

**ОАО Балтика Breweries and subsidiaries**

**Consolidated Financial Statements  
for the year ended 31 December 2007**

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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 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG, a company  
incorporated under Laws of the  
Russian Federation and a member  
firm of the KPMG network of independent  
member firms affiliated with KPMG  
International, a Swiss cooperative  
St.Petersburg  
19 February 2008

Ernst & Young LLC  
Saint Petersburg  
19 February 2008

**OAO Baltika Breweries and subsidiaries**  
*Consolidated Income Statement for the year ended 31 December 2007*

	<b>Note</b>	<b>2007</b> <b>'000 EURO</b>	<b>2006</b> <b>'000 EURO</b>
<b>Revenue</b>		2,252,929	1,739,477
Cost of sales		(1,079,761)	(807,665)
<b>Gross profit</b>		1,173,168	931,812
Distribution expenses		(559,985)	(442,215)
Administrative expenses	8	(75,775)	(62,387)
Other income/(expenses), net	9	103	(158)
Financial income	11	27,832	34,385
Financial expenses	11	(18,875)	(19,761)
Share of profit of associates		458	97
<b>Profit before income tax</b>		546,926	441,773
Income tax expense	11	(148,250)	(103,324)
<b>Profit for the year</b>		398,676	338,449
Attributable to:			
Shareholders of the Company		398,676	330,872
Minority interest		-	7,577
		398,676	338,449
 <b>Earnings per share</b>			
Basic and diluted earnings per share	23	2.37 EURO	2.03 EURO

These consolidated financial statements were approved by management on 19 February 2008 and were signed on its behalf by:

Anton Artemiev  
*President*

Ekaterina Azimina  
*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 48.

	<b>Note</b>	<b>2007</b> <b>'000 EURO</b>	<b>2006</b> <b>'000 EURO</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	1,095,543	1,004,171
Intangible assets	14	326,633	337,148
Investments in associates	15	7,458	7,669
Other investments	16	273	283
<b>Total non-current assets</b>		<b>1,429,907</b>	<b>1,349,271</b>
<b>Current assets</b>			
Inventories	18	216,997	153,403
Other investments	16	65,006	196,283
Income tax receivable		198	10,618
Trade and other receivables	19	139,576	117,028
Cash and cash equivalents	20	75,376	46,396
<b>Total current assets</b>		<b>497,153</b>	<b>523,728</b>
<b>Total assets</b>		<b>1,927,060</b>	<b>1,872,999</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Preference shares	22	2,320	2,535
Ordinary shares		20,076	21,374
Share capital		22,396	23,909
Additional paid-in capital		104,880	487,375
Treasury shares		-	(3,034)
Foreign currency translation reserve		9,387	65,829
Retained earnings		1,169,912	969,133
<b>Total equity</b>		<b>1,306,575</b>	<b>1,543,212</b>
<b>Non-current liabilities</b>			
Loans and borrowings	24	16,142	31,900
Deferred tax liabilities	17	42,148	48,162
<b>Total non-current liabilities</b>		<b>58,290</b>	<b>80,062</b>
<b>Current liabilities</b>			
Loans and borrowings	24	310,887	67,679
Trade and other payables	25	249,573	181,850
Income tax payable		1,735	196
<b>Total current liabilities</b>		<b>562,195</b>	<b>249,725</b>
<b>Total liabilities</b>		<b>620,485</b>	<b>329,787</b>
<b>Total equity and liabilities</b>		<b>1,927,060</b>	<b>1,872,999</b>

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
<b>OPERATING ACTIVITIES</b>		
<b>Profit for the year</b>	398,676	338,449
<i>Adjustments for:</i>		
Depreciation	128,829	125,538
Amortisation	2,044	3,116
(Gain)/loss on disposal of property, plant and equipment	(61)	163
Share of profit of equity accounted investees	(458)	(97)
Interest expense	7,192	10,762
Interest income	(14,455)	(17,058)
Income tax expense	148,250	103,324
<b>Operating profit before changes in working capital and provisions</b>	670,017	564,197
(Increase) in inventories	(70,674)	(33,788)
(Increase) in trade and other receivables	(27,782)	(16,283)
Increase in trade and other payables	35,185	41,774
(Decrease) in provisions	-	(1,905)
<b>Cash flows from operations before income taxes and interest paid</b>	606,746	553,995
Income taxes paid	(140,815)	(100,604)
Interest paid	(6,392)	(11,017)
<b>Cash flows from operating activities</b>	459,539	442,374
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	901	839
Interest received	17,315	15,097
Dividends received	617	695
Repayment of loans made to banks	42,836	59,786
Loans made to banks	(28,557)	(59,786)
Acquisition of property, plant and equipment and intangible assets	(266,824)	(192,779)
Acquisition of bank promissory notes	(48,095)	(181,283)
Proceeds from bank promissory notes	158,735	115,466
Acquisition of minority interest	-	(5,006)
Net decrease in loans made to third parties	-	342
<b>Cash flows utilised by investing activities</b>	(123,072)	(246,629)

