

JSC “Abrau-Durso” and its subsidiaries

Consolidated financial statements
for the year ended 31 December 2011,
prepared in compliance with
International Financial Reporting
Standards,
and Independent Auditor’s Report

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of JSC «Abrau-Durso» and its subsidiaries (collectively 'the Group') at 31 December 2011, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern in foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2011 were approved on behalf of the management of the Group on 15 June 2012 by:

Vladimir Semenov

Independent Auditor's Report

To the Shareholders and the Board of Directors of JSC "Abrau-Durso"

We have audited the accompanying consolidated financial statements of JSC "Abrau-Durso" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC "Abrau-Durso" and its subsidiaries as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Elena Khromova
Partner

15 June 2012

ZAO BDO

JSC «Abrau-Durso»

Consolidated statement of comprehensive income for the year ended 31 December 2011

(In thousand USD)

| | Notes | Year ended 31 December | |
|---|-------|------------------------|---------------|
| | | 2011 | 2010 |
| Revenue | 8 | 100,482 | 64,487 |
| Cost of sales | 9 | (46,386) | (29,696) |
| Gross profit | | 54,096 | 34,791 |
| Selling and distribution expenses | 9 | (10,612) | (8,104) |
| General and administrative expenses | 9 | (14,908) | (8,712) |
| Goodwill impairment | | (309) | - |
| Other expenses | 11 | (3,236) | (1,425) |
| Operating profit | | 25,031 | 16,550 |
| Finance costs, net | 10 | (5,837) | (5,605) |
| Profit before income tax | | 19,194 | 10,945 |
| Income tax expenses | 12 | (4,974) | (3,366) |
| Net profit | | 14,220 | 7,579 |
| Other comprehensive income: | | | |
| Foreign currency translation reserve | | (4,947) | (684) |
| Other reserves | | 8 | 13 |
| Total comprehensive income | | 9,281 | 6,908 |
| Profit for the year attributable to | | | |
| Shareholders of the Company | | 14,220 | 5,503 |
| Non-controlling interest | 13 | - | 2,076 |
| Total comprehensive income attributable to | | | |
| Shareholders of the Company | | 9,281 | 5,135 |
| Non-controlling interest | 13 | - | 1,773 |
| Basic earnings per share | 26 | 0.019 | 0.011 |

Approved and signed on behalf of the management of the Group

Vladimir Semenov

15 June 2012

Moscow, Russia

| | Notes | 31 December | |
|---|-------|----------------|----------------|
| | | 2011 | 2010 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 14 | 1,824 | 2,937 |
| Inventories | 16 | 37,006 | 31,995 |
| Trade and other receivables | 15 | 39,181 | 26,508 |
| Advances paid and prepaid expenses | | 2,190 | 3,830 |
| Other financial assets | | 268 | - |
| Total current assets | | 80,469 | 65,270 |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 106,266 | 108,197 |
| Investment property | | 892 | 1,220 |
| Intangible assets | | 122 | 61 |
| Deferred tax assets | 12 | 1,824 | 926 |
| Other non-current assets | | 24 | 25 |
| Total non-current assets | | 109,128 | 110,429 |
| Total assets | | 189,597 | 175,699 |
| Equity and liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 18 | 14,796 | 9,277 |
| Loans and borrowings | 19 | 32,276 | 30,860 |
| Income tax payable | | 3,044 | 1,089 |
| Other tax liabilities | 20 | 7,110 | 4,686 |
| Provisions | | 548 | 695 |
| Financial lease liability | 21 | 11 | 37 |
| Other liabilities | | 45 | 27 |
| Total current liabilities | | 57,830 | 46,671 |
| Non-current liabilities | | | |
| Loans and borrowings | 19 | 21,993 | 10,553 |
| Deferred tax liabilities | 12 | 15,921 | 17,512 |
| Finance lease liability | 21 | - | 12 |
| Total non-current liabilities | | 37,914 | 28,077 |
| Equity | | | |
| Ordinary shares | 22 | 2,449 | 2,449 |
| Other reserves | | 21 | 13 |
| Foreign currency translation reserve | | (8,449) | (1,905) |
| Retained earnings | | 99,832 | 59,936 |
| Total equity attributable to shareholders of the Group | | 93,853 | 60,493 |
| Non-controlling interest | 13 | - | 40,458 |
| Total equity | | 93,853 | 100,951 |
| Total equity and liabilities | | 189,597 | 175,699 |

Approved and signed on behalf of the management of the Group

Vladimir Semenov
15 June 2012

Moscow, Russia

| | Notes | Year ended 31 December | |
|---|-------|------------------------|----------------|
| | | 2011 | 2010 |
| Cash flows from operating activities | | | |
| Receipts from customers | | 96,507 | 81,568 |
| Payments to suppliers | | (57,934) | (47,807) |
| Payments to employees | | (11,364) | (9,511) |
| Payments of taxes | | (18,799) | (14,139) |
| Cash flows from operating activities | | 8,410 | 10,111 |
| Interest paid | | (4,249) | (5,810) |
| Income tax paid | | (5,344) | (3,455) |
| Net cash flows from operating activities | | (1,183) | 846 |
| Cash flows from investing activities | | | |
| Interest received | | 125 | - |
| Net cash outflow due to acquisition of subsidiaries | | (16,301) | (448) |
| Purchases of property, plant and equipment | | (283) | (7,677) |
| Sale of property, plant and equipment | | 1,237 | 267 |
| Proceeds from repayment of loans issued | | 190 | 778 |
| Loans issued | | (126) | (883) |
| Net cash flows from investing activities | | (15,158) | (7,963) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of ordinary shares | | - | 1,920 |
| Proceeds from loans and borrowings | | 41,737 | 31,518 |
| Repayment of loans and borrowings | | (26,754) | (24,607) |
| Payment of finance lease liabilities | | (340) | (65) |
| Net cash flows from financing activities | | 14,643 | 8,766 |
| Net increase in cash and cash equivalents | | (1,698) | 1,649 |
| Cash and cash equivalents at beginning of year | | 2,937 | 1,246 |
| Exchange differences on balances of cash and cash equivalents | | 585 | 42 |
| Cash and cash equivalents at end of year | | 1,824 | 2,937 |

JSC «Abrau-Durso»

Consolidated statement of changes in equity for the year ended 31 December 2011

(In thousand USD)

| | Ordinary shares | Foreign currency translation reserve | Other reserves | Retained earnings | Total | Non-controlling interest | Total equity |
|---|-----------------|--------------------------------------|----------------|-------------------|---------------|--------------------------|----------------|
| Balance at 31 December 2009 | 530 | (1,524) | - | 54,503 | 53,509 | 38,628 | 92,137 |
| Issue of shares | 1,919 | - | - | - | 1,919 | - | 1,919 |
| Changes in non-controlling interest (Note 13) | - | - | - | (57) | (57) | 57 | - |
| Total mutual settlements with shareholders | 2,449 | (1,524) | - | 54,446 | 55,371 | 38,685 | 94,056 |
| Profit for the period | - | - | - | 5,503 | 5,503 | 2,076 | 7,579 |
| Changes in foreign currency translation reserve | - | (381) | - | - | (381) | (303) | (684) |
| Profit distribution | - | - | 13 | (13) | - | - | - |
| Total comprehensive income/loss for the period | - | (381) | 13 | 5,490 | 5,122 | 1,773 | 6,895 |
| Balance at 31 December 2010 | 2,449 | (1,905) | 13 | 59,936 | 60,493 | 40,458 | 100,951 |
| Changes in non-controlling interest (Note 13) | - | - | - | 25,684 | 25,684 | (42,056) | (16,372) |
| Total mutual settlements with shareholders | 2,449 | (1,905) | 13 | 85,620 | 86,177 | (1,598) | 84,579 |
| Profit for the period | - | - | - | 14,220 | 14,220 | - | 14,220 |
| Changes in foreign currency translation reserve | - | (6,544) | - | - | (6,544) | 1,598 | (4,946) |
| Profit distribution | - | - | 8 | (8) | - | - | - |
| Total comprehensive income for the period | - | (6,544) | 8 | 14,212 | 7,676 | 1,598 | 9,274 |
| Balance at 31 December 2011 | 2,449 | (8,449) | 21 | 99,832 | 93,853 | - | 93,853 |

The accompanying notes on pages 9 to 45 are an integral part of these consolidated IFRS financial statements.

