,357

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 7 to 36.

	Six months ended 30 June	
	2006	**2005**
	’000 EURO	**’000 EURO**
OPERATING ACTIVITIES		
Net profit for the period	94,660	81,409
Adjustments for:		
Depreciation and amortisation	37,551	32,883
Loss on disposal of property, plant and equipment	176	428
Loss/(increase) from associates	134	(760)
Interest expense	1,421	1,987
Interest income	(7,045)	(2,893)
Income tax expense	35,363	20,704
Operating profit before changes in working capital and provisions	162,260	133,758
Increase in inventories	(10,234)	2,661
(Increase)/decrease in trade and other receivables	(66,468)	2,883
Increase in trade and other payables	95,609	20,827
Decrease in provisions	(278)	(16,670)
Cash flows from operations before income taxes and interest paid	180.889	143,459
Income taxes paid	(22,467)	(15,881)
Interest paid	(1,425)	(2,471)
Cash flows from operating activities	156,997	125,107
INVESTING ACTIVITIES		
New shares issued	5,195	-
Proceeds from disposal of property, plant and equipment	74	293
Interest received	7,045	2,889
Purchase of investment securities	(5,024)	(13,776)
Repayment of bank loans	7,056	-
Purchase of bank promissory notes	(57,175)	9,328
Acquisition of property, plant and equipment and intangible assets	(52,817)	(28,200)
Net increse in loans made to third parties	(888)	(1,344)
Financial revenue received under finance leases	-	45
Principal payments received under finance leases	-	927
Cash flows used in investing activities	(96,534)	(29,838)
FINANCING ACTIVITIES		
Increase/(decrease) in indebtedness to banks	5,879	(35,149)
Proceeds from sale of treasury shares	1,726	1,707
Purchase of treasury shares	(2,813)	(1,547)
Repayment of long-term borrowings	(629)	(5,255)
Payment of finance lease liabilities	(1,490)	(1,420)
Dividends paid	(82,803)	(29,523)
Cash flows used in financing activities	(80,130)	(71,187)
Net (decrease)/increase in cash and cash equivalents	(19,667)	24,082
Cash and cash equivalents at beginning of period	41,380	45,990
Effect of exchange rate fluctuations on cash and cash equivalents	(130)	5,671
Cash and cash equivalents at end of period (note 17)	21,583	75,743

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 7 to 36.

’000 EURO	**Preference Shares**	**Ordinary Shares**	**Share premium**	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2005	2,536	20,081	37,929	(368)	(15,913)	511,506	555,771
Net profit for the period	-	-	-	-	-	81,409	81,409
Foreign exchange differences	-	-	-	-	53,037	-	53,037
Total recognised income and expenses							134,446
Treasury stock acquired	-	-	-	(1,547)	-	-	(1,547)
Treasury stock sold	-	-	-	1,680	-	-	1,680
Dividends	-	-	-	-	-	(52,193)	(52,193)
Balance at 30 June 2005	2,536	20,081	37,929	(235)	37,124	540,722	638,157
Net profit for the period	-	-	-	-	-	108,974	108,974
Foreign exchange differences	-	-	-	-	7,758	-	7,758
Total recognised income and expenses							116,732
Treasury stock acquired	-	-	-	(2,563)	-	-	(2,563)
Treasury stock sold	-	-	-	1,389	-	-	1,389
Balance at 31 December 2005	2,536	20,081	37,929	(1,409)	44,882	649,696	753,715
Net profit for the period	-	-	-	-	-	94,660	94,660
Foreign exchange differences	-	-	-	-	3,233	-	3,234
Total recognised income and expenses							97,894
Shares issued		6	5,194	-	-	-	6,409
Treasury stock acquired	-	-	-	(2,813)	-	-	(2,813)
Treasury stock sold	-	-	-	1,717	-	-	1,717
Dividends	-	-	-	-	-	(92,182)	(92,182)
Balance at 30 June 2006	2,536	20,087	43,123	(2,505)	48,115	652,174	763,530

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 7 to 36.