**OAO Baltika Breweries and subsidiaries**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2007*

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from the issue of new shares	-	5,177
Proceeds from sale of treasury shares	3,618	2,497
Acquisition of treasury shares	-	(4,473)
Proceeds from borrowings	616,497	136,078
Repayment of borrowings	(379,870)	(186,371)
Payment of finance lease liabilities	-	(7,257)
Dividends paid	(193,328)	(139,047)
Redemption of shares	(351,966)	-
<b>Cash flows utilised by financing activities</b>	<b>(305,049)</b>	<b>(193,396)</b>
<b>Net increase in cash and cash equivalents</b>	<b>31,418</b>	<b>2,349</b>
Cash and cash equivalents at beginning of year	46,396	44,746
Effect of exchange rate fluctuations on cash and cash equivalents	(2,438)	(699)
<b>Cash and cash equivalents at end of the year</b> (note 20)	<b>75,376</b>	<b>46,396</b>



*OAo Baltika Breweries and subsidiaries*  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2007*

	Attributable to shareholders of the Company						Minority interest	Total equity	
	Preference shares	Ordinary shares	Addition al paid-in capital	Treasury shares	Foreign currency translation reserve	Retained earnings			Total
<b>'000 EURO</b>									
<b>Balance at 1 January 2006</b>	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							302,018	7,577	309,595
Dividends to shareholders	-	-	-	-	-	(119,158)	(119,158)	(2,911)	(122,069)
Treasury shares acquired	-	-	-	(4,341)	-	-	(4,341)	-	(4,341)
Treasury shares sold	-	-	-	2,716	-	-	2,716	-	2,716
Acquisition of minority interest	-	-	-	-	-	-	-	(39,517)	(39,517)
Ordinary shares issued	-	1,294	121,431	-	-	-	122,725	-	122,725
Redemption of shares	(1)	(1)	-	-	-	-	(2)	-	(2)
<b>Balance at 31 December 2006</b>	<b>2,535</b>	<b>21,374</b>	<b>487,375</b>	<b>(3,034)</b>	<b>65,829</b>	<b>969,133</b>	<b>1,543,212</b>	<b>-</b>	<b>1,543,212</b>

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 48.

*OAo Baltika Breweries and subsidiaries*  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2007*

'000 EURO	Attributable to shareholders of the Company						Minority interest	Total equity	
	Preference Shares	Ordinary Shares	Addition al paid-in capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total equity		
<b>Balance at 1 January 2007</b>	2,535	21,374	487,375	(3,034)	65,829	969,133	1,543,212	-	1,543,212
Profit for the year	-	-	-	-	-	398,676	398,676	-	398,676
Foreign currency translation differences	-	-	-	-	(56,442)	-	(56,442)	-	(56,442)
Total recognised income and expenses							342,234	-	342,234
Dividends to shareholders	-	-	-	-	-	(197,897)	(197,897)	-	(197,897)
Redemption of shares	(215)	(1,298)	(383,086)	-	-	-	(384,599)	-	(384,599)
Treasury shares sold	-	-	591	3,034	-	-	3,625	-	3,625
<b>Balance at 31 December 2007</b>	<u>2,320</u>	<u>20,076</u>	<u>104,880</u>	<u>-</u>	<u>9,387</u>	<u>1,169,912</u>	<u>1,306,575</u>	<u>-</u>	<u>1,306,575</u>

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 48.

## **1 Background**

### **(a) Organisation and operations**

ОАО 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 nine companies and ten 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 2007 Baltic Beverages Holding AB owned and controlled 88.21% of the Company’s ordinary shares and 15.49% of the Company’s preference shares. The remainder of the ordinary and preference shares are widely held.

As at 31 December 2007 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 nine subsidiaries: ООО Baltika-Moscow, ООО Universalopttorg, ООО Terminal Podolsk, ООО Baltika-Ukraine, ООО Baltika, Baltika S.R.L., Baltika-Almaty LLP, ООО Baltika-Bel and Baltika Deutschland GmbH. The Group started construction of a new plant in Novosibirsk which is expected to be fully operational at the beginning of 2008. ООО Leasing-Optimum was sold in September 2007.

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 29.

### **(b) Group structure**

The consolidated financial statements of the Group for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group’s interest in associates. The list of subsidiaries is detailed in note 30. During 2006 the Company, ОАО Pikra, ОАО Vena, ОАО Yarpivo and ОАО 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 ОАО Pikra, ОАО Vena (into which ОАО Zolotoy Ural had earlier been merged) and ОАО Yarpivo.