Note 1. General information

These consolidated financial statements of Joint Stock Company «Abrau-Durso» comprise the parent company Joint Stock Company «Abrau-Durso» (JSC «Abrau-Durso» or 'the Company') and its subsidiaries (collectively 'the Group') as listed in Note 23.

JSC «Abrau-Durso» was incorporated in Russian Federation on 17 July 2007. The address of the Company's registered office is 43A, Section 2, Sevastopolsky Prospect, Moscow, 117186, Russian Federation (RF).

The parent company of the Group is SVL Agro Limited, Cyprus.

The ultimate controlling party of the Group as at 31 December 2011 and at the date of approval of these consolidated financial statements is the citizen of the RF Boris Titov.

The principal activities of the Group are the production and sale of sparkling wine under the names Abrau-Durso and Abrau in the RF. The Group also provides public catering and hotel services.

The Group's detailed description and structure are presented in Note 23.

Note 2. Basis of preparation

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

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- investment property is measured at fair value.

Note 3. Significant accounting policy

3.1. Consolidation

3.1.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3.1.2. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets if such non-controlling interest entitles the holder to a proportionate share of net assets in the event of liquidation. Otherwise, non-controlling interest is measured at fair value. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.1.3. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 3.1.2 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated [statement of comprehensive income/income statement]. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.2. Functional and presentation currency

The individual financial statements of each Group entity are presented in its functional currency.

The Russian Rouble ("RUR") is the functional currency of the Company and all subsidiaries of the Group.

The presentation currency of the consolidated financial statements of the Group is US Dollar (“USD”), as USD is more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each balance sheet presented;
- income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case exchange rates at the date of transactions are used;
- all equity items are translated at the historical exchange rates;
- all resulting exchange differences are recognised as separate component in equity;
- in the consolidated statement of cash flows, cash balances at beginning and end of each period are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the periods presented. Resulting exchange differences are presented as the effect of translation to presentation currency.

3.3. Foreign currency transactions

Transactions in currencies other than the entity’s functional currency (i.e., foreign currencies) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss. Non-monetary items carried at historical cost are translated at the exchange rates prevailing at the date of transaction. Non-monetary items carried at fair value are translated at the exchange rates prevailing at the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised as finance income or finance costs on a net basis.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|-------------|-------------|
| <i>Russian Rouble / US Dollar</i> | | |
| 31 December | 32.1961 | 30.4769 |
| Average rate for the year ended | 29.3189 | 30.3553 |

3.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker is the Chief Executive Officer.

3.5. Property, plant and equipment

3.5.1. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is 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 assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss 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. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

3.5.2. Subsequent costs

The cost of replacing a component 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 component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.5.3. Depreciation

Depreciation is calculated by reference to depreciable amount which is the cost of an asset, or other amount substituted for cost, less its residual value.

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 and constructions - 10-80 years;

Tunnels - 500 years;

Equipment and machinery - 5-35 years;

Other - 5-10 years;

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.5.4. Capital construction in progress

Capital construction in progress comprises costs directly related to construction of buildings, vehicles, equipment and machinery. Cost also includes borrowing costs capitalised during construction period where such costs are financed by borrowings. Depreciation of these assets commences when the assets are put into service.

3.6. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

3.7. Lease

3.7.1. Determination of lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even that right is not explicitly in an arrangement.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.7.2. The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

3.7.3. Operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.8. Intangible assets

3.8.1. Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill at initial recognition, see Note 3.1.3.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

3.8.2. Patents and licences

The patents have been granted for a period of 10 years by the relevant government agency with the option of renewal at the end of this period. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

3.8.3. Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 years.

3.8.4. Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

3.8.5. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.8.6. Amortisation

Amortization is based on the cost of an asset less its residual value. 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 for the current and comparative years are as follows:

Patents and trademarks - 3-10 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.9. Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials: purchase cost on a weighted average basis.

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The Group's normal operating cycle may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realized within twelve months after the balance sheet date.

3.10. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, 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 useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually 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 CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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.

3.11. Financial instruments - initial recognition and subsequent measurement

3.11.1. Financial assets

3.11.1.1. Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash, trade and other receivables, loan and other receivables.

3.11.1.2. Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

3.11.1.3. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.11.1.4. Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

3.11.2. Financial liabilities

3.11.2.1. Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings.

3.11.2.2. Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

3.11.2.3. Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3.11.3. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.11.4. Fair value

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

3.12. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as noncurrent assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

3.13. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks.

3.14. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

3.15. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.16. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.17. Share capital

3.17.1. Ordinary shares

Ordinary shares are classified as equity.

3.18. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.19. Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income tax is recognised as an expense or income in profit or loss, except when it relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of business combination.

3.19.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.19.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments in subsidiaries are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.20. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.20.1. Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is highly probable that the economic benefits associated with the transaction will flow to the Group;
- and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.20.2. Rendering of services

Revenue from the contracts to provide services includes revenue from hotel and restaurant services and public utilities. Revenue from rendering of services is recognised in the period the services are provided.

3.20.3. Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

3.20.4. Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.21. Employee benefits

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that period.

3.21.1. Defined contribution plan

The Group contributes to the Pension Fund of the Russian Federation.

The only obligation of the Group with respect to these and other defined contribution plans is to make specified contributions in the period in which they arise. These contributions are recognised in the consolidated statement of comprehensive income when employees have rendered services entitling them to the contribution.

3.22. Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest rate method.

Foreign currency gains and losses are reported on a net basis.

Note 4. Adoption of new and revised International Financial Reporting Standards (IFRS)

4.1. New and revised IFRSs affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted for the first time in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted for the first time in preparation of these financial statements but that have had no material effect on the amounts reported are set out in section 4.2.

Amendments to IAS 1 Presentation of Financial Statements

(Issued in May 2010 and effective for annual periods beginning on or after 1 January 2011).

Applied retrospectively.

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

In the current year, for each component of equity, the Group has chosen to present such an analysis in the statement of changes in equity.

4.2. Standards and Interpretations adopted for the first time with no material effect on financial statements

The following New and Revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IAS 24 Related Party Disclosures (Issued in November 2009 and effective for annual periods beginning on or after 1 January 2011)

Amendments to IFRS 7 Financial Instruments: Disclosures

(Issued in May 2010 and effective for annual periods beginning on or after 1 January 2011)

Applied retrospectively.

IAS 24 was revised in 2009 by: (a) clarifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period.