1 Background

(a) Organisation and operations

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

As at 30 June 2006 Baltic Beverages Holding AB owns and controls 90.14% of the Company’s ordinary shares and 25.6% of the Company’s preference shares. The remainder of the ordinary and preference shares are widely held.

As at 30 June 2006 the Group consisted of five production plants: Baltika-Saint-Petersburg, Baltika-Tula, Baltika-Rostov, Baltika-Samara and Baltika-Khabarovsk and ten subsidiaries: OOO Baltika-Moscow, OOO Leasing-Optimum, OOO Universalopttorg, OOO Terminal Podolsk, OOO Baltika-Ukraine, OsOO Baltika, Baltika S.R.L., Baltika-Almaty LLP, OOO Baltika-Bel and Baltika Deutschland GmbH.

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

Related party transactions are detailed in note 26.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates

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

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

- Note 20 – provisions
- Note 25 – contingencies

3 Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

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

Associates

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

Transactions eliminated on consolidation

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

(b) Foreign currencies

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

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

(c) Property, plant and equipment

Owned assets

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

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

Leased assets

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

Subsequent expenditure

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

Depreciation

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

The estimated useful lives are as follows:

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

(d) Intangible assets

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

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

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

(e) Investments

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

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

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

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

(f) Repurchase transactions

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

(g) Derivative financial instruments

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

(h) Inventories

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

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

(i) Trade and other receivables

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

(j) Cash and cash equivalents

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

(k) Impairment

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

Calculation of recoverable amount

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

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

Reversals of impairment

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

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

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

(l) Share capital

Preference share capital

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

Repurchase of share capital

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

Dividends

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

(m) Loans and borrowings

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

(n) Employee benefits

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

(o) Provisions

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

Restructuring

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

(p) Trade and other payables

Trade and other payables are stated at cost.

(q) Income tax

Income tax for the period 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 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 provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

(r) Revenues

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

(s) Financial income and expenses

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

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

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

(t) Other expenses

Operating leases

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

Social expenditure

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

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations:

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

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

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

4 Administrative expenses

	Six months ended 30 June	
	2006	**2005**
	'000 EURO	**'000 EURO**
Wages and salaries	6,688	7,392
Depreciation	3,139	2,579
Payroll taxes	1,326	1,365
Other payroll expenses	1,154	758
Facilities	1,305	1,353
Information technology and communications	1,105	842
Charity	564	469
Other administrative expenses	5,034	1,901
	20,315	16,659

5 Other operating expenses, net

	Six months ended 30 June	
	2006	**2005**
	'000 EURO	**'000 EURO**
Loss on disposal of property, plant and equipment	(176)	(428)
Other income/(loss)	66	160
	(110)	(268)

6 Total personnel costs

	Six months ended 30 June	
	2006	**2005**
	'000 EURO	**'000 EURO**
Wages and salaries	40,828	35,860
Payroll taxes	9,584	7,909
Other payroll expenses	4,193	3,126
	54,605	46,895

The average number of employees during the six months ended 30 June 2006 was 7,530 (six months ended 30 June 2005: 7,824).

7 Financial income and expenses

	Six months ended 30 June	
	2006	**2005**
	’000 EURO	**’000 EURO**
Financial income		
Interest income	7,046	2,893
Foreign exchange gain	2,683	3,650
	9,729	6,543
Financial expenses		
Interest expense	1,421	1,987
Other financial expenses	-	184
Foreign exchange loss	3,299	3,841
	4,720	6,012

8 Income tax expense

	Six months ended 30 June	
	2006	**2005**
	’000 EURO	**’000 EURO**
Current tax expense		
Current year	31,073	21,337
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	4,290	(633)
	35,363	20,704

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

Reconciliation of effective tax rate:

	Six months ended 30 June			
	2006 '000 EURO	%	2005 '000 EURO	%
Profit before tax	130,023		102,113	
Income tax at applicable tax rate	31,206	24.0	24,507	24.0
Non-deductible items	4,567	3.5	3,062	3.0
Effect of local concessions granted to branches	(1,824)	(1.4)	(1,238)	(1.2)
Effects of concessions granted in respect of the local portion of the statutory tax rate	(4,723)	(3.6)	(3,066)	(3.0)
Other	6,137	4.7	(2,561)	(2.5)
	35,363	27.2	20,704	20.3