Shareholders in ОАО Pikra, ОАО Vena and ОАО Yarpivo (including Baltic Beverages Holding AB) were offered the option of exchanging their shares in ОАО Pikra, ОАО Vena and ОАО 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 respectively.

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 as at 28 December 2006.

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)).

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 underlying 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, except where otherwise stated.

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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 14 – Intangible assets
- Note 28 – 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 entities controlled by the Group. Control exists when the Group 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 currently 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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

***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 Group 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.

### ***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 an 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.

### ***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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period. 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.

For the purpose of preparing consolidated financial statements in EUROS, 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**

*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.

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)), 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.

*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*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*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 net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

**(e) Property, plant and equipment**

*Recognition and measurement*

Items of property, plant and equipment are measured at cost less impairment losses and, except for land, accumulated depreciation. 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. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

*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 carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### ***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 unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. 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**

### ***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 profit or loss.

#### *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.

### ***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 profit or loss as an expense as incurred.

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 vary between 1 to 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 in 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, production or conversion costs and other costs incurred in 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**

***Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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 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.

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.

***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 the, recoverable amount is estimated at each reporting date.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. 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.

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 recognised.

**(j) Employee benefits**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**(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.

**(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, and the amount of revenue can be measured reliably.

**(m) Other expenses**

*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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

*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 profit or loss as incurred.

**(n) Financial income and expenses**

Financial income comprises interest income on funds invested (including available-for-sale investments) dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

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 profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is 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 affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

**(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 year. 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**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, 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. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the affective date. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, becomes mandatory for the Group's 2008 financial statements. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Group's 2009 financial statements. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

#### **4 Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

**(b) Intangible assets**

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark

being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**(c) Inventories**

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(d) Investments in equity and debt securities**

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

**(e) Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(f) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## **5 Financial risk management**

### **(a) Overview**

The Group has exposures to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit Committee which is responsible for developing and monitoring the Group's risk management policies. The Audit Committee reports regularly to the Board of Directors on its activities.

The Group's risk management system are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management system and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### **(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investment securities.

#### **(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk. Substantially all of Group's customers are located in the Russian Federation. Approximately 15% (2006: 12%) of the Group's revenue is attributable to sales transactions with a single customer.



Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes background checks on new customers. Purchase limits are established for each customer. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

More than 42% of the Group's customers have been transacting with the Group for more than 2 years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customers, geographic location, maturity, and existence of any previous financial difficulties. The Group requires collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

**(ii) Investments**

The Group limits its exposure to credit risk by only investing in liquid securities in accordance with Group's deposit policy and only with counterparties that are included in the top 50 first-rated banks of Russian Federation according to the size of total assets. In order to determine the amounts to be deposited with each bank the Group studies the financial statements of bank and bank credit ratings. The status of the banks is reconsidered each 6 months.

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as instability of financial system and the impact of monopolists and changes in statutory regulations. In addition the Group maintains the following lines of credit:

- EURO 31,779 thousand multicurrency secured credit facility. Interest would be payable at the rate of LIBOR/Euribor/MosPrime+0.55%;
- USD 74,668 thousand multicurrency unsecured credit facility. Interest would be payable at the rate from LIBOR/MosPrime+0.55% - LIBOR/MosPrime+1% up to approximately 10%;
- USD 2,500 thousand, EURO 500 thousand and RUR 437,773 unsecured credit facility. Interest would be payable at the rate of approximately 10%;
- RUR 80,000 thousand, USD 1,000 thousand and EURO 1,000 thousand unsecured credit facility. Interest would be payable at the rate of MosPrime/LIBOR/Euribor+1%.

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**(i) Currency risk**

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the USD, but also EURO.

The Group uses forward exchange contracts to hedge its currency risk, most of which have contracts have a maturity of less than one year.

**(ii) 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 favorable to the Group over the expected period until maturity.

**(iii) Other market risk**

Material investments are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

**(e) Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the level of dividends to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

From time to time, the Group repurchases its own shares in the market; the timing of these purchases depends on market prices. All buy and sell decisions are made on a specific transaction basis by the management of the Group.

In 2007, the Group commenced a capital reduction programme, that will be completed at the beginning of 2008, as disclosed, in the note 22. There were no other changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 6 Acquisition of minority interests

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)).

During 2006 Baltic Beverages Holding AB acquired the minority interests in OAO Pikra, OAO Vena and OAO Yarpivo which resulted in goodwill of EURO 10,549 thousand in 2006, recognized for the purposes of these consolidated financial statements. As a result of the acquisition of the minority interests in OAO Pikra, OAO Vena and OAO Yarpivo during the share exchanges in July and December 2006 the Group recognized additional goodwill of EURO 68,697 thousand (refer note 1(b)). As a result of these two transactions the Group recognised a decrease in minority interests of EURO 39,517 thousand.

