OAO BALTIKA BREWERIES AND SUBSIDIARIES

Consolidated Interim Financial Statements

for the nine months ended
30 September 2006

Contents

For the nine months ended 30 September

	Note	2006 '000 EURO	2005 '000 EURO
Gross revenues		1,492,522	1,232,374
Excise taxes		(154,571)	(120,460)
Revenues		1,337,951	1,111,914
Cost of sales		(610,642)	(553,385)
Gross profit		727,309	558,529
Distribution expenses		(318,317)	(264,608)
Administrative expenses	4	(50,283)	(45,882)
Other operating expenses, net	5	(11,990)	(2,199)
Provision for restructuring expenses	20	2,246	(3,986)
Financial income	7	24,648	9,786
Financial expenses	7	(13,065)	(12,386)
Income/(loss) from associates		(73)	914
Profit before tax		360,475	240,168
Income tax expense	8	(99,832)	(46,901)
Net profit for the period		260,643	193,267
Attributable to:			
Shareholders of the Parent Company		254,136	190,157
Minority interest		6,507	3,110
		260,643	193,267
Basic and diluted earnings per share	23	1.87 EURO	1.57 EURO

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

The consolidated interim income statement is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 8 to 39.

	Note	30 September 2006 '000 EURO	31 December 2005 '000 EURO
ASSETS			
Non-current assets			
Property, plant and equipment	9	983,060	944,430
Intangible assets	10	301,986	263,283
Investments in associates	11	7,535	8,383
Other investments	12	288	286
		1,292,869	1,216,382
Current assets			
Other investments	12	243,344	131,582
Inventories	15	138,933	121,980
Income tax receivable		303	3,786
Trade and other receivables	16	133,340	102,871
Cash and cash equivalents	17	35,907	44,746
		551,827	404,965
Total assets		1,844,696	1,621,347
EQUITY AND LIABILITIES			
Equity	18		
Preference shares		2,536	2,536
Ordinary shares		21,306	20,081
Additional paid-in capital		421,638	365,944
Treasury shares		(3,712)	(1,409)
Foreign currency translation reserve		101,290	94,684
Retained earnings		892,396	757,418
Total equity attributable to equity holders of the Company		1,435,454	1,239,254
Minority interest		18,662	34,851
Total equity		1,454,116	1,274,105
Non-current liabilities			
Loans and borrowings	19	94,883	140,732
Deferred tax liabilities	14	45,769	39,377
		140,652	180,109
Current liabilities			
Loans and borrowings	19	20,977	18,709
Income tax payable		11,522	-
Trade and other payables	21	217,429	146,523
Provisions	20	-	1,901
		249,928	167,133
Total equity and liabilities		1,844,696	1,621,347

The consolidated interim balance sheet is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 8 to 39.

For the nine months ended 30 September	**2006**	**2005**
	’000 EURO	**’000 EURO**
OPERATING ACTIVITIES		
Net profit for the period	260,643	193,267
Adjustments for:		
Depreciation and amortisation	86,502	73,812
Loss on disposal of property, plant and equipment	12,061	2,390
Loss/(increase) from associates	73	(914)
Interest expense	8,256	7,683
Interest income	(12,149)	(7,597)
Income tax expense	99,832	46,901
Operating profit before changes in working capital and provisions	455,218	315,542
Increase in inventories	(16,173)	(3,832)
(Increase)/decrease in trade and other receivables	(26,103)	4,766
Increase in trade and other payables	79,034	24,951
Decrease in provisions	(1,909)	(12,876)
Cash flows from operations before income taxes and interest paid	490,067	328,551
Income taxes paid	(78,667)	(47,831)
Interest paid	(6,847)	(6,637)
Cash flows from operating activities	404,553	274,083
INVESTING ACTIVITIES		
Acquisition of minority	(5,015)	(17,999)
Proceeds from disposal of property, plant and equipment	778	796
Interest received	12,149	7,597
Dividends received	681	742
Repayment of bank loans	166	-
Purchase of bank promissory notes	(110,874)	(13,866)
Acquisition of property, plant and equipment and intangible assets	(134,396)	(100,414)
Net (increase)/decrease in loans made to third parties	(175)	85
Cash flows used in investing activities	(236,686)	(123,059)
FINANCING ACTIVITIES		
Proceeds from issue of new shares	5,186	-
Proceeds from sale of treasury shares	1,777	2,271
Purchase of treasury shares	(4,066)	(2,345)
Proceeds from borrowings	54,280	77,749
Repayment of borrowings	(94,818)	(107,225)
Payment of finance lease liabilities	(3,912)	(2,959)
Dividends paid	(135,115)	(60,538)
Cash flows used in financing activities	(176,668)	(93,047)
Net (decrease)/increase in cash and cash equivalents	(8,801)	57,977
Cash and cash equivalents at beginning of period	44,746	49,480
Effect of exchange rate fluctuations on cash and cash equivalents	(38)	6.509
Cash and cash equivalents at end of period (note 17)	35,907	113,966

The consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 8 to 39.

	Attributable to shareholders of the Parent							Minority interest	Total equity
’000 EURO	**Preference Shares**	**Ordinary Shares**	**Additional paid in capital**	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2005	2,536	20,081	192,769	(368)	(14,101)	595,572	796,489	72,544	869,033
Net profit for the period	-	-	-	-	-	190,157	190,157	3,110	193,267
Foreign exchange differences	-	-	-	-	102,475	-	102,475	-	102,475
Total recognised income and expenses							292,632	3,110	295,742
Treasury shares acquired	-	-	-	(2,384)	-	-	(2,384)	-	(2,384)
Treasury shares sold	-	-	-	2,271	-	-	2,271	-	2,271
Acquisition of minority interest	-	-	-	-	-	-	-	(5,813)	(5,813)
Contribution by shareholder	-	-	168,357	-	-	-	168,357	(33,259)	135,098
Sale to minority interest	-	-	-	-	-	-	-	8,282	8,282
Dividends to equity holders	-	-	-	-	-	(70,569)	(70,569)	(7,895)	(78,464)
Balance at 30 September 2005	2,536	20,081	361,126	(481)	88,374	715,160	1,186,796	36,969	1,223,765

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 8 to 39.

Net profit for the period	-	-	-	-	-	42,258	42,258	472	42,730
Foreign exchange differences	-	-	-	-	6,310	-	6,310	-	6,310
Total recognised income and expenses							48,568	472	49,040
Treasury shares acquired	-	-	-	(1,726)	-	-	(1,726)	-	(1,726)
Acquisition of minority interest	-	-	4,818	-	-	-	4,818	(2,590)	2,228
Treasury shares sold	-	-	-	798	-	-	798	-	798
Balance at 31 December 2005	2,536	20,081	365,944	(1,409)	94,684	757,418	1,239,254	34,851	1,274,105
Net profit for the period	-	-	-	-	-	254,136	254,136	6,507	260,643
Foreign exchange differences	-	-	-	-	6,606	-	6,606	-	6,606
Total recognised income and expenses							260,742	6,507	267,249
Issue of ordinary shares	-	1,226	55,694	-	-	-	56,920	-	56,920
Treasury shares acquired	-	-	-	(4,080)	-	-	(4,080)	(19,783)	(23,863)
Treasury shares sold	-	-	-	1,777	-	-	1,777	-	1,777
Dividends to equity holders	-	-	-	-	-	(119,158)	(119,158)	(2,913)	(122,071)
Redemption of shares	-	(1)	-	-	-	-	(1)	-	(1)
Balance at 30 September 2006	2,536	21,306	421,638	(3,712)	101,290	892,396	1,435,454	18,662	1,454,116

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 8 to 39.