9 Property, plant and equipment

'000 EURO	Land and buildings	Machinery and equipment	Kegs	Construction in progress	Total
Cost/deemed cost					
At 1 January 2005	140,260	371,470	18,299	42,965	572,994
Additions	2,137	45,592	4,231	13,680	65,640
Disposals	(378)	(4,617)	(1,061)	-	(6,056)
Transfers	3,618	29,497	5	(33,120)	-
Foreign currency translation difference	15,043	41,710	2,052	3,949	62,754
At 31 December 2005	160,680	483,652	23,526	27,474	695,332
Additions	211	22,594	1,932	27,331	52,068
Disposals	(7)	(1,346)	(4)	-	(1,357)
Transfers	1,370	5,427	246	(7,113)	(70)
Foreign currency translation difference	990	2,933	142	180	4,245
At 30 June 2006	163,244	513,260	25,842	47,872	750,218

Depreciation and impairment losses					
At 1 January 2005	(3,605)	(49,098)	(1,875)	-	(54,578)
Depreciation charge	(4,549)	(61,565)	(2,602)	-	(68,716)
Disposals	22	2,836	757	-	3,615
Foreign currency translation difference	(524)	(7,019)	(257)	-	(7,800)
At 31 December 2005	(8,656)	(114,846)	(3,977)	-	(127,479)
Depreciation charge	(2,543)	(32,661)	(1,411)	-	(36,615)
Disposals	7	1,099	-	-	1,106
Foreign currency translation difference	(55)	(749)	(25)	-	(829)
At 30 June 2006	(11,247)	(147,157)	(5,413)	-	(163,817)
Net book value					
At 1 January 2005	136,655	322,372	16,424	42,965	518,416
At 31 December 2005	152,024	368,806	19,549	27,474	567,853
At 30 June 2006	151,997	366,103	20,429	47,872	586,401

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements that expire within this year. At 30 June 2006 the net book value of leased plant and machinery was EURO 4,284 thousand (31 December 2005: EURO 6,992 thousand). The leased equipment secures the lease obligations.

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

10 Intangible assets

’000 EURO	**Intangible assets**
Cost	
At 1 January 2005	2,990
Additions	1,246
Foreign currency translation difference	356
At 31 December 2005	4,592
Additions	851
Transfers	70
Foreign currency translation difference	29
At 30 June 2006	5,542
Amortisation	
At 1 January 2005	(684)
Amortisation charge	(1,227)
Foreign currency translation difference	(111)
At 31 December 2005	(2,022)
Amortisation charge	(936)
Foreign currency translation difference	(13)
At 30 June 2006	(2,971)
Net book value	
At 1 January 2005	2,306
At 31 December 2005	2,570
At 30 June 2006	2,571

The amortisation charge for the period 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 June 2006 was EURO 6,472 thousand (31 December 2005: EURO 6,601 thousand).

12 Other investments

	30 June 2006	**31 December 2005**
	'000 EURO	**'000 EURO**
Non-current		
Available-for-sale investments:		
Stated at cost	19,890	14,772
Current		
Investments held-to-maturity:		
Promissory notes	174,596	116,670
Originated loans and receivables:		
Loans to banks	7,944	14,912
	182,540	131,582

Available-for-sale investments stated at cost comprise unquoted equity securities in the brewery industry. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. However, the investments were acquired during 2005 and 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 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 June 2006 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	7,944	10,806	11 July 2006 11 September 2006	8.038

Total interest income earned in connection with repurchase agreements for the six months ended 30 June 2006 was EURO 568 thousand (30 June 2005: 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 June 2006	**31 December 2005**	**30 June 2006**	**31 December 2005**	**30 June 2006**	**31 December 2005**
Property, plant and equipment	249	411	(42,161)	(34,213)	(41,912)	(33,802)
Intangible assets	-	-	(82)	(74)	(82)	(74)
Investments	-	-	(481)	(493)	(481)	(493)
Inventories	28	547	(2,308)	(663)	(2,280)	(116)
Trade and other receivables	5,252	1,471	(384)	(244)	4,868	1,227
Trade and other payables	6,333	4,167	-	-	6,333	4,167
Net tax assets/(liabilities)	11,862	6,596	(45,416)	(35,687)	(33,554)	(29,091)

During the six months ended 30 June 2006 EURO 4,290 thousand of the movement in the deferred tax liability was recognized in the income statement as an accrual of temporary differences and EURO 173 thousand, representing foreign exchange differences, was recognized in equity.