## 7 Disposals of subsidiaries

During the year ended 31 December 2007 the Company disposed of its 100% owned subsidiary OOO Leasing-Optimum to a third party. The net loss on disposal was EURO 20 thousand. The contribution of the subsidiary to the profit for the year and the effect of disposal of the subsidiary on the Group's assets and liabilities at the date of disposal were insignificant.

## 8 Administrative expenses

	2007	2006
	'000 EURO	'000 EURO
Wages and salaries	25,488	19,243
Depreciation and amortisation	11,292	9,007
Facilities	5,866	4,728
Information technology and communications	4,730	4,295
Other payroll expenses	3,734	4,411
Payroll taxes	3,716	2,992
Charity	1,873	1,640
Other administrative expenses	19,076	16,071
	75,775	62,387

## 9 Other income/ (expenses), net

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Gain/(loss) on disposal of property, plant and equipment	61	(163)
Other income	42	5
	<u>103</u>	<u>(158)</u>

## 10 Personnel costs

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Wages and salaries	143,421	121,123
Contributions to state pension fund	20,115	18,362
Other payroll taxes	7,493	5,730
Other payroll expenses	10,269	12,497
	<u>181,298</u>	<u>157,712</u>

## 11 Financial income and expenses

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
<b>Financial income</b>		
Interest income	14,455	17,058
Foreign exchange gain	13,377	17,327
	<u>27,832</u>	<u>34,385</u>
<b>Financial expenses</b>		
Interest expense	7,192	10,762
Foreign exchange loss	11,683	8,999
	<u>18,875</u>	<u>19,761</u>

## 12 Income tax expense

	2007 '000 EURO	2006 '000 EURO
<i>Current tax expense</i>		
Current year	152,719	93,789
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(4,469)	9,535
	148,250	103,324

The Group's applicable tax rate is the corporate income tax rate of 24% (2006: 24%).

### Reconciliation of effective tax rate:

	2007		2006	
	'000 EURO	%	'000 EURO	%
Profit before income tax	546,926	100	441,773	100
Income tax at applicable tax rate	131,262	24.0	106,025	24.0
Non-deductible expenses	22,456	4.1	17,384	3.9
Effects of local concessions granted to branches	(4,350)	(0.8)	(3,794)	(0.8)
Effects of concessions granted in respect of the local portion of the statutory tax rate	(3,486)	(0.6)	(15,803)	(3.6)
Other	2,368	0.4	(488)	(0.1)
	148,250	27.1	103,324	23.4

## 13 Property, plant and equipment

'000 EURO	Land and buildings	Machinery and equipment	Kegs	Construction in progress	Total
<i>Cost/deemed cost</i>					
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)	-
Effect of movements in exchange rate	(4,328)	(12,761)	(675)	(2,280)	(20,044)
At 31 December 2006	285,403	832,087	43,713	145,672	1,306,875
Additions	3,758	183,688	6	71,420	258,872
Disposals	(43)	(2,420)	(397)	(116)	(2,976)
Transfers	(2,001)	28,902	1,843	(28,744)	-
Effect of movements in exchange rate	(9,865)	(33,961)	(1,545)	(6,098)	(51,469)
At 31 December 2007	277,252	1,008,296	43,620	182,134	1,511,302
<i>Depreciation and impairment losses</i>					
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)	-	-	-
Effect of movements in exchange rate	356	4,207	197	-	4,760
At 31 December 2006	(22,734)	(267,786)	(12,184)	-	(302,704)
Depreciation charge	(8,526)	(115,256)	(5,047)	-	(128,829)
Disposals	38	1,814	284	-	2,136
Transfers	2,381	(1,796)	(585)	-	-
Effect of movements in exchange rate	939	12,143	556	-	13,638
At 31 December 2007	(27,902)	(370,881)	(16,976)	-	(415,759)
<i>Net book value</i>					
At 1 January 2006	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
At 31 December 2007	249,350	637,415	26,644	182,134	1,095,543

Depreciation expenses of EURO 73,963 thousand have been included in cost of goods sold (2006: EURO 76,423 thousand), EURO 45,236 thousand in distribution expenses (2006: EURO 42,871 thousand) and EURO 9,630 thousand in administrative expense (2006: EURO 6,244 thousand).