Amendments to IFRS 3 Business Combinations

(Issued in May 2010 and effective for annual periods beginning on or after 1 July 2010)

IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest and do not entitle the holder to a proportionate share of net assets in the event of liquidation (applied prospectively from the date the entity applies IFRS 3), (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination (applied prospectively), and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; (applied retrospectively).

| | |
|--|--|
| Amendments to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues | The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature. |
| (Issued on October 2009 and effective for annual periods beginning on or after 1 February 2010) | |
| Applied retrospectively. | |
| Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement 'IAS 19 - The limit on a defined benefit assets, minimum funding requirements and their interaction' | The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment removes an unintended consequence when in some circumstances where the entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions, the losses occurred in the period of prepayments. The amendment permits to treat the benefit of such an early payment as an asset rather than an expense. The Group is not subject to minimum funding requirements. The application of the amendments has not had material effect on the Group financial statements. |
| (Issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). | |
| IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments | This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. |
| (Issued in November 2009 and effective for annual periods beginning on or after 1 July 2010) | IFRIC 19 did not have any material effect on the Group financial statements. |
| IFRIC 13 Customer Loyalty Programmes | IFRIC 13 was amended to clarify measurement of fair value of award credits. In determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme. |
| (Issued in May 2010 and effective for annual periods beginning on or after 1 January 2011) | IFRIC 13 did not have any material effect on the Group financial statements. |
| IAS 27, 'Consolidated and separate financial statements' | Clarifies that the consequential amendments from IAS 27 made to IAS 21, 'The effect of changes in foreign exchange rates', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier. |
| (Issued in May 2010 and effective for annual periods beginning on or after 1 July 2010) | |
| Applied retrospectively. Amendment to IFRS 1, 'First-time adoption of IFRS - Limited exemption from comparative IFRS 7 disclosures for first-time adopters' | Provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendments to IFRS 7, which exempts company from comparatives in additional disclosures, required by the Amendments to IFRS 7, issued in March 2009. Also clarifies the transition provisions of the amendments to IFRS 7. |
| (Issued in January 2010 and effective for annual periods beginning on or after 1 July 2010.) | |

4.3. Standards and Interpretations issued, but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| Standards & Interpretations | Effective date | |
|--|---|----------------|
| Amendments to IFRS 7 | Disclosures - Transfers of financial Assets | 1 July 2011 |
| Amendment to IFRS 1 | First time adoption | 1 July 2011 |
| Amendments to IAS 12 | Deferred Tax - Recovery of Underlying Assets | 1 January 2012 |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income | 1 July 2012 |
| IFRS 9 (as amended in 2010) | Financial Instruments | 1 January 2013 |
| IAS 19 (as revised in 2011) | Employee Benefits | 1 January 2013 |
| IFRS 10 | Consolidated Financial Statements | 1 January 2013 |
| IFRS 11 | Joint Arrangements | 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2013 |
| IAS 27 (as revised in 2011) | Separate Financial Statements | 1 January 2013 |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures | 1 January 2013 |
| IFRS 13 | Fair Value Measurement | 1 January 2013 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 |

Note 5. Significant accounting estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

5.1. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment. The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. The assessment is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the group. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Revaluation of investment properties. The Group carries its investment properties at fair value, with changes in fair value being recognised in the profit and losses. The fair value of the investment property as at 31 December 2011 is estimated by the management of the Group and bases on analysis of market prices of the property depending on it's location as well as other available information.

Impairment of assets excluding goodwill. The Group reviews the carrying amount of its tangible and intangible assets excluding goodwill to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessary applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash generating units, and also in estimating the timing and value of the underlying cash flows within the value-in-use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Impairment of goodwill. Assessment whether goodwill is impaired requires an estimation of value-in-use of cash-generating unit to which goodwill is allocated. The value-in-use calculations require management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount to calculate present value.

Allowance for doubtful debts. The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Allowance for obsolete and slow-moving inventories. The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Deferred income tax assets. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

Note 6. Financial risk management

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns with maximizing profits for shareholders by optimizing the ratio of debt and equity.

The structure of the Group's capital consists of debts which include long-and short-term borrowings, cash and cash equivalents; equity holders of the company, which includes share capital, reserves and retained earnings.

The ratio of net debt to equity of the Group on reporting dates was as follows:

| | 31 December | |
|---|----------------------|----------------------|
| | 2011 | 2010 |
| Short-term borrowings and current portion of long-term borrowings | 32,276 | 30,860 |
| Long-term borrowings | 21,993 | 10,553 |
| Cash and cash equivalents | (1,824) | (2,937) |
| Net debt | <u>52,445</u> | <u>38,476</u> |
| Share capital | 2,449 | 2,449 |
| Reserves | 91,404 | 58,044 |
| Total capital involved | <u><u>93,853</u></u> | <u><u>60,493</u></u> |
| The ratio of net debt to capital involved, % | 56% | 64% |

The decrease in gearing in 2011 results from the growth of The Group's profits.

The Group does not impose any finance restrictions on the ratio of net debt to capital involved.

Managing of financial risks

The Group's risk management is based on the determination of risks to which the Group is exposed in the course of ordinary operation. The Group is exposed to the following major risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow risk.

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates (see below) will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

Inflows from the operating activity are carried out in RUR, as well as the major part of the operating and capital costs, costs of obligations and agreements (including TAX liabilities). But there is a significant portion of payments on contracts (mostly resulting from the purchase of bulk wine) carried out in USD and EURO. As a result the Group is exposed to currency risk if any change of foreign currency rates takes place.

The carrying value of monetary assets and liabilities denominated in foreign currencies other than the functional currency of the Group as at balance sheet date is as follows:

| | Assets | | Liabilities | |
|--------------|-------------|------------|--------------|--------------|
| | 31 December | | 31 December | |
| | 2011 | 2010 | 2011 | 2010 |
| USD | 342 | 213 | 5,278 | 5,611 |
| Euro | 11 | 21 | 369 | 31 |
| Total | 353 | 234 | 5,647 | 5,642 |

Foreign currency risk is managed through the making of operating decisions depending on the current market situation.

Analysis consists of monetary assets/liabilities only denominated in USD and EURO for companies which functional currencies differ from USD.

Changes in the Group profit before tax with the growth rates of the functional currencies of the Group companies in relation to USD and EURO at 5% are loss in the amount of 247 thousand USD (2010: 270 thousand USD) and loss in the amount of 18 thousand USD (2010: 1 thousand USD) respectively.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage the interest rate risk. All the Group's financial assets and liabilities have fixed interest rates. However, the creditors have a unilateral right to change interest rates.

The Group's sensitivity to an increase or a decrease of fixed interest rate by 10% is the change of profit or loss by 774 thousand USD (2010: 527 thousand USD). The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that the amount of liabilities outstanding at the balance sheet date would remain outstanding in the following year.

Commodity price risk

The risk of price changes is the risk of arising from possible changes in market prices and this impact on future performance and results of the Group's operations.

Falling prices may lead to a decrease in net income and cash flows. Low prices for an extended period of time may lead to a reduction in activity and can affect the Group's ability to do its obligations. Management estimates decline in prices in the market as limited, and the Group does not use derivatives finance instruments for reducing exposure to this risk.

The Group sets up its contracts based on the market prices, so the Group is not exposed to risk of loss of revenue with an increase in prices.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are regularly reviewed and approved by the Group's financial management.

The maximum exposure of credit risk is reflected in the carrying amounts of financial assets in the consolidated balance sheet. A possibility to offset assets and liabilities has no material importance for mitigating potential credit risk.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year.

The Group performs the ageing analysis and subsequent monitoring of overdue balances and presents the data on maturities and other information on credit risk as indicated in Notes 15, 18, 19.

Liquidity risk management

The management of the Group has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rates, the undiscounted cash flows are derived from interest rate curves at the end of the reporting period.