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

15 Inventories

	30 June 2006 '000 EURO	31 December 2005 '000 EURO
Raw materials and consumables	59,471	59,269
Work in progress	7,928	6,406
Finished goods and goods for resale	18,890	12,852
	86,289	78,527
Provision for obsolete inventory	-	(2,943)
Inventory stated at net realisable value	86,289	75,584

16 Trade and other receivables

	30 June 2006 '000 EURO	31 December 2005 '000 EURO
Accounts receivable - trade	90,630	29,800
VAT receivable	6,104	10,257
Advances to suppliers	15,158	9,250
Other receivables	11,319	4,405
	123,211	53,712
Provision for doubtful debtors	(1,769)	(1,210)
	121,442	52,502

17 Cash and cash equivalents

	30 June 2006 '000 EURO	31 December 2005 '000 EURO
Bank balances	19,957	20,237
Bank deposits and bank promissory notes	1,626	21,143
Cash and cash equivalents in the balance sheet and in the statement of cash flows	21,583	41,380

18 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	**Ordinary shares**	**Ordinary shares**	**Preference shares**	**Preference shares**
	30 June 2006	**31 December 2005**	**30 June 2006**	**31 December 2005**
Authorised shares				
Par value	RUR 1	RUR 1	RUR 1	RUR 1
On issue at beginning of the period	117,158,530	117,158,530	13,545,150	13,545,150
Issued for cash	189,860	-	-	-
On issue at end of the period, fully paid	117,348,390	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 122,950 of its own ordinary shares and 26,876 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. At 30 June 2006 the EURO equivalent of the amount available for distribution for the Company, calculated based on the statutory retained earnings in roubles of the Company at the period end rate, is EURO 628,087 thousand (31 December 2005: EURO 594,754 thousand).

The following table details the declared dividends for the periods ended 30 June 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
30 June 2006			
Preference shares			
Dividends for 2005	24.33	0.71	9,553
Ordinary shares			
Dividends for 2005	24.33	0.71	82,629

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

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19 Loans and borrowings

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

	30 June 2006 ’000 EURO	31 December 2005 ’000 EURO
Non-current		
Unsecured bank facility	3,080	3,906
Bonds issued	29,433	29,253
	32,513	33,159
Current		
Unsecured bank facility	6,506	651
Bonds issued	268	273
Current portion of finance lease liability	473	2,040
	7,247	2,964

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

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

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

As at 30 June 2006 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 0.

(a) Finance lease liabilities

Finance lease liabilities are payable as follows:

	30 June 2006			31 December 2005		
’000 EURO	**Payments**	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	484	11	473	2,127	87	2,040

20 Provisions

Provision for restructuring	**2006**
	’000 EURO
Balance at 1 January 2006	1,901
Provision used during year	(278)
Foreign currency translation difference	12
Balance at 30 June 2006	1,635

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. During the six months ended 30 June 2006 the Group used EURO 278 thousand of this provision.