## 14 Intangible assets

'000 EURO	Goodwill	Software and licences	Total Intangible assets
<i>Cost</i>			
At 1 January 2006	260,213	5,531	265,744
Additions	79,246	2,944	82,190
Disposals	-	-	-
Effect of movements in exchange rate	(5,165)	(131)	(5,296)
At 31 December 2006	334,294	8,344	342,638
Additions	-	3,163	3,163
Disposals	-	(4)	(4)
Transfers	-	-	-
Effect of movements in exchange rate	(11,505)	(369)	(11,874)
At 31 December 2007	322,789	11,134	333,923
<i>Amortisation</i>			
At 1 January 2006	-	(2,461)	(2,461)
Amortisation charge	-	(3,116)	(3,116)
Disposals	-	-	-
Effect of movements in exchange rate	-	87	87
At 31 December 2006	-	(5,490)	(5,490)
Amortisation charge	-	(2,044)	(2,044)
Disposals	-	4	4
Effect of movements in exchange rate	-	240	240
At 31 December 2007	-	(7,290)	(7,290)
<i>Net book value</i>			
At 1 January 2006	260,213	3,070	263,283
At 31 December 2006	334,294	2,854	337,148
At 31 December 2007	322,789	3,844	326,633

Amortisation expenses of EURO 48 thousand have been included in cost of goods sold (2006: EURO 14 thousand), EURO 334 thousand in distribution expenses (2006: EURO 339 thousand) and EURO 1,662 thousand in administrative expense (2006: EURO 2,763 thousand).

**(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 2007 was approximately 44,558,950 hectoliters. The anticipated annual production growth included in the cash flow projections was between 10% and 18% for the years 2008 to 2012.
- 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 14.03% 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 24% 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 25% in 2008 and subsequent years, the value in use would approximate the carrying amount of the plants.

The Group performed its annual impairment testing of goodwill as at 31 December 2007.

## **15 Investment in associates**

The Group has the following investment in associates:

	<b>Country</b>	<b>Ownership/Voting</b>
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 2007 was EURO 5,762 thousand (31 December 2006: EURO 5,913 thousand).



## 16 Other investments

	2007 '000 EURO	2006 '000 EURO
<i>Non-current</i>		
Available-for-sale investments:		
Stated at cost	273	283
 <i>Current</i>		
Investments held-to-maturity:		
Promissory notes and deposits	65,006	181,459
Loans to banks	-	14,824
	65,006	196,283

Available-for-sale investments stated at cost comprise unquoted equity securities in the brewery and banking industries. There is no active 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 reporting period would differ significantly from their carrying amount.

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

The Group's exposure to credit and market risks related to other investments are disclosed in note 26.

## 17 Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 EURO	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	-	-	(55,376)	(55,517)	(55,376)	(55,517)
Intangible assets	220	117	-	-	220	117
Investments	-	-	(423)	(433)	(423)	(433)
Inventories	-	-	(411)	(1,083)	(411)	(1,083)
Trade and other receivables	8,206	4,258	-	-	8,206	4,258
Trade and other payables	5,636	4,574	-	(78)	5,636	4,496
Net tax assets/(liabilities)	14,062	8,949	(56,210)	(57,111)	(42,148)	(48,162)

During the year ended 31 December 2007 EURO 4,469 thousand (2006: EURO 9,535 thousand) of the movement in the net deferred tax liability was recognized in the income statement and EURO 1,545 thousand (2006: EURO 750 thousand), relating to foreign exchange differences, was recognized directly in equity.

## 18 Inventories

	2007	2006
	'000 EURO	'000 EURO
Raw materials and consumables	166,079	112,921
Work in progress	15,588	10,038
Finished goods and goods for resale	35,330	30,444
	216,997	153,403
Write-down of inventories in the current year	4,100	474

## 19 Trade and other receivables

	2007	2006
	'000 EURO	'000 EURO
Accounts receivable – trade	81,321	59,778
VAT receivable	8,029	9,379
Advances to suppliers	35,574	32,769

Other receivables	17,605	18,671
	<u>142,529</u>	<u>120,597</u>
Accumulated impairment losses on receivables	(2,953)	(3,569)
	<u>139,576</u>	<u>117,028</u>

The Group's exposure to credit risk and currency risk related to trade and other receivables is disclosed in note 26.

## 20 Cash and cash equivalents

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Bank balances	18,731	35,534
Bank deposits and bank promissory notes	42,720	10,862
Loans to banks	13,925	-
Cash and cash equivalents in the balance sheet and in the statement of cash flows	<u>75,376</u>	<u>46,396</u>

Loans to banks represent financial instruments purchased from one of the Russian banks under agreement to resell them at future dates (refer note 21).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

## 21 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 2007 financial instruments purchased subject to agreements to resell them were as follows:

	<b>Carrying amount of receivables</b>	<b>Fair value of assets held as collateral</b>	<b>Repurchase dates</b>	<b>Repurchase price</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>		<b>'000 EURO</b>
Loans to banks	<u>13,925</u>	<u>16,178</u>	9 January 2008	<u>13,956</u>

Total interest income earned in connection with repurchase agreements for the year ended 31 December 2007 was EURO 981 thousand (31 December 2006: EURO 1,083 thousand).

