

Translation from the Russian original

JSC “Abrau - Durso” and its subsidiaries

Consolidated financial statements
for the year ended 31 December 2013,
prepared in compliance with International
Financial Reporting Standards,
and Auditor’s Report

Table of contents

Statement of management’s responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2013	3
Auditor’s Report	4
Consolidated statement of comprehensive income.....	6
Consolidated statement of financial position.....	7
Consolidated statement of cash flows	8
Consolidated statement of changes in equity	9
Note 1. General information	10
Note 2. Basis of preparation.....	10
Note 3. Significant accounting policy.....	10
Note 4. Adoption of new and revised International Financial Reporting Standards	23
Note 5. Significant accounting estimates and assumptions	27
Note 7. Substantial disposals.....	33
Note 8. Revenue	33
Note 9. Cost of sales, distribution costs and administrative expenses	34
Note 10. Finance income and (finance costs)	35
Note 11. Other operating income and (expenses)	35
Note 12. Income taxes	36
Note 13. Cash and cash equivalents.....	38
Note 14. Trade and other receivables	38
Note 15. Inventories.....	39
Note 16. Property, plant and equipment.....	40
Note 17. Trade and other payables.....	42
Note 18. Loans and borrowings.....	43
Note 19. Other tax liabilities	44
Note 20. Issued capital	44
Note 21. Subsidiaries.....	44
Note 22. Related party transactions	46
Note 23. Segment reporting	47
Note 24. Earnings per share.....	49
Note 25. Contingent liabilities	50
Note 26. Events after the reporting period	51

Translation from the Russian original

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013, 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 2013 were approved on behalf of the management of the Group on 28 April 2014 by:

Vladimir Semenov

Translation from the Russian original

AUDITOR'S REPORT

To the Shareholders of JSC "Abrau - Durso"

Audited entity

Joint-stock company "Abrau - Durso" (JSC "Abrau - Durso")

JSC "Abrau - Durso" is registered by Interdistrict Tax Inspectorate of the Federal Tax Service No. 46 for the City of Moscow. Certificate of State Registration No. 009554471, series 77, issued on 16 July 2007.

Registered office: Section 2, 43A Sevastopolsky Prospect, Moscow, 117186.

Auditor

BDO Zakrytoe Aktsionerное Obshchestvo (BDO ZAO)

Registered by Tax Inspectorate No. 26 of the RF Ministry of Taxation in the Southern Administrative District of the City of Moscow, Certificate of Registration No. 1037739271701.

Registered office: 11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russian Federation.

BDO ZAO is a member of the professional audit association Russian Audit Chamber Non-Profit Partnership (Main State Registration No. 10201018307 in the State Register of Auditors and Audit Organisations).

Authority to sign the Auditor's Report rests with Elena Yu. Khromova, Partner, by way of Power of Attorney No. 7-01/2014-БДО of 1 January 2014.

We have audited the accompanying annual consolidated financial statements of JSC "Abrau - Durso" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and explanatory notes to the annual consolidated financial statements.

Audited Entity's Responsibility for the Annual Consolidated Financial Statements

Management of JSC "Abrau - Durso" is responsible for the preparation and fair presentation of these annual consolidated financial statements in accordance with International Financial Reporting Standards and legislation of the Russian Federation and for the internal control system necessary for the preparation of annual 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 Federal Standards on Auditing and 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 annual consolidated financial statements are free from material misstatement.

Translation from the Russian original

An audit involved performing audit procedures to obtain audit evidence about the amounts and disclosures in the annual consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considered internal control relevant to the entity's preparation and fair presentation of the annual 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 included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the annual consolidated financial statements.

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

Opinion

In our opinion, the annual consolidated financial statements present fairly, in all material respects, the financial position of JSC "Abrau - Durso" and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and legislation of the Russian Federation.

BDO ZAO

Signed by:

Elena Yu. Khromova
Partner

28 April 2014

Total number of pages bound: ____.