21 Trade and other payables

	30 June 2006	**31 December 2005**
Trade and other payables	**’000 EURO**	**’000 EURO**
Accounts payable - trade	113,276	34,698
Taxes payable	30,853	15,359
Accrued salaries, wages and benefits	21,709	19,273
Dividends payable	12,384	1,628
Payables to associates (Soufflet)	510	195
Other payables and accrued expenses	4,829	4,374
	183,561	75,527

22 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 trade receivables above a set amount. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

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

(b) Interest rate risk

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

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

30 June 2006	**Average interest rate**									
’000 EURO	**Contract**	**Effective**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**	**Total**
Liabilities										
Unsecured bank loans:										
USD	LIBOR+0.65%	3.92%	3,696							3,696
RUR	5.5%	5.5%	5,890	-	-	-	-	-	-	5,890
Unsecured bond issues:										
RUR*	8.75%	8.75%	268	-	29,433	-	-	-	-	29,701
Finance lease liabilities										
USD	LIBOR+5%	7.81%	473	-	-	-	-	-	-	473
			10,327	-	29,433	-	-	-	-	39,760

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

* Fixed rate debt does not reprice until contractual maturity.

(c) Foreign currency risk

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

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

As at 30 June 2006 the amount of outstanding forward contracts for the purchase of EURO for RUR amounted to RUR 111,506 thousand (31 December 2005: RUR 53,388 thousand). As at 30 June 2006 there were no outstanding forward contracts for the purchase of EURO for USD (31 December 2005: USD 1,965 thousand).

(d) Fair values

The fair value of investments is discussed in note 12.

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

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

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

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

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

23 Earnings per share

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

Weighted average number of ordinary shares

	Six months ended 30 June	
Number of shares unless otherwise stated	**2006**	**2005**
Issued shares	117,190,173	117,158,530
Effect of own shares held	(21,878)	(32,344)
Weighed average number of shares at 30 June 2006	117,168,295	117,126,186

Net profit attributable to ordinary shares

	Six months ended 30 June	
	2006	**2005**
	’000 EURO	**’000 EURO**
Net profit for the period	94,660	81,409
Dividends declared during the period on preference shares	(9,553)	(6,819)
Net profit attributable to ordinary shares	85,107	74,590

24 Commitments

As at 30 June 2006 the Group had the following major capital commitments (31 December 2005: EURO 21,048 thousand):

Project	**’000 EURO**
St. Petersburg plant	7,014
Baltika-Tula plant	2,072
Baltika-Rostov plant	956
Baltika-Samara plant	478
Baltika-Khabarovsk plant	399
Total	10,919

25 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 2005 the tax authorities performed an on-site tax audit which covered all major taxes for the 4th quarter of 2003 and the first 9 months of 2004. The total amount of additional taxes assessed by the tax authorities, based on the results of the tax audit, was approximately EURO 7,853 thousand plus penalties equal to 20% of the additional taxes assessed.

A provision of EURO 2,691 thousand has been made in these consolidated financial statements because management believe that it is likely that an outflow of funds will be required to settle certain aspects of the tax assessment.

The first hearing was held on 13 July 2006. The decision was in favour of the Company.

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

26 Related party disclosures

(a) Control relationships

The Company’s parent company is Baltic Beverages Holding AB (refer note 1(a) for the interest controlled). Baltic Beverages Holding AB is owned by Pripps Ringnes (50%) and Hartwall (50%). The ultimate parent company of Pripps Ringnes is Carlsberg Breweries A/S. The ultimate parent company of Hartwall is Scottish & Newcastle plc. In addition, the Company has a controlling relationship over all of its subsidiaries (refer note 27 for a list of significant subsidiaries).

(b) Management remuneration

Key management personnel received EURO 2,842 thousand as salaries and bonuses during the six months ended 30 June 2006 (EURO 2,842 thousand during the six months ended 30 June 2005), which is included in personnel costs.

(c) Transactions with related parties

The Group's related party transactions are disclosed below.

Sales to related parties for the period were as follows:

	Six months ended 30 June	
	2006	2005
	'000 EURO	'000 EURO
Sales of goods:		
Fellow subsidiaries	10,757	6,011
Commission:		
Fellow subsidiaries	2,185	-
Royalty:		
Fellow subsidiaries	202	-
Services provided:		
Associate	688	1,109
	13,832	7,120

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

	Six months ended 30 June	
	2006	2005
	'000 EURO	'000 EURO
Purchases of raw materials:		
Fellow subsidiaries	-	1,110
Associate	5,108	8,054
Services purchased:		
Fellow subsidiaries	204	-
Royalties:		
Fellow subsidiaries	594	368
	5,906	9,532