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 September 2006 Baltic Beverages Holding AB owns and controls 91.54% 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 September 2006 the Group consisted of ten production plants: Baltika-Saint-Petersburg, Baltika-Tula, Baltika-Rostov, Baltika-Samara, Baltika-Khabarovsk, Vena-Saint-Petersburg, Vena-Chelyabinsk, Pikra, Yarpivo and Yarpivo-Voronezh and ten other 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) Group structure

The consolidated interim financial statements of the Group for the nine months ended 30 September 2006 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates. List of subsidiaries is detailed in note 27. During periods presented in these consolidated interim financial statements Baltika Breweries, Pikra, Vena and Yarpivo were under common control of Baltic Beverages Holding AB.

At the extraordinary shareholders meeting on 7 March 2006 shareholders of the Group voted in favour of the proposed merger of Baltika Breweries with brewing companies Pikra, Vena and Yarpivo.

Shareholders in Pikra, Vena and Yarpivo including Baltic Beverages Holding AB were offered the option of exchanging their shares in Pikra, Vena and Yarpivo into newly issued ordinary shares of Baltika Breweries or selling their shares to Baltika Breweries, if they wish to do so. Baltika Breweries ordinary shareholders have the opportunity to either sell their shares back to the Group or retain their shareholding in the enlarged Group.

A share exchange between Baltika Breweries and Baltic Beverages Holding AB took place on 3 July 2006. This exchange made Baltika Breweries 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 30 September, 2006 after exchanging of Baltika Breweries shares with minority shares in Pikra, Vena and Yarpivo, Baltika Breweries owned 92.1% of the shares in Pikra, 97.5% in Vena and 91.4% in Yarpivo, respectively.

During the second phase of the merger process, Pikra, Vena and Yarpivo are to be fully merged into Baltika Breweries. The entire merger process is expected to be completed by late 2006.

For the purposes of these consolidated interim financial statements, the shares held by Baltic Beverages Holding AB as of 1 January 2005 were treated as held by Baltika Breweries. All the successive purchases of shares in Pikra, Vena and Yarpivo during 2005 and 9 months ended 30 September 2006, made by Baltic Beverages Holding AB from unrelated sellers and transferred to Baltika in July 2006, were recorded by the Group as contributions by shareholders.

(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 interim 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 interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting.*

The Group has not prepared consolidated financial statements in accordance with Russian accounting principles. Accordingly, no reconciliation between the consolidated interim financial statements and consolidated financial statements prepared under Russian accounting principles has been prepared.

(b) Basis of measurement

The consolidated interim 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 interim financial statements are presented in euro ("EURO") since management believes that this currency is more useful for the users of the consolidated interim 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 interim 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 interim 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 interim financial statements. These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Acquisitions from entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as 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 their previous book values as recognised in the consolidated financial statements of the controlling shareholder of the Group. The components of equity of the acquired entities are added to the same components within 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 debited directly to equity.

(iii) Acquisitions and disposals of minority interests

Any difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as goodwill or negative goodwill.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Group's interest in the subsidiary including attributable goodwill, is recognised in equity.

(iv) Associates

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

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated interim 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

(i) Owned assets

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

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

(ii) Leased assets

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

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised 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.

(iv) Depreciation

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

The estimated useful lives are as follows:

- Buildings 25 to 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) Goodwill

Other goodwill

Other goodwill arising on an acquisition represents the excess of the cost of the acquisition over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities.

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

Other negative goodwill

Other negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill is recognised immediately in the income statement.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) Trade and other receivables

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

(k) 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.

(l) Impairment

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

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

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

(m) Share capital

(i) Preference share capital

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

(ii) Repurchase of share capital

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

(iii) Dividends

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

(n) 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.

(o) Employee benefits

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

(p) Provisions

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

(i) Restructuring

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

(q) Trade and other payables

Trade and other payables are stated at cost.

(r) 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.

(s) 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.

(t) 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.

(u) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(v) New Standards and Interpretations not yet adopted

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these consolidated interim financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* and the Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of the risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

- *IFRIC 8 scope of IFRS 2 Share-based payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.
- *IFRIC 9 Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2005). The Group has not yet determined the potential effect of the interpretation.