Translation from the Russian original

JSC «Abrau - Durso»

Consolidated statement of comprehensive income for the year ended 31 December 2013

(In thousand USD)

	Notes	Year ended 31 December	
		2013	2012
Revenue	8	151,908	115,428
Cost of sales	9	(70,059)	(53,688)
Gross profit		81,849	61,740
Selling and distribution expenses	9	(27,312)	(24,967)
General and administrative expenses	9	(13,358)	(13,023)
Other operative gains and expenses, net	11	(4,217)	(3,016)
Operating profit		36,962	20,734
Finance income	10	147	1,929
Finance costs	10	(10,527)	(7,348)
Net finance income/(costs)		(10,380)	(5,419)
Profit before income tax		26,582	15,315
Income tax expenses	12	(6,696)	(4,933)
Net profit		19,886	10,382
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Foreign currency translation reserve		(8,596)	5,859
Total comprehensive income		11,290	16,241
Basic earnings per share	24	0.0003	0.0001
Diluted earnings per share	24	0.0003	0.0001

Approved and signed on behalf of the management of the Group

 Vladimir Semenov
 28 April 2014
 Moscow, Russia

The accompanying notes on pages 10 to 50 are an integral part of these consolidated IFRS financial statements.

Translation from the Russian original

JSC «Abrau - Durso»

Consolidated statement of financial position at 31 December 2013

(In thousand USD)

	Notes	31 December	
		2013	2012
Assets			
Current assets			
Cash and cash equivalents	13	4,484	3,851
Inventories	15	44,966	40,521
Trade and other receivables	14	77,650	57,563
Advances paid and prepaid expenses		2,071	3,453
Other financial assets		332	296
Total current assets		129,503	105,684
Non-current assets			
Property, plant & equipment	16	123,594	120,016
Investment property		702	806
Intangible assets		213	130
Deferred tax asset	12	3,423	2,799
Other non-current assets		35	0
Total non-current assets		127,967	123,751
Total assets		257,470	229,435
Equity and liabilities			
Current liabilities			
Trade and other payables	17	24,014	17,539
Loans and borrowings	18	45,633	22,292
Income tax payable		564	93
Other tax liabilities	19	11,172	7,314
Provisions		1,066	623
Other current liabilities		32	475
Total current liabilities		82,481	48,336
Non-current liabilities			
Loans and borrowings	18	37,988	54,009
Deferred tax liabilities	12	16,532	16,996
Total non-current liabilities		54,520	71,005
Equity			
Ordinary shares	20	2,449	2,449
Other reserves		240	106
Retained earnings		128,966	110,129
Foreign currency translation reserve		(11,186)	(2,590)
Total equity		120,469	110,094
Total equity and liabilities		257,470	229,435

Approved and signed on behalf of the management of the Group

Vladimir Semenov
28 April 2014
Moscow, Russia

The accompanying notes on pages 10 to 50 are an integral part of these consolidated financial statements.

Translation from the Russian original

JSC «Abrau - Durso»

Consolidated statement of cash flows for the year ended 31 December 2013

(In thousand USD)

	Year ended 31 December	
	2013	2012
Cash flows from operating activities		
Receipts from customers	155,121	109,829
Payments to suppliers	(90,474)	(53,059)
Payments to employees	(13,814)	(11,074)
Other payments	(27,659)	(39,198)
Interest received	2	67
Cash flows from operating activities	23,175	6,566
Interest paid	(4,984)	(8,275)
Income tax paid	(7,318)	(10,126)
Net cash flows from operating activities	10,873	(11,836)
Cash flows from investing activities		
Net cash outflow due to acquisition of subsidiaries	(0)	(24)
Purchases of property, plant and equipment	(17,401)	(6,005)
Sale of property, plant and equipment	179	237
Proceeds from repayment of loans issued	295	51
Loans issued	(405)	(151)
Payments of other investing activities	-	(9)
Net cash flows from investing activities	(17,332)	(5,902)
Cash flows from financing activities		
Proceeds from loans and borrowings	26,728	48,487
Repayment of loans and borrowings	(18,408)	(26,441)
Payments of other financing activities	(10)	(601)
Net cash flows from financing activities	8,309	21,444
Net increase in cash and cash equivalents	1,850	3,707
Cash and cash equivalents at beginning of year	3,851	1,824
Exchange differences on balances of cash and cash equivalents	(1,217)	(1,680)
Cash and cash equivalents at beginning of year	4,484	3,851

The accompanying notes on pages 10 to 50 are an integral part of these consolidated financial statements.