The contractual maturity is based on the earliest date on which the Group may be required to pay. The maturity analysis for financial liabilities that shows the remaining contractual maturities as of balance sheet date in accordance with agreements' terms is as follows:

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>6 months or less</u> | <u>6-12 months</u> | <u>1-2 years</u> | <u>2-5 years</u> | <u>More than 5 years</u> |
|---------------------------|----------------------------|-----------------------------------|-----------------------------|------------------------|------------------|------------------|------------------------------|
| 31 December 2011 | | | | | | | |
| Bank loans and borrowings | 54,269 | (58,710) | (13,606) | (21,506) | (7,648) | (14,360) | (1,590) |
| Finance lease liabilities | 11 | (11) | (11) | - | - | - | - |
| Trade and other payables | 14,757 | (14,757) | (14,472) | (272) | (13) | - | - |
| | <u>69,037</u> | <u>(73,478)</u> | <u>(28,089)</u> | <u>(21,778)</u> | <u>(7,661)</u> | <u>(14,360)</u> | <u>(1,590)</u> |
| 31 December 2010 | | | | | | | |
| Bank loans and borrowings | 41,413 | (46,990) | (12,221) | (22,469) | (2,958) | (8,198) | (1,144) |
| Finance lease liabilities | 49 | (49) | (18) | (19) | (12) | - | - |
| Trade and other payables | 9,243 | (9,241) | (6,069) | (3,172) | - | - | - |
| | <u>50,705</u> | <u>(56,280)</u> | <u>(18,308)</u> | <u>(25,660)</u> | <u>(2,970)</u> | <u>(8,198)</u> | <u>(1,144)</u> |

The Management considers that the carrying value of financial liabilities recognised in the financial statements approximate their fair values. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Note 7. Substantial acquisitions**7.1. Acquisitions during the period****7.1.1. General information**

On 16 June 2011 the Group acquired 100% of the trading company LLC «Kuban Wine Artel» with the aim to expand the distribution network. The acquired company has extended experience and strong relationships with retail chains and regional wine traders.

7.1.1.1. Acquisitions of subsidiaries during the period

| Entity's name | Entity's main activity | The percentage of voting equity interests acquired during the period | The percentage of voting equity interests acquired at reporting date | The acquisition date |
|------------------------|------------------------|--|--|----------------------|
| | | % | % | |
| LLC «Kuban Wine Artel» | Distribution trade | 100% | 100% | 16.06.2011 |

7.1.1.2. Summary of financial information

The amounts of revenue and profit or loss of the entity since the acquisition date included in the consolidated statement of comprehensive income for the reporting period.

| The name of the entity | Revenue | Net profit |
|------------------------|---------|------------|
| LLC «Kuban Wine Artel» | 10,034 | 1,061 |

The revenue and profit or loss of the Group for the current reporting period as though the acquisition date had been as of the beginning of the annual reporting period

| The name of the entity | Revenue | Net profit |
|------------------------|---------|------------|
| LLC «Kuban Wine Artel» | 10,408 | 1,009 |

Aggregate information on the fair value of consideration and cash flows in respect of acquisitions during the period.

| | Year ended 31 December 2011 |
|--|-----------------------------|
| Total fair value of consideration transferred | 215 |
| Cash and cash equivalents in the acquired entities | (12) |
| Cost of acquisition of subsidiaries, net of cash acquired | 203 |

7.1.2. Business combinations**7.1.2.1. Net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed:**

| | Fair value at acquisition date |
|---|--------------------------------|
| Cash and cash equivalents | 12 |
| Inventories | 61 |
| Trade and other receivables | 127 |
| Taxes receivable | 17 |
| Advances paid and prepaid expenses | 24 |
| Property, plant and equipment | 5 |
| Trade and other payables | (277) |
| Loans and borrowings | (61) |
| Other tax liabilities | (18) |
| Net identifiable liabilities | (110) |
| Fair value of the total consideration transferred (see section 7.1.1.2) | 215 |

| | Fair value at acquisition date |
|----------------------------------|-----------------------------------|
| Goodwill on business combination | <u><u>325</u></u> |

The Group received the client base of LLC «Kuban Wine Artel» as part of the acquisition. This asset is not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts; the client base is not recognized separately from goodwill.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The goodwill was fully impaired in 2011 as a result of impairment test.

Note 8. Revenue

| | Year ended 31 December | |
|---|------------------------|----------------------|
| | <u>2011</u> | <u>2010</u> |
| Sale of sparkling wines produced | 86,184 | 61,893 |
| Public catering, hospitality and other services | 8,196 | 1,233 |
| Sale of other goods | 5,046 | 1,361 |
| Royalty | 1,056 | - |
| Total | <u><u>100,482</u></u> | <u><u>64,487</u></u> |

In 2011 the company produced about 16 million bottles of sparkling wine, including 800,000 by the traditional method (méthode champenoise). Increase in Group revenue results from the increase in sales volume and prices.

Note 9. Cost of sales, distribution costs and administrative expenses

| | Year ended 31 December | |
|--|------------------------|----------------------|
| | <u>2011</u> | <u>2010</u> |
| Cost of sales of sparkling wines produced | | |
| Bulk wine, other raw materials | 26,885 | 20,930 |
| Employee benefits | 4,400 | 3,193 |
| Amortisation and depreciation | 1,493 | 1,025 |
| Repair and maintenance | 940 | 1,367 |
| Utilities | 516 | 233 |
| Other | 1,207 | 321 |
| Cost of goods sold | 9,610 | 1,252 |
| Cost of public catering, hospitality and other services | | |
| Employee benefits | 1,189 | 839 |
| Other expenses | 146 | 536 |
| Total | <u><u>46,386</u></u> | <u><u>29,696</u></u> |
| Selling and distribution expenses | | |
| Employee benefits | 3,472 | 3,257 |
| Marketing | 1,675 | 370 |
| Rent | 1,648 | 766 |
| Transportation | 1,594 | 841 |
| Advertising | 1,550 | 2,245 |
| Materials | 256 | 271 |
| Depreciation | 159 | 121 |
| Other | 258 | 233 |
| Total | <u><u>10,612</u></u> | <u><u>8,104</u></u> |

Investments in marketing and promotional activities lead to growth of sales volumes.

General and administrative expenses

| | | |
|--|---------------|--------------|
| Employee benefits | 5,371 | 3,829 |
| Materials | 2,035 | 435 |
| Rent | 1,074 | 168 |
| Taxes other than income tax | 812 | 698 |
| Depreciation and amortisation | 707 | 559 |
| Consulting and other professional services | 600 | 231 |
| Repairs and maintenance | 482 | 321 |
| Security guards | 475 | 511 |
| Bank charges | 429 | 483 |
| Travel | 331 | 170 |
| Communication | 277 | 105 |
| Utilities | 253 | 322 |
| Other | 2,062 | 880 |
| Total | 14,908 | 8,712 |

Other general and administrative expenses include the net loss from the fair value adjustment to investment property in the amount of USD 31 thousand (2010: USD 62 thousand).