## 22 Equity

### (a) Share capital and additional paid-in capital

<i>Number of shares unless otherwise stated</i>	<b>Ordinary shares</b>	<b>Ordinary shares</b>	<b>Preference shares</b>	<b>Preference shares</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Authorised shares				
Par value	RUR 1	RUR 1	RUR 1	RUR 1
On issue at beginning of the year	161,543,144	117,158,530	13,540,115	13,545,150
Redemption	(9,821,436)	(7,095)	(1,146,112)	(5,035)
Issued for share exchanges in subsidiaries	-	44,201,849	-	
Issued for cash	-	189,860	-	-
On issue at end of the period, fully paid	<u>151,721,708</u>	<u>161,543,144</u>	<u>12,394,003</u>	<u>13,540,115</u>

The extraordinary general meeting of shareholders of the Company held on 15 October 2007 approved a resolution to reduce the Company's charter capital by buying up to 9,894,230 common registered shares having a par value of 1 RUR each and up to 1,225,114 preference type "A" registered shares having a par value of 1 RUR. The purchase was executed from 9 December 2007 to 9 January 2008. As at 31 December 2007, as a result of the purchase of 9,821,436 ordinary shares and 1,146,112 preference shares, the Company's charter capital has reduced to 164,115,711 shares.

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 none of its own ordinary and preference shares (31 December 2006: 85,020 ordinary and 31,875 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 2007 the Company had retained earnings, including profit for the current year of approximately EURO 517,415 thousand (31 December 2006: EURO 710,861 thousand).

The following table details the dividends declared by the Company for the years ended 31 December 2007 and 31 December 2006:

	<u>RUR per share</u>	<u>EURO per share equivalent</u>	<u>'000 EURO</u>
<b>31 December 2006</b>			
<b>Preference shares</b>			
Dividends for 2005	24.33	0.71	<u>9,553</u>
<b>Ordinary shares</b>			
Dividends for 2005	24.33	0.71	<u>82,629</u>
<b>31 December 2007</b>			
<b>Preference shares</b>			
Dividends for 2006	39.5	1.13	<u>15,312</u>
<b>Ordinary shares</b>			
Dividends for 2006	39.5	1.13	<u>182,585</u>

The Shareholders' meeting held on 15 May 2007 approved dividends amounting to EURO 197,897 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 1(b)): OAO Vena - EURO 16,723 thousand, OAO Yarpivo – EURO 13,164 thousand and OAO Pikra – nil.

## 23 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 Company has no potentially dilutive securities.

### *Weighted average number of ordinary shares*

<i>Number of shares unless otherwise stated</i>	<b>2007</b>	<b>2006</b>
Issued shares at 1 January	161,543,144	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
Shares issued in July and December 2006 to Baltic Beverages Holding AB deemed to have been issued During 2005 and 2006	-	14,666,287
Effect of own shares held	(38,803)	(59,648)
Effect of shares issued in July and December 2006 to minority shareholders	-	1,035,500
Effect of redemption of shares	(53,427)	-
Weighted average number of shares for the year ended 31 December	<u>161,450,914</u>	<u>158,313,715</u>

### *Profit attributable to ordinary shareholders*

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Profit for the year attributable to shareholders of the Company	398,676	330,872
Preference dividends recognised during the year	(15,312)	(9,553)
Net profit attributable to ordinary shares	<u>383,364</u>	<u>321,319</u>

## 24 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 liquidity risk and market risk refer note 26.

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
<i>Non-current</i>		
Unsecured bank facility	528	1,760
Secured bank loans	15,614	30,140
	<u>16,142</u>	<u>31,900</u>
<i>Current</i>		
Unsecured bank facility	130,846	25,686
Current portion of secured bank loans	180,041	12,895
Bonds issued	-	29,098
	<u>310,887</u>	<u>67,679</u>

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

## 25 Trade and other payables

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
<b>Trade and other payables</b>		
Accounts payable - trade	133,461	120,830
Share buy back payable	40,395	-
Taxes payable	32,858	23,472
Accrued salaries, wages and benefits	30,444	23,313
Dividends payable	5,958	2,060
Payables to associates	2,244	1,978
Other payables and accrued expenses	4,213	10,197
	<u>249,573</u>	<u>181,850</u>

The Group's exposure to liquidity risk and market risk related to trade and other payables is disclosed in note 26.

## 26 Financial instruments

### (a) Credit risk

#### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>Carrying amount</b>	
	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Trade and other receivables	139,576	117,028
Available-for-sale financial assets	273	283
Held-to-maturity investments	65,006	196,283
Cash and cash equivalents	75,376	46,396
	280,231	359,990

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	<b>Carrying amount</b>	
	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Wholesale customers	80,667	59,358
Retail customers	654	420
	81,321	59,778
Accumulated impairment losses on receivables	(2,953)	(3,569)
	78,368	56,209

The Group's most significant customer, a domestic wholesaler, accounts for EURO 2,112 thousand of the trade receivables carrying amount as at 31 December 2007 (2006: EURO 7,804 thousand).