4 Administrative expenses

	Nine months ended 30 September	
	2006	**2005**
	'000 EURO	**'000 EURO**
Wages and salaries	15,568	18,423
Depreciation	7,131	5,428
Payroll taxes	2,695	3,191
Facilities	2,806	3,101
Information technology and communications	2,545	2,169
Other payroll expenses	2,197	1,651
Charity	1,398	1,065
Other administrative expenses	15,943	10,854
	50,283	45,882

5 Other operating expenses, net

	Nine months ended 30 September	
	2006	**2005**
	'000 EURO	**'000 EURO**
Loss on disposal of property, plant and equipment	(12,061)	(2,390)
Other income/(loss)	71	191
	(11,990)	(2,199)

6 Total personnel costs

	Nine months ended 30 September	
	2006	**2005**
	'000 EURO	**'000 EURO**
Wages and salaries	92,926	85,103
Payroll taxes	20,113	18,311
Other payroll expenses	7,937	7,515
	120,976	110,929

The average number of employees during the nine months ended 30 September 2006 was 10,737 (nine months ended 30 September 2005: 10,143).

7 Financial income and expenses

	Nine months ended 30 September	
	2006	**2005**
	’000 EURO	**’000 EURO**
Financial income		
Interest income	12,149	7,597
Foreign exchange gain	12,499	2,189
	24,648	9,786
Financial expenses		
Interest expense	8,256	7,583
Foreign exchange loss	4,809	4,703
	13,065	12,386

8 Income tax expense

	Nine months ended 30 September	
	2006	**2005**
	’000 EURO	**’000 EURO**
Current tax expense		
Current year	93,683	49,361
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	6,149	(2,460)
	99,832	46,901

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

Reconciliation of effective tax rate:

	Nine months ended 30 September			
	2006		2005	
	’000 EURO	%	’000 EURO	%
Profit before tax	360,475		240,168	
Income tax at applicable tax rate	86,514	24.0	57,640	24.0
Non-deductible items	13,160	3.65	6,883	2.9
Tax reserve	3,113	0.9	-	-
Effect of local concessions granted to branches	(3,191)	(0.9)	(2,461)	(1.0)
Effects of concessions granted in respect of the local portion of the statutory tax rate	(8,482)	(2.35)	(13,501)	(5.6)
Other	8,718	2.42	(1,660)	(0.7)
	99,832	27.7	46,901	19.6

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	224,565	565,323	28,024	79,730	897,642
Additions	5,192	67,670	7,945	62,844	143,651
Disposals	(1,780)	(5,691)	(2,051)	-	(9,522)
Transfers	9,554	41,717	1,415	(52,004)	682
Foreign currency translation difference	24,220	63,311	3,215	8,797	99,543
At 31 December 2005	261,751	732,330	38,548	99,367	1,131,996
Additions	1,735	57,585	3,824	67,108	130,252
Disposals	(130)	(16,353)	(2,683)	(125)	(19,291)
Transfers	2,699	17,482	2,510	(22,826)	(135)
Foreign currency translation difference	1,602	4,520	235	705	7,062
At 30 September 2006	267,657	795,564	42,434	144,229	1,249,884

Depreciation and impairment losses					
At 1 January 2005	(6,576)	(71,499)	(2,729)	-	(80,804)
Depreciation charge	(7,924)	(87,978)	(3,985)	-	(99,887)
Disposals	757	3,554	1,103	-	5,414
Transfers	(473)	(360)	-	-	(833)
Foreign currency translation difference	(935)	(10,214)	(307)	-	(11,456)
At 31 December 2005	(15,151)	(166,497)	(5,918)	-	(187,566)
Depreciation charge	(6,225)	(74,667)	(3,543)	-	(84,435)
Disposals	107	6,221	123	-	6,451
Transfers	510	(445)	-		65
Foreign currency translation difference	(106)	(1,190)	(43)	-	(1,339)
At 30 September 2006	(20,865)	(236,578)	(9,381)	-	(266,824)
Net book value					
At 1 January 2005	217,989	493,824	25,295	79,730	816,838
At 31 December 2005	246,600	565,833	32,630	99,367	944,430
At 30 September 2006	246,792	558,986	33,053	144,229	983,060