Note 10. Finance income and finance costs

| | Year ended 31 December | 31 December |
|----------------------------|------------------------|--------------|
| | 2011 | 2010 |
| Exchange loss, net | 785 | 126 |
| Interest expense on: | | |
| loans and borrowings | 5,036 | 5,453 |
| finance lease liabilities | 16 | 26 |
| Total finance costs | 5,837 | 5,605 |

Note 11. Other expenses

| | Year ended 31 December | 31 December |
|--|------------------------|--------------|
| | 2011 | 2010 |
| Loss on disposals of property, plant and equipment | 704 | 82 |
| Charity | 578 | 802 |
| Territory improvement and social expenses | 375 | - |
| Other expenses | 1 579 | 541 |
| Total other expenses | 3,236 | 1,425 |

Note 12. Income taxes

| | Year ended 31 December | 31 December |
|---|------------------------|--------------|
| | 2011 | 2010 |
| Current tax expense | 6,734 | 3,347 |
| Current income tax charge | 6,638 | 3,240 |
| Tax penalties | 96 | 107 |
| Deferred tax expense | (1,760) | 19 |
| The amount of deferred tax expense/income relating to the origination and reversal of temporary differences | (1,760) | 19 |
| Total income tax expense | 4,974 | 3,366 |

Reconciliation between tax expense and the accounting profit

| | Year ended 31 December | |
|--|------------------------|--------------|
| | 2011 | 2010 |
| Profit for the period before tax | 19,193 | 10,944 |
| Income tax using the Company's domestic tax rate 20% | 3,839 | 2,189 |
| <i>Increase/decrease due to the following factors:</i> | | |
| Permanent differences arising from: | | |
| Non-deductible expenses | 1,039 | 1,140 |
| Translation differences, net | - | (70) |
| Tax penalties | 96 | 107 |
| Income tax expense | 4,974 | 3,366 |

Recognised deferred tax assets and liabilities

| | 1 January 2011 | The amount of the deferred tax income or expense recognised in profit or loss | Foreign currency translation differences | 31 December 2011 |
|--|-------------------|--|---|------------------------|
| Recognised deferred tax assets attributable to the following elements: | | | | |
| Inventories | 322 | 463 | (59) | 726 |
| Trade and other receivables | 94 | 159 | (19) | 234 |
| Property, plant and equipment | (2) | 2 | - | - |
| Tax losses carried forward | 337 | 321 | (46) | 612 |
| Provisions | 175 | 95 | (18) | 252 |
| Deferred tax assets | 926 | 1,040 | (142) | 1,824 |
| Recognised deferred tax liabilities attributable to the following elements: | | | | |
| Inventories | (1,014) | 559 | 4 | (451) |
| Property, plant and equipment | (16,498) | 161 | 867 | (15,470) |
| Deferred tax liabilities | (17,512) | 720 | 871 | (15,921) |
| Total deferred tax assets and liabilities | (16,586) | 1,760 | 729 | (14,097) |
| | 1 January 2010 | The amount of the deferred tax income or expense recognised in profit or loss | Foreign currency translation differences | 31 December 2010 |
| Recognised deferred tax assets attributable to the following elements: | | | | |
| Inventories | 110 | 214 | (2) | 322 |
| Trade and other receivables | 118 | (26) | 2 | 94 |
| Property, plant and equipment | 13 | (14) | (1) | (2) |
| Tax losses carried forward | 89 | 264 | (16) | 337 |
| Provisions | 221 | (44) | (2) | 175 |
| Deferred tax assets | 551 | 394 | (19) | 926 |
| Recognised deferred tax liabilities attributable to the following elements: | | | | |
| Inventories | (498) | (450) | (66) | (1,014) |
| Property, plant and equipment | (16,690) | 37 | 155 | (16,498) |
| Deferred tax liabilities | (17,188) | (413) | 89 | (17,512) |
| Total deferred tax assets and liabilities | (16,637) | (19) | 70 | (16,586) |

Note 13. Non-controlling interests (NCI)

| | 31 December | | Year ended | 31 December | | Year ended |
|--|-------------------------------|---|------------|-------------------------------|---|--------------|
| | 2011 | | 31 | 2010 | | 31 |
| | Non-controlling interests (%) | NCI in the acquiree's identifiable net assets | December | Non-controlling interests (%) | NCI in the acquiree's identifiable net assets | December |
| | | | 2011 | | | 2010 |
| CJSC «Abrau-Durso» | - | - | - | 41 | 40,779 | 2,184 |
| LLC «Abrau-Durso territory» | - | - | - | 16 | 42 | 44 |
| Vine Yards Abrau-Durso Limited | - | - | - | 41 | - | - |
| LLC «Wine atelier Abrau-Durso» | 0.001 | - | - | 41 | (194) | 4 |
| Fund for the revival of traditions of winemaking «Heritage of Abrau-Durso» | - | - | - | 41 | (4) | (6) |
| LLC «Service Abrau-Durso» | - | - | - | 41 | (164) | (149) |
| LLC «Abrau-Durso Public Utilities» | - | - | - | 41 | - | - |
| «Ecoly de gastronomie d'Abrau-Durso», SARL (LLC «Center of Wine Tourism Abrau-Durso», 2010 and until 25.11.2011) | - | - | - | 41 | - | - |
| CJSC «Vino ER EF» | 0.001 | - | - | 1 | (1) | (1) |
| LLC «TH «Abrau» | 0.001 | - | - | - | - | - |
| LLC «Kuban Wine Artel» | 0.001 | - | - | - | - | - |
| Total | | - | - | | 40,458 | 2,076 |

Changes in a NCI in the net assets

| | Year ended 31 December | |
|---|------------------------|---------------|
| | 2011 | 2010 |
| NCI at beginning of year | 40,458 | 38,628 |
| Increase in NCI arising on the acquisition of controlling interest | - | 57 |
| Decrease in NCI arising on disposal of controlling interest | (42,056) | - |
| Non-controlling interests in the profit (loss) for the reporting period | - | 2,076 |
| Foreign exchange translation gains and losses | 1,598 | (303) |
| NCI at end of year | - | 40,458 |

Financial result of changes in a NCI that do not result in a loss of control

| | Year ended 31 December | |
|--|------------------------|-------------|
| | 2011 | 2010 |
| Consideration transferred at the acquisition date | (16,372) | (22) |
| Fair value of acquired (disposed) interest at the date of partial acquisition (disposal) | 42,056 | (35) |
| Gain (loss) recognised in equity | 25,684 | (57) |

In 2011 the Parent Company acquired the remaining shares in CJSC «Abrau-Durso» from Kraievoe Gosudarstvennoe Unitarnoe Predpriyatie Abrau-Durso ('KGUP'). The consideration amounted to RUR 471 910 thousand (USD 16,372 thousand).

Note 14. Cash and cash equivalents

| | 31 December | |
|---|--------------|--------------|
| | 2011 | 2010 |
| Cash and bank balances - RUR | 1,794 | 2,912 |
| Cash on hand | 14 | 16 |
| Cash and bank balances - foreign currency | 11 | 9 |
| Cash in transite | 5 | - |
| Cash and cash equivalents | 1,824 | 2,937 |

Note 15. Trade and other receivables

| | 31 December | |
|--|---------------|---------------|
| | 2011 | 2010 |
| Trade receivables | 34,430 | 24,208 |
| Value-added tax reimbursable | 693 | 548 |
| Other taxes receivable | 1,000 | 177 |
| Other receivables | 4,282 | 2,074 |
| Total trade and other receivables | 40,405 | 27,007 |
| Allowance for doubtful debts | (1,224) | (499) |
| Total trade and other receivables, net of allowance | 39,181 | 26,508 |

The Management believes that the carrying value of trade and other receivables recognised in the financial statements approximate their fair values.

The Group has recognised an allowance for doubtful debts of 100% against all receivables over 180 days in respect of the estimates, made by the Management.

At 31 December 2011 the Group had 6 customers that cumulatively owed the Group more than 40% of total receivables (2010: 49%).