#### *Impairment losses*

The ageing of trade receivables at the reporting date was:

	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>	<b>'000 EURO</b>	<b>'000 EURO</b>
Current	74,979	-	55,524	-
Past due 0 – 180 days	3,389	-	322	111
More than 180 days	2,953	2,953	3,932	3,458
	81,321	2,953	59,778	3,569



The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Balance 1 January	3,569	3,240
Impairment loss (reversed)/recognised	(239)	1,075
Impairment loss utilised	(377)	(746)
Balance 31 December	2,953	3,569

Based on historic default rates the Group believes that no impairment allowance is necessary in respect of trade receivables not past due and past due by up to 180 days. More than 75% of the balance, which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group. The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly. The entire amount EURO 2,953 thousand of impairment losses as at 31 December 2007 represents collective impairments on the Group's trade receivables (2006: EURO 3,458 thousand).

At 31 December 2007 and 2006 there was no allowance for impairment of held-to-maturity investments. The collateral held in relation to loans to banks is disclosed in note 21.

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) Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments:

**31 December 2007**

<b>'000 EURO</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>							
Secured bank loans	195,655	201,507	178,688	6,366	12,238	4,215	-
Unsecured bank loans	131,374	133,574	132,475	557	542	-	-
Trade and other payables	249,573	249,573	249,573	-	-	-	-
	576,602	584,654	560,736	6,923	12,780	4,215	-

**31 December 2006**

'000 EURO	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Secured bank loans	43,035	48,318	7,859	7,560	14,509	18,390	-
Unsecured bank loans	27,446	27,819	24,607	1,341	1,266	605	-
Bonds	29,098	31,336	1,257	30,079	-	-	-
Trade and other payables	181,850	181,850	181,850	-	-	-	-
	<u>281,429</u>	<u>289,323</u>	<u>215,573</u>	<u>38,980</u>	<u>15,775</u>	<u>18,995</u>	<u>-</u>

**(c) Currency risk**

**Exposure to currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 EURO	31 December 2007		31 December 2006	
	EURO	USD	EURO	USD
<b>Current assets</b>				
Cash and cash equivalents	338	37,549	1,394	4,482
Held-to-maturity investments	-	63,427	6,156	27,255
Trade receivables	123	47	127	138
<b>Current liabilities</b>				
Secured bank loans	(31,667)	(148,374)	-	(12,895)
Unsecured bank loans	(30,057)	(71,458)	-	(10,966)
Trade payables	(22,492)	(48,102)	(47,944)	(21,484)
<b>Non-current liabilities</b>				
Secured bank loans	-	(15,614)	-	(30,140)
Unsecured bank loans	-	(528)	-	(1,760)
Gross balance sheet exposure	<u>(83,755)</u>	<u>(183,053)</u>	<u>(40,267)</u>	<u>(45,370)</u>
Net Group exposure from commitments and anticipated transactions	(29,900)	-	(51,000)	-
Forward exchange contracts	<u>-</u>	<u>-</u>	<u>7,200</u>	<u>-</u>
Net exposure	<u>(113,655)</u>	<u>(183,053)</u>	<u>(84,067)</u>	<u>(45,370)</u>

The following exchange rates applied during the year and as at the end of the year:

EURO 1 equals	Average rate		Reporting date spot rate	
	2007	2006	2007	2006
USD	1.3692	1.2549	1.4639	1.3177
RUR	35.0174	34.1146	35.9332	34.6965

### Sensitivity analysis

A 10% strengthening of the RUR against the EURO at 31 December would have increased profit by EURO 11,366 thousand (2006: EURO 8,407 thousand). A 10% strengthening of the RUR against USD at 31 December would have increased profit by EURO 18,305 thousand (2006: EURO 4,537 thousand). A 10% weakening of the RUR against EURO and USD at 31 December would have had the equal, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables, in particular interest rates, remain constant.

### (d) Interest rate risk

#### Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 EURO	Carrying amount	
	2007	2006
<b>Fixed rate instruments</b>		
Financial assets	121,651	207,145
Financial liabilities	(298,256)	(53,610)
	<u>(176,605)</u>	<u>153,535</u>
<b>Variable rate instruments</b>		
Financial liabilities	<u>(28,773)</u>	<u>(45,969)</u>

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

<b>31 December 2007</b> <b>'000 EURO</b>	<b>Profit or loss</b>	
	<b>100 bp</b>	<b>100bp</b>
	<b>Increase</b>	<b>Decrease</b>
Variable rate instruments	(288)	288
Cash flow sensitivity	(288)	288
<b>31 December 2006</b> <b>'000 EURO</b>		
Variable rate instruments	(460)	460
Cash flow sensitivity	(460)	460