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements that expire within this year. At 30 September 2006 the net book value of leased plant and machinery was EURO 7,668 thousand (31 December 2005: EURO 15,023 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	Goodwill	Software and licences	Total Intangible assets
Cost			
At 1 January 2005	78,044	3,611	81,655
Acquisitions through business combination	168,604	1,364	169,968
Disposals	-	(25)	(25)
Transfers	-	151	151
Foreign currency translation difference	13,565	430	13,995
At 31 December 2005	260,213	5,531	265,744
Acquisitions through business combination	37,100	1,913	39,013
Transfers	-	(92)	(92)
Foreign currency translation difference	1,668	38	1,706
At 30 September 2006	298,981	7,390	306,371
Amortisation			
At 1 January 2005	-	(862)	(862)
Amortisation charge	-	(1,471)	(1,471)
Disposals	-	9	9
Foreign currency translation difference		(137)	(137)
At 31 December 2005	-	(2,461)	(2,461)
Amortisation charge	-	(2,067)	(2,067)
Transfers	-	162	162
Foreign currency translation difference	-	(19)	(19)
At 30 September 2006	-	(4,385)	(4,385)
Net book value			
At 1 January 2005	78,044	2,749	80,793
At 31 December 2005	260,213	3,070	263,283
At 30 September 2006	298,981	3,005	301,986

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 September 2006 was EURO 5,743 thousand (31 December 2005: EURO 6,601 thousand).

12 Other investments

	30 September 2006 '000 EURO	31 December 2005 '000 EURO
Non-current		
Available-for-sale investments:		
Stated at cost	288	286
Current		
Investments held-to-maturity:		
Promissory notes	228,508	116,670
Originated loans and receivables:		
Loans to banks	14,836	14,912
	243,344	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 September 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	14,836	18,050	11 April 2007 16 April 2007	15,480

Total interest income earned in connection with repurchase agreements for the nine months ended 30 September 2006 was EURO 784 thousand (30 September 2005: EURO 77 thousand).

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 EURO	Assets		Liabilities		Net	
	30 September 2006	31 December 2005	30 September 2006	31 December 2005	30 September 2006	31 December 2005
Property, plant and equipment	124	411	(56,080)	(47,543)	(55,956)	(47,132)
Intangible assets	-	-	(32)	(62)	(32)	(62)
Investments	-	-	(415)	(493)	(415)	(493)
Inventories	-	565	(3,286)	(1,007)	(3,286)	(442)
Trade and other receivables	6,118	1,816	-	-	6,118	1,816
Trade and other payables	8,007	6,936	(205)	-	7,802	6,936
Net tax assets/(liabilities)	14,249	9,728	(60,018)	(49,105)	(45,769)	(39,377)

During the nine months ended 30 September 2006 EURO 6,149 thousand of the movement in the deferred tax liability was recognized in the income statement as an accrual of temporary differences and EURO 243 thousand, representing foreign exchange differences, was recognized in equity.

15 Inventories

	30 September 2006 '000 EURO	31 December 2005 '000 EURO
Raw materials and consumables	98,516	96,393
Work in progress	9,543	9,107
Finished goods and goods for resale	31,456	19,423
	139,515	124,923
Provision for obsolete inventory	(582)	(2,943)
Inventory stated at net realisable value	138,933	121,980

16 Trade and other receivables

	30 September 2006 '000 EURO	31 December 2005 '000 EURO
Accounts receivable - trade	78,102	61,514
VAT receivable	14,828	24,249
Advances to suppliers	26,988	13,955
Other receivables	21,070	6,393
	140,987	106,111
Provision for doubtful debtors	(7,648)	(3,240)
	133,340	102,871

17 Cash and cash equivalents

	30 September 2006 '000 EURO	31 December 2005 '000 EURO
Bank balances	35,451	21,651
Bank deposits and bank promissory notes	456	23,095
Cash and cash equivalents in the balance sheet and in the statement of cash flows	35,907	44,746

18 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	**Ordinary shares 30 September 2006**	**Ordinary shares 31 December 2005**	**Preference shares 30 September 2006**	**Preference shares 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	-	-	-
Redemption	(7,095)		(5,035)	
Issued for shares exchange in subsidiaries	41,829,372	-	-	-
On issue at end of the period, fully paid	159,170,667	117,158,530	13,540,115	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 108,977 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 September 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 977,971 thousand (31 December 2005: EURO 780,374 thousand).