Ageing of trade receivables past due but not impaired:

| | 31 December | |
|-------------------|---------------|---------------|
| | 2011 | 2010 |
| Less than 30 days | 28,792 | 216 |
| 30-90 days | 2,879 | 21,965 |
| 90-180 days | 456 | 213 |
| 180-360 days | 15 | 2,665 |
| | 32,142 | 25,059 |

Movement in the allowance for doubtful debts during 2010-2011 is as follows:

| | Year ended 31 December | |
|---|------------------------|------------|
| | 2011 | 2010 |
| Balance at beginning of the year | 499 | 632 |
| Increase/decrease in allowance for doubtful debts | 826 | (129) |
| Foreign exchange translation gains and losses | (101) | (4) |
| Balance at end of the year | 1,224 | 499 |

The following table discloses expected maturity the Group receivables:

| | Year ended 31 December | |
|-------------------|------------------------|---------------|
| | 2011 | 2010 |
| Less than 90 days | 37,917 | 23,390 |
| 90-180 days | 1,258 | 2,566 |
| 180-360 days | 6 | 552 |
| | 39,181 | 26,508 |

At 31 December 2011 and 2010 trade and other receivables were not pledged as collateral for loans and borrowing received.

Note 16. Inventories

| | 31 December | |
|-------------------------------|---------------|---------------|
| | 2011 | 2010 |
| Work in progress | | |
| cuvée | 12,786 | 12,406 |
| tank wine | 8,521 | 6,478 |
| construction in progress | 402 | 176 |
| Raw materials and consumables | 4,709 | 5,533 |
| Goods for resale | 5,700 | 1,347 |
| Finished goods | | |
| bottled sparkling wine | 1,031 | 1,440 |
| residential property | 1,661 | 2,845 |
| Others | 2,196 | 1,770 |
| Total | 37,006 | 31,995 |

Work in progress is divided into: cuvée, tank wine and construction in progress.

Cuvée is semi finished products of own manufacture, namely sparkling wine in bottles, produced under the traditional method (méthode champenoise). The operating cycle is equal to the period of ageing, which is about 1.5-3 years. Cuvée is classified as current assets though not the whole amount of it is expected to be realised within twelve months after the reporting period. At 31 December 2011 cuvée includes the amount of USD 9,754 thousand (2010: USD 10,601 thousand), which is not expected to be realized within twelve months after the balance sheet date.

Tank wine is sparkling wine in process of the secondary fermentation in bulk tanks. The average period of ageing lasts up to three months.

Work in progress as at 31 December 2011 also includes land plots under development.

At 31 December 2011 cuvée with the carrying value of USD 11,208 thousand (2010: USD 10,573 thousand) was pledged as collateral to secure bank loans (Note 19).

Raw materials and consumables consist mainly of bulk wine and tare.

Finished goods comprise sparkling wine under the trade mark “Abrau-Durso”.

Goods for resale comprise bottled wine and other spirits of other manufactures.

Note 17. Property, plant and equipment

| | Land | Buildings and constructions | Tunnels | Equipment and machinery | Other | Construction in progress | Total |
|---|-------|-----------------------------|---------|-------------------------|-------|--------------------------|---------|
| Cost | | | | | | | |
| 1 January 2011 | 5,428 | 20,454 | 66,084 | 14,061 | 1,863 | 3,621 | 111,511 |
| Additions | 331 | 330 | 5 | 3,192 | 2,108 | 2,122 | 8,088 |
| Transfers | - | 301 | - | 1,648 | 4 | (1,953) | - |
| Disposals | (50) | (289) | - | - | - | (316) | (655) |
| Foreign exchange translation gains and losses | (315) | (1,123) | (3,529) | (1,750) | (519) | (180) | (7,416) |
| 31 December 2011 | 5,394 | 19,673 | 62,560 | 17,151 | 3,456 | 3,294 | 111,528 |
| Depreciation | | | | | | | |
| 1 January 2011 | - | (981) | (288) | (1,979) | (469) | - | (3,717) |
| Depreciation charge for the year | - | (583) | (150) | (1,624) | (405) | - | (2,762) |
| Release on disposal | - | 35 | - | 205 | 87 | - | 327 |
| Foreign exchange translation gains and losses | - | 101 | 29 | 234 | 52 | - | 416 |
| 31 December 2011 | - | (1,428) | (409) | (3,164) | (735) | - | (5,736) |
| Net book value | | | | | | | |
| 1 January 2011 | 5,428 | 19,473 | 65,796 | 12,082 | 1,394 | 3,621 | 107,794 |
| 31 December 2011 | 5,394 | 18,245 | 62,151 | 13,987 | 2,721 | 3,294 | 105,792 |
| Advances for property, plant and equipment | | | | | | | |
| 1 January 2011 | - | 305 | - | - | - | - | 305 |
| 31 December 2011 | - | 405 | - | - | - | - | 405 |
| Assets held under finance leases at net book value | | | | | | | |
| 1 January 2011 | - | - | - | - | 98 | - | 98 |
| 31 December 2011 | - | - | - | - | 69 | - | 69 |

| | Land | Buildings and constructions | Tunnels | Equipment and machinery | Other | Construction in progress | Total |
|---|-------|-----------------------------|---------|-------------------------|-------|--------------------------|---------|
| Cost | | | | | | | |
| 1 January 2010 | 5,469 | 17,204 | 66,521 | 10,879 | 1,331 | 2,934 | 104,338 |
| Additions | - | 705 | - | 2,000 | 563 | 4,937 | 8,205 |
| Transfers | - | 2,762 | 72 | 1,391 | - | (4,225) | - |
| Disposals | - | (72) | - | (113) | (19) | - | (204) |
| Foreign exchange translation gains and losses | (41) | (145) | (509) | (96) | (12) | (25) | (828) |
| 31 December 2010 | 5,428 | 20,454 | 66,084 | 14,061 | 1,863 | 3,621 | 111,511 |
| Depreciation | | | | | | | |
| 1 January 2010 | - | (480) | (144) | (833) | (205) | - | (1,662) |
| Depreciation charge for the year | - | (516) | (145) | (1,191) | (278) | - | (2,130) |
| Disposal | - | 9 | - | 34 | 11 | - | 54 |
| Foreign exchange translation gains and losses | - | 6 | 1 | 11 | 3 | - | 21 |
| 31 December 2010 | - | (981) | (288) | (1,979) | (469) | - | (3,717) |
| Net book value | | | | | | | |
| 1 January 2010 | 5,469 | 16,724 | 66,377 | 10,046 | 1,126 | 2,934 | 102,676 |
| 31 December 2010 | 5,428 | 19,473 | 65,796 | 12,082 | 1,394 | 3,621 | 107,794 |
| Advances for property, plant and equipment | | | | | | | |
| 1 January 2010 | 1,738 | 129 | - | - | - | - | 1,867 |
| 31 December 2010 | - | 305 | - | - | - | - | 305 |
| Assets held under finance leases at net book value | | | | | | | |
| 1 January 2010 | - | - | - | - | 124 | - | 124 |
| 31 December 2010 | - | - | - | - | 98 | - | 98 |

JSC «Abrau-Durso»

Notes to consolidated financial statements for the year ended 31 December 2010

(In thousand USD unless otherwise stated below)

Two-storeyed tunnels with the total extent of more than five kilometers are located at the depth of 45-60 meters.

As at 31 December 2011 land, buildings, vehicles, equipment and machinery carried at USD 18,040 thousand (2010: USD 18,540 thousand) (Note 19) have been pledged to banks as collateral for loans.

Assets held under the finance lease include vehicles. The financial lease liability is disclosed in Note 21.

Note 18. Trade and other payables

| | 31 December | |
|------------------------|---------------|--------------|
| | 2011 | 2010 |
| Trade payables | 13,420 | 8,277 |
| Payroll payable | 514 | 427 |
| Advances received | 39 | 34 |
| Other accounts payable | 823 | 539 |
| Total | 14,796 | 9,277 |

For maturity analysis of financial liabilities that shows the remaining contractual maturities refer to Note 6.