**(e) Fair values**

The basis for determining fair value is disclosed in note 4. The fair value of unquoted equity instruments is discussed in note 16. In other cases management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

## **27 Commitments**

As at 31 December 2007 the Group had the following commitments relating to the property, plant and equipment (31 December 2006: EURO 73,800 thousand):

<b>Project</b>	<b>2007</b> <b>'000 EURO</b>
Baltika-St. Petersburg plant	25,200
Baltika-Novosibirsk plant	17,400
Baltika-Yaroslavl plant	14,200
Baltika-Voronezh plant	8,100
Baltika-Samara plant	7,800
Baltika-Chelyabinsk plant	1,400
Baltika-Tula plant	700
Baltika-Pikra plant	700
Baltika-Rostov plant	500
Total	76,000

## **28 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.

The Group is currently challenging in court a number of VAT and income tax assessments totalling EURO 4,598 thousand. Management has not provided any amount in respect of such obligations in these consolidated financial statements as it believes it is possible, but not probable that an outflow of economic benefits will be required to settle such obligations.

## **29 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.

The Company's parent company does not produce financial statement that are available for public use.

### **(b) Management remuneration**

Key management personnel received EURO 10,139 thousand as salaries and bonuses during the year ended 31 December 2007 (EURO 7,903 thousand during the year ended 31 December 2006), which is included in personnel costs. Defined contribution pension expenses for key management personnel amounted to EURO 181 thousand (2006: nil).

**(c) Transactions with other related parties**

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

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Sale of goods:		
Parent company	361	323
Fellow subsidiaries	1,927	6,216
Royalties received:		
Parent company	14	-
Fellow subsidiaries	1,104	562
Services provided:		
Associate	1,968	1,929
	5,374	9,030
	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Purchase of inventory:		
Associate	19,661	15,668
Fellow subsidiaries	496	-
Services received:		
Associate	160	194
Fellow subsidiaries	198	437
Royalties paid:		
Fellow subsidiaries	10,517	2,769
Interest on borrowings:		
Parent company	-	2,187
	31,032	21,255

Sales to and purchases from related parties are made on terms that prevail in arm's length transactions. For the year ended 31 December 2007, the Group recognized no impairment of receivables owed by related parties (2006: Nil).

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

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Receivables:		
Parent company	53	109
Fellow subsidiaries	233	1,290
	<u>286</u>	<u>1,399</u>

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

	<b>2007</b>	<b>2006</b>
	<b>'000 EURO</b>	<b>'000 EURO</b>
Trade payables:		
Fellow subsidiaries	288	853
Associate	2,244	1,978
Royalties payable:		
Fellow subsidiaries	2,277	563
Financial liabilities		
Parent company	333	
Fellow subsidiaries	54	84
	<u>5,196</u>	<u>3,478</u>

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 2007 the Group's purchases of malt from Soufflet, an associate of the Group, amounted to EURO 19,661 thousand (excluding VAT) or 8.9% of the total value of malt purchases and own production and 66,293 tons or 10.3% of the total volume of malt purchases and own production. During the year ended 31 December 2006 the Group's malt purchases from Soufflet amounted to EURO 15,668 thousand (excluding VAT) or 11.3% of the total value of malt purchases and own production and 63,759 tons or 10.9% of the total volume of malt purchases and own production.

The liability to Soufflet for malt purchases amounted to EURO 2,244 thousand and EURO 1,978 thousand as at 31 December 2007 and 31 December 2006, respectively.

During the year ended 31 December 2007 and 2006 the Group provided various services to Soufflet and received various services from Soufflet for insignificant amounts.

## 30 Subsidiaries

Name	Nature of business	Country of incorporation	Ownership/ voting	Ownership/ voting
			2007	2006
OOO Baltika-Moscow	Distribution of Baltika beer	Russia	100%	100%
OOO Leasing-Optimum	Leasing	Russia	-	100%
OOO Baltika-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 Universaloptorg	Warehouse	Russia	100%	100%
Baltika Deutschland GmbH	Distribution of Baltika beer	Germany	100%	100%

## 31 Events subsequent to the balance sheet date

In January 2008, the Group completed the share buy back programme that started in 2007 (refer note 22) and repurchased an additional 7,114 ordinary and 67,433 preference shares. Subsequent to this repurchase, the Company's charter capital reduced to 164,041,164 shares.

On 25 January 2008 the Boards of Sunrise Acquisitions Limited, a newly incorporated company jointly owned by Carlsberg A/S and Heineken N.V., and Scottish & Newcastle plc ("S&N") announced that they had reached agreement on the terms of a recommended cash offer to be made by Sunrise Acquisitions Limited for the entire issued and to be issued share capital of S&N. This will result in Carlsberg A/S gaining full control of BBH AB, the Group's immediate parent company, and becoming the Group's ultimate parent company and ultimate controlling party.