The following table details the declared dividends for the periods ended 30 September 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 September 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 in Baltika on 30 May 2006 approved dividends amounting to EURO 92,182 thousand.

During 9 months ended 30 September 2006 the following dividends were declared by Company subsidiaries: Vena - EURO 16,725 thousand, Yarpivo – EURO 13,164 thousand (during 2005: Vena – EURO 4,646 thousand, Yarpivo – EURO 20,594 thousand, Pikra – EURO 1,033 thousand).

19 Loans and borrowings

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

For more information about the Group's exposure to interest rate and foreign currency risk, see note 22(b).

	30 September 2006 '000 EURO	31 December 2005 '000 EURO
Non-current		
Unsecured bank facility	2,437	3,254
Borrowings under financing agreement with EBRD, principal payable each six months until June 2011	37,944	63,869
Loans from parent company	23,550	41,138
Finance lease obligation	1,521	3,218
Bonds issued	29,431	29,253
	94,883	140,732
Current		
Current portion of secured bank facility	7,547	-
Unsecured bank facility	10,523	14,268
Bonds issued	917	273
Current portion of finance lease liability	1,990	4,168
	20,977	18,709

- Bank loan from EBRD is secured by parent company (BBH) in fully amount.

The finance lease liabilities are secured by the leased assets (see note).

(a) Finance lease liabilities

Finance lease liabilities are payable as follows:

	30 September 2006			31 December 2005		
’000 EURO	**Payments**	**Interest**	**Principal**	**Payments**	**Interest**	**Principal**
Less than one year	581	225	356	4,674	479	4,195
Between one and five years	3,262	107	3,155	3,485	294	3,191
Less than one year	3,843	332	3,511	8,159	773	7,386

20 Provisions

Provision for restructuring	**2006**
	’000 EURO
Balance at 1 January 2006	1,901
Provision used during year	(615)
Provision reversed during period	(1,293)
Foreign currency translation difference	7
Balance at 30 September 2006	-

In order to streamline its operations, the Group adopted a long-term strategic plan. During the year ended 31 December 2005 the Group raised a provision of EURO 1,901 thousand in relation to the proposed restructuring of its distribution network as a result of the restructuring of the Group’s operations. The provision was used during 9 months ended 30 September 2006, there was no provision as at 30 September 2006.

21 Trade and other payables

	30 September 2006	**31 December 2005**
Trade and other payables	**’000 EURO**	**’000 EURO**
Accounts payable - trade	117,482	67,110
Taxes payable	37,387	22,454
Accrued salaries, wages and benefits	30,336	29,990
Dividends payable	6,286	17,811
Payables to associates (Soufflet)	665	2,169
Other payables and accrued expenses	25,273	6,989
	217,429	146,523

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 September 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										
Secured bank loans										
USD	LIBOR+1.5%	7.02%	45,491							45,491
Unsecured bank loans:										
USD	LIBOR+2%	7.32%	23,670							23,670
USD	LIBOR+0.65%	6,27%	3,715							3,715
RUR	LIBOR+1%	5.03%	9,125	-	-	-	-	-	-	9,125
Unsecured bond issues:										
RUR*	8.75%	8.75%	917	-	29,431	-	-	-	-	30,348
Finance lease liabilities										
USD	LIBOR+4%	6.74%	3,511	-	-	-	-	-	-	3,511
			86,429	-	29,431	-	-	-	-	115,860

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										
Secured bank loans										
USD	LIBOR+1.5%	6.16%	63,869							63,869
Unsecured bank loans:										
USD	LIBOR+2%	6.21%	41,332							41,332
USD	LIBOR+0.65%	3.92%	4,557	-	-	-	-	-	-	4,557
RUR	8.93%	8.93%	12,771							12,771
Unsecured bond issues:										
RUR*	8.75%	8.75%	273	-	29,253	-	-	-	-	29,526
Finance lease liabilities										
USD	LIBOR+5%	7.81%	7,386	-	-	-	-	-	-	7,386
			130,188	-	29,253	-	-	-	-	159,441

* 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 September 2006 the amount of outstanding forward contracts for the purchase of EURO for RUR amounted to RUR 140,430 thousand (31 December 2005: RUR 53,388 thousand). As at 30 September 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 nine 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 Group has no dilutive potential ordinary shares.