Note 19. Loans and borrowings

| | Currency | Interest rate | 31 December | |
|---|----------|---------------|----------------|---------------|
| | | | 2011 | 2010 |
| Long term | | | | |
| Bank loans | | | | |
| secured | RUR | 8-13% | 11,678 | 3,561 |
| unsecured | | | - | - |
| Borrowings | RUR | 7%-20% | 13,949 | 7,353 |
| inc. convertible bonds | RUR | 20% | - | 6,065 |
| <i>Except of current portion of non-current bank loans and borrowings</i> | | | (3,634) | (361) |
| Total long term loans and borrowings | | | 21,993 | 10,553 |
| Short term | | | | |
| Bank loans | | | | |
| secured | RUR | 7%-9,1% | 11,050 | 18,473 |
| unsecured | | | - | - |
| Borrowings | RUR, USD | 7%-24% | 17,592 | 12,026 |
| Current portion of long term bank loans and borrowings | | | 3,634 | 361 |
| Total short term loans and borrowings and current portion of long term bank loans and borrowings | | | 32,276 | 30,860 |
| Total loans and borrowings | | | 54,269 | 41,413 |

The following assets were pledged as collateral for loans and borrowings:

| | 31 December | |
|--|---------------|---------------|
| | 2011 | 2010 |
| Property plant and equipment (Note 17) | 18,040 | 18,540 |
| Inventories (Note 16) | 11,208 | 10,573 |
| Total | 29,248 | 29,113 |

As at 31 December 2011 CJSC «Abrau-Durso» received bank guarantees from Sberbank RF in the amount of USD 2,723 thousand as security for the fulfillment of obligations on the use in accordance with its intended of purchased federal special stamps (USD 1,276 thousand as at 31 December 2010).

JSC «Abrau-Durso»

Notes to consolidated financial statements for the year ended 31 December 2010

(In thousand USD unless otherwise stated below)

JSC «Abrau-Durso» and its subsidiaries acted as guarantors on loans received by the companies of the Group. Detailed information about financial guarantees given by the Group in respect of subsidiaries follows below:

| | 31 December | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Guarantees given in respect of CJSC «Abrau-Durso» | 20,561 | 17,128 |
| «Atrium» Ltd. | 2,485 | 2,625 |
| Total | 23,046 | 19,753 |

Note 20. Other tax liabilities

| | 31 December | |
|--|--------------|--------------|
| | 2011 | 2010 |
| Value added tax | 4,854 | 3,709 |
| Excise tax | 1,787 | 674 |
| Property tax | 169 | 126 |
| Personal income tax and social security charge | 255 | 113 |
| Other | 45 | 64 |
| Total | 7,110 | 4,686 |

Note 21. Finance lease liabilities

| | 31 December | | | 31 December | | |
|---|-------------------|------------------------|---|-------------------|-----------|---|
| | 2011 | | Present value of minimum lease payments | 2010 | | Present value of minimum lease payments |
| Minimum lease payments | Interest expenses | Minimum lease payments | | Interest expenses | | |
| Not later than one year | 12 | 1 | 11 | 49 | 12 | 37 |
| Later than one year and not later than five years | - | - | - | 13 | 1 | 12 |
| | 12 | 1 | 11 | 62 | 13 | 49 |

Effective interest rate, implicit in the line for payment, is 36%.

The details of assets held under finance leases are presented in Note 17.

In 2011 the Group has not entered in new finance lease arrangements.

Note 22. Issued capital

| | 31 December | | | |
|-------------------------------|------------------|------------------------------|------------------|------------------------------|
| | 2011 | | 2010 | |
| | Number of shares | Outstanding balance, 000 RUR | Number of shares | Outstanding balance, 000 RUR |
| Issued and fully paid shares | 735,000 | 73,500 | 735,000 | 73,500 |
| Par value of 1 ordinary share | 100 | | 100 | |

JSC «Abrau-Durso»

Notes to consolidated financial statements for the year ended 31 December 2010

(In thousand USD unless otherwise stated below)

Note 23. Subsidiaries

| Company | Country | Main activity | 31 December | | 31 December | |
|---|---------|-------------------------------------|--------------------|---------------------|--------------------|---------------------|
| | | | 2011 | | 2010 | |
| | | | Total shares, % | Voting shares, % | Total shares, % | Voting shares, % |
| CJSC «Abrau-Durso» | RF | Production | 100 | 100 | 59 | 59 |
| «Atrium» Ltd. | RF | Distribution trade | 100 | 100 | 100 | 100 |
| LLC «Wine atelier Abrau-Durso» | RF | Retail sales | 99.999 | 99.999 | 59 | 59 |
| Fund for the revival of traditions of winemaking «Heritage of Abrau-Durso» | RF | Revival of traditions of winemaking | 100 | 100 | 59 | 59 |
| «Service Abrau-Durso Limited» | RF | Catering, hotel and travel services | 100 | 100 | 59 | 59 |
| LLC «Abrau-Durso territory» | RF | Development | 100 | 100 | 84 | 84 |
| Vine Yards Abrau-Durso Limited | RF | Vine growing | 100 | 100 | 59 | 59 |
| LLC «Abrau-Durso Public Utilities» | RF | Housing services | 100 | 100 | 59 | 59 |
| CJSC «Vino ER EF» | RF | Retail sales | 99.999 | 99.999 | 59 | 59 |
| «Ecoly de gastronomie d'Abrau-Durso», SARL (LLC «Center of Wine Tourism Abrau-Durso, 2010 and until 25.11.2011) | RF | Education | 100 | 100 | 59 | 59 |
| LLC «Kuban Wine Artel» | RF | Distribution trade | 99.999 | 99.999 | - | - |
| LLC «TH «Abrau» | RF | Distribution trade | 99.999 | 99.999 | - | - |

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions have been eliminated in full.

On 18 April 2011 JSC «Abrau-Durso» and SVL Agro Limited established a subsidiary LLC «TH «Abrau». The equity of the company is RUR 10,000 thousand (USD 311 thousand). JSC «Abrau-Durso» share in LLC «TH «Abrau» is 99.999% and SVL Agro Limited share is 0.001%.

Note 24. Related party transactions

The Group's operating activity includes transactions with the following related parties:

The ultimate parent company

SVL Agro Limited

Transactions carried out with related parties:

| | <u>Year ended 31 December</u> | <u>2011</u> | <u>2010</u> |
|--|-------------------------------|-------------|-------------|
| Purchases of goods or receiving of services | | | |
| SOLVALUB Trading Limited | | 96 | 232 |
| Other transactions | | | |
| Finance costs | | <u>970</u> | <u>690</u> |

Finance costs consist mainly from the interest expenses on the loans taken by LLC «Abrau-Durso territory» from SNRG Logistics & Trade Limited.

The amount of outstanding balances:

| | <u>31 December</u> | |
|-----------------------------|--------------------|-----------------|
| | <u>2011</u> | <u>2010</u> |
| Trade and other receivables | 14 | 30 |
| Loans and borrowings | (31,541) | (19,379) |
| Trade and other payables | - | (24) |
| | <u>(31,527)</u> | <u>(19,373)</u> |

The amount of outstanding balances with related parties

| Name of related party | <u>31 December</u> | |
|---|--------------------|-----------------|
| | <u>2011</u> | <u>2010</u> |
| SVL Agro Limited | | |
| Loans and borrowings | (5,609) | (6,065) |
| SOLVALUB (Cyprus) Ltd | | |
| Trade and other payables | - | (19) |
| SOLVALUB Trading Limited | | |
| Trade and other receivables | 4 | - |
| SNRG Logistics & Trade Limited | | |
| Loans and borrowings | (23,767) | (13,314) |
| LLC Interkhimexport | | |
| Loans and borrowings | (2,165) | - |
| Other related parties | | |
| Trade and other receivables | 10 | 30 |
| Trade and other payables | - | (5) |
| Total: | <u>(31,527)</u> | <u>(19,373)</u> |

Remuneration to key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

During 2011 wages and salaries were accrued to key management in the amount of USD 1,050 thousand (2010: USD 1,064 thousand). There were no other transactions with key management.

Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions. There have been no guarantees provided or received for any related party receivables or payables. The Group has not recorded any impairment of receivables relating to amounts owed by related parties.

Note 25. Segment reporting**Description of the types of products and services from which each reportable segment derives its revenues**

For management purposes the Group is organized into business units based on their products and services and has one main reportable segment “Production and sales of sparkling wines”. This segment represents operations of production and trading of sparkling wines, as well as the developing operations of viticulture. The segment generates 91% of external Group’s revenue (2010: 99%).

Other segments include hotel and travel services, catering services (restaurant, cafe, bar), public services. Although other segments only contribute a relatively small amount of external revenue to the Group (8% in aggregate; 2010: 1%), they are monitored by the strategic chief operating decision-maker as well. Those results are combined under the heading «Other segments».

Factors that management used to identify the Group’s reportable segments

The Group’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker is the Chief Executive Officer.

Measurement of operating segment profit or loss, assets and liabilities

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with IFRS but excluding non-recurring losses, such as goodwill impairment.

Inter-segment sales are priced along the same lines as sales to external customers, with an appropriate discount being applied to encourage use of group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior periods.

Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

Information on revenue, depreciation, interest expense, income tax expense and segment profit with a breakdown into segments for 2011 and 2010 is as follows:

| | Production and sales of sparkling wines | Other segments | Consolidated data |
|--|--|-------------------|----------------------|
| Year ended 31 December 2011 | | | |
| Revenues from external customers | 91,943 | 8,010 | 99,953 |
| Revenues from transactions with other segments | 3,337 | 259 | 3,596 |
| Depreciation | (2,265) | (147) | (2,412) |
| Interest expense | (4,078) | (702) | (4,780) |
| Income tax expense | (6,611) | (116) | (6,727) |
| Segment profit/(loss) | 16,364 | (1,852) | 14,512 |
| Royalty | | | 528 |
| Revenues from transactions with segments | | | 2,338 |
| Staff salaries and social charges | | | (1,653) |
| Rent | | | (442) |
| Obsolescence of goodwill | | | (309) |
| Interest expense | | | (257) |
| Other | | | (497) |
| Group profit | | | 14,220 |

JSC «Abrau-Durso»

Notes to consolidated financial statements for the year ended 31 December 2010

(In thousand USD unless otherwise stated below)

| | Production and sales of sparkling wines | Other segments | Consolidated data |
|--|--|-------------------|----------------------|
| Year ended 31 December 2010 | | | |
| Revenues from external customers | 63,704 | 782 | 64,486 |
| Revenues from transactions with other segments | 2,325 | 25 | 2,350 |
| Depreciation | (1,657) | (78) | (1,735) |
| Interest expense | (4,764) | (554) | (5,318) |
| Income tax expense | (3,310) | (11) | (3,321) |
| Segment profit | 7,422 | (111) | 7,311 |
| Revenues from transactions with segments | | | 2,134 |
| Staff and social security taxes | | | (983) |
| Rent | | | (153) |
| Interest expense | | | (136) |
| Other | | | (594) |
| Group profit | | | 7,579 |

Information on operating assets with a breakdown into segments follows below:

| | Production and sales of sparkling wines | Other segments | Consolidated data |
|---------------------------------|--|-------------------|----------------------|
| As at 31 December 2011 | | | |
| Additions to non-current assets | 5,499 | 2,435 | 7,934 |
| Reportable segment assets | 224,682 | 14,170 | 238,852 |
| Total Group assets | | | 189,597 |
| Reportable segment liabilities | (115,441) | (15,692) | (131,133) |
| Total Group liabilities | | | (95,744) |
| As at 31 December 2010 | | | |
| Additions to non-current assets | 5,615 | 2,528 | 8,143 |
| Reportable segment assets | 186,043 | 10,186 | 196,229 |
| Total Group assets | | | 175,699 |
| Reportable segment liabilities | (84,641) | (10,340) | (94,981) |
| Total Group liabilities | | | (74,748) |

The Group operates in two geographical regions: Moscow and Krasnodar Krai. The production activity is in Krasnodar Krai. The main distribution activity is in Moscow. Information on non-current assets and revenue from external counterparties with a breakdown into regions is as follows:

| | External revenue by location of customers | | Non-current assets by location of assets | |
|----------------|---|---------------|--|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Moscow | 69,633 | 61,107 | 1,618 | 624 |
| Krasnodar Krai | 21,388 | 3,122 | 107,856 | 109,807 |
| | <u>91,021</u> | <u>64,229</u> | <u>109,474</u> | <u>110,431</u> |

Note 26. Earnings per share

Basic earnings per share (calculation)

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2011 | 2010 |
| Profit for the year attributable to owners of the Company | 14,220 | 5,503 |
| Weighted average number of ordinary shares for the purposes of calculation of basic earnings per share | 735,000 | 485,000 |

Note 27. Contingent liabilities

Business conditions in the Russian Federation

The economy of the Russian Federation continues to display certain characteristics of an emerging market, including a relatively high level of inflation. The global financial crisis has made impact on the Russian economy: there has been a significant decline in business activity, a drop in world oil prices and devaluation of Russian rouble. The management of the Company is unable to predict the impact of current and future trends on the Russian economy and the Company's financial position.

Legal claims

In the opinion of the Group management, the Group is not involved in any pending or potential legal proceedings, there are no current or prospective claims by tax and other state authorities that could give rise to contingent liabilities in the future.

Taxation

The taxation system in the Russian Federation is in the process of development and is characterised by frequent changes in tax legislation; official pronouncements of legislative authorities may be often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by tax authorities, which have the authority to impose severe fines, penalties and interest charges. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

Recent events in the Russian Federation have shown that the tax authorities may be taking a more assertive position in their interpretation of the legislation. As a result the tax risks in the Russian Federation may be much higher than in other countries.

Management believes that it has provided adequately for 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 the IFRS-compliant consolidated statement of financial position and the consolidated statement of comprehensive income, if the authorities were successful in enforcing their interpretations, could be significant.

For situations where there is insufficient clarity with respect to tax payment due to the lack of similar tax practice, management estimated the possible tax risks as at 31 December 2011 in the amount of USD 235 thousand (2010: USD 125 thousand). These amounts were accrued in the consolidated financial statement at corresponding reporting dates.

Environment

Company in force regularly conducts revaluation of its environmental obligations in accordance with the legislation. Liabilities associated with the above obligations are recognized in the Group's Financial Statement at the moment when they appear. Potential liabilities which could appear as a result of changes in current legislation could not be measured reliably, but they could be material. With the existent internal control system the management of the Company believes that there are no material liabilities in respect of environmental damage which are not shown in financial statements.

Note 28. Events after the reporting period

In 2012 JSC «Abrau-Durso» received a bank loan in the total amount of EUR 25,000 thousand (USD 32,357 thousand) for seven years to finance capital expenditures aimed at increasing production capacity, working capital, investments in marketing activities and refinancing of short-term debts.

On April 11, 2012 in stock market of MICEX RTS the auction by JSC «Abrau-Durso» began.