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

	30 June 2006	31 December 2005
	'000 EURO	'000 EURO
Receivables:		
Fellow subsidiaries	14,106	3,399

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

	30 June 2006	31 December 2005
	'000 EURO	'000 EURO
Trade payables:		
Fellow subsidiaries	39,472	878
Associate	510	195
Dividends:		
Fellow subsidiaries	5,825	-
Royalty payable:		
Fellow subsidiaries	543	98
	46,350	1,171

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

During the six months ended 30 June 2006 the Group purchased malt from Soufflet, an associate of the Group, amounting to EURO 5,108 thousand, (excluding VAT) or 11% of the total value of malt purchases, and 21,999 tons, or 11% of the total volume of malt purchases. During the six months ended 30 June 2005 the Group's purchases from Soufflet amounted to EURO 8,054 thousand (excluding VAT) or 16% of the total value of malt purchases, and 29,947 tons, or 15% of the total volume of malt purchases.

The liability to Soufflet for malt purchases amounted to EURO 510 thousand and EURO 195 thousand as at 30 June 2006 and 31 December 2005, respectively.

The Group paid royalties of EURO 594 thousand and EURO 368 thousand to Carlsberg for the six months ended 30 June 2006 and 2005, respectively. The liability to Carlsberg for royalties amounted to EURO 543 thousand and EURO 98 thousand as at 30 June 2006 and 31 December 2005, respectively.

During the six months ended 30 June 2006 the Group sold beer to fellow subsidiaries for EURO 3,380 thousand or 0.6% of the total value of sales and 66,710 hectolitres or 0.6% of the total volume of sales. During the six months ended 30 June 2005 the Group sold beer to fellow subsidiaries for EURO 6,011 thousand or 1.3% of the total value of sales and 137,563 hectolitres or 1.3% of the total volume of sales.

During the six months ended 30 June 2006 the Group sold beer, produced by fellow subsidiaries, on commission. The commission fee of EURO 2,185 thousand is included in the Group's revenues (30 June 2005: nil). The amount payable for resold beer as at 30 June 2006 was EURO 51,459 (31 December 2005: nil).

During the six months ended 30 June 2006 and 2005 the Group provided various services to its associate Soufflet and received various services from Soufflet for insignificant amounts.

27 Significant subsidiaries

As at 30 June 2006 the Company's subsidiary companies, all of which are included in the consolidation, comprise the following:

Name	Nature of business	Country of incorporation	Ownership/ voting	Ownership/ voting
			30 June 2006	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%

28 Events subsequent to the balance sheet date

At the extraordinary shareholders meeting on 7 March 2006 shareholders of the Group voted in favour of the proposed merger of Baltika with brewing companies Pikra, Vena and Yarpivo. When completed, the merger will reinforce the Group's position as Russia's number one brewer, and double the number of its breweries from 5 to 10.

Shareholders in Pikra, Vena and Yarpivo were offered the option of exchanging their shares for ordinary shares in Baltika or selling their shares to Baltika, if they wish to do so. Baltika ordinary shareholders have the opportunity to either sell their shares back to the Group or retain their shareholding in the enlarged Group. Completion of these steps will mark the conclusion of phase one of the merger, and the transfer of majority ownership in Pikra, Vena and Yarpivo to Baltika Breweries.

A share exchange between Baltika and BBH took place on 3 July 2006. This exchange made Baltika the new majority shareholder of these companies with 91.90% of the shares in Pikra, 92.76% in Vena and 87.19% in Yarpivo. As at 31 July, 2006 after exchanging shares with minority of Pikra, Vena and Yarpivo, Baltika owned 99.60% of the shares in Pikra, 98.12% in Vena and 92.62% in Yarpivo, respectively.

During the second phase of the merger process, Pikra, Vena and Yarpivo are to be fully merged into Baltika Breweries. This phase will be conditional upon the approval of the majority of all shareholders in Pikra, Vena and Yarpivo as well as the requisite Russian Federation regulatory consents. The entire merger process is expected to be completed by late 2006.