Weighted average number of ordinary shares

	Nine months ended 30 September	
Number of shares unless otherwise stated	**2006**	**2005**
Issued shares at 1 January	117,158,530	117,158,530
Effect of own shares held	(73,888)	(26,909)
Effect of shares issued in July	14,004,046	
Weighed average number of shares at 30 September	131,088,688	117,131,621

Profit attributable to ordinary shareholders

	Nine months ended 30 September	
	2006	**2005**
	’000 EURO	**’000 EURO**
Net profit for the period	254,136	190,157
Dividends declared during the period on preference shares	(9,553)	(6,819)
Net profit attributable to ordinary shares	244,583	183,338

24 Commitments

As at 30 September 2006 the Group had the following major capital commitments (31 December 2005: EURO 48,665 thousand):

Project	**’000 EURO**
Baltika-Samara plant	41,929
St. Petersburg plant	4,571
Baltika-Tula plant	1,813
Baltika-Rostov plant	1,340
Baltika-Khabarovsk plant	158
Vena-St.Peterburg	2,995
Vena-Chelyabinsk	1,734
Yarpivo	1,261
Total	55,801

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 interim 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 37,274 thousand.

A provision has been made in these consolidated interim financial statements in case management believe that it is likely that an outflow of funds will be required to settle certain aspects of the tax assessment.

26 Related party transactions

(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 6,210 thousand as salaries and bonuses during the nine months ended 30 September 2006 (EURO 5,557 thousand during the nine months ended 30 September 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:

	Nine months ended 30 September	
	2006	**2005**
	’000 EURO	**’000 EURO**
Sales of goods:		
Fellow subsidiaries	5,711	9,049
Royalty:		
Fellow subsidiaries	427	-
Services provided:		
Associate	985	1,502
	7,123	10,551

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

	Nine months ended 30 September	
	2006	**2005**
	’000 EURO	**’000 EURO**
Purchases of raw materials:		
Fellow subsidiaries	-	2,040
Associate	11,537	16,357
Services purchased:		
Fellow subsidiaries	204	-
Royalties:		
Fellow subsidiaries	2,054	1,299
	13,795	19,696

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

	30 September 2006	**31 December 2005**
	’000 EURO	**’000 EURO**
Receivables:		
Fellow subsidiaries	1,670	1,663

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

	30 September 2006	31 December 2005
	'000 EURO	'000 EURO
Trade payables:		
Fellow subsidiaries	1,122	162
Associate	665	2,169
Royalty payable:		
Fellow subsidiaries	497	98
	2,284	2,429

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 nine months ended 30 September 2006 the Group purchased malt from Soufflet, an associate of the Group, amounting to EURO 11,537 thousand, (excluding VAT) or 11% of the total value of malt purchases, and 48,946 tons, or 11% of the total volume of malt purchases. During the nine months ended 30 September 2005 the Group's purchases from Soufflet amounted to EURO 16,357 thousand (excluding VAT) or 14% of the total value of malt purchases, and 59,809 tons, or 14% of the total volume of malt purchases.

The liability to Soufflet for malt purchases amounted to EURO 665 thousand and EURO 2,169 thousand as at 30 September 2006 and 31 December 2005, respectively.

During the nine months ended 30 September 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 September 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 September 2006	**31 December 2005**
OAO Yarpivo	Beer production	Russia	91%	-
OAO Vena	Beer production	Russia	97%	-
OAO Pikra	Beer production	Russia	92%	16%
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%