Translation from the Russian original

JSC «Abrau - Durso»
 Consolidated statement of changes in equity
 (In thousand USD)

	Ordinary shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 31 December 2011	2,449	(8,449)	21	99,832	93,853	-	93,853
Profit distribution	-	-	85	(85)	-	-	-
Total mutual settlements with shareholders	2,449	(8,449)	106	99,747	93,853	-	93,853
Profit for the period	-	-	-	10,382	10,382	-	10,382
Changes in foreign currency translation reserve	-	5,859	-	-	5,859	-	5,859
Total comprehensive income for the period	-	5,859	-	10,382	16,241	-	16,241
Balance at 31 December 2012	2,449	(2,590)	106	110,129	110,094	-	110,094
Profit distribution	-	-	134	(134)	-	-	-
Dividends	-	-	-	(915)	(915)	-	(915)
Total mutual settlements with shareholders	2,449	(2,590)	240	109,080	109,179	-	109,179
Profit for the period	-	-	-	19,886	19,886	-	19,886
Changes in foreign currency translation reserve	-	(8,596)	-	-	(8,596)	-	(8,596)
Total comprehensive income for the period	-	(8,596)	-	19,886	11,290	-	11,290
Balance at 31 December 2013	2,449	(11,186)	240	128,966	120,469	-	120,469

The accompanying notes on pages 10 to 50 are an integral part of these consolidated financial statements.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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 21.

JSC «Abrau - Durso» was incorporated in Russian Federation on 16 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 Abrau Durso Group Limited, Cyprus.

The ultimate controlling party of the Group as at 31 December 2013 and at the date of approval of these consolidated financial statements is the citizen of the RF Boris Titov, the shares were transferred into the control of the citizen of the RF Pavel Titov.

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

The Group's detailed description and structure are presented in Note 21.

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 2013.

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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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 (“RUB”) 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>2013</u>	<u>2012</u>
<i>Russian Rouble / US Dollar</i>		
31 December	32.7292	30.3727
Average rate for the year ended	31.8143	31.0494

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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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.

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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

3.8.2. 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 7 to 10 years.

3.8.3. 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.

3.8.4. 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.

3.8.5. 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:

Trademarks - 7-10 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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. Share-based Payment

Share-based payments include transactions in which the Group receives or acquires services, and the terms of the agreement provide a choice, according to which the Group can settle a transaction either in cash (or other assets) or by issuing equity instruments.

Services received or acquired in the share-based payment transaction are recognised as expenses when they are received, with a simultaneous increase in the liabilities.

The services received are measured at fair value, except for cases when the fair value cannot be reliably measured. If the Group cannot measure reliably the fair value of received services, they and the associated liability should be measured based on the fair value of the equity instruments issued.

The fair value of liabilities is revalued at the end of each reporting period and at the date of settlement of a liability, the changes in the fair value of the liability are recognised in profit or loss.

3.12. Financial instruments - initial recognition and subsequent measurement

3.12.1. Financial assets

3.12.1.1. 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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.

3.12.1.2. 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.

3.12.1.3. 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.

3.12.1.4. 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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.

3.12.2. Financial liabilities

3.12.2.1. 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.

3.12.2.2. 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

3.12.2.3. 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.

3.12.3. 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.

3.12.4. 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.

3.12.5. Share-based Payment

The fair value of liabilities in share-based payment transactions is determined using the Black-Scholes-Merton formula:

$$c = S_0 e^{-qT} N(d_1) - K e^{-rT} N(d_2),$$

where

$$d_1 = \frac{\ln(S_0 / K) + (r - q + \sigma^2 / 2)T}{\sigma \sqrt{T}}$$

$$d_2 = d_1 - \sigma \sqrt{T}$$

c =	exercise price of the option;
S ₀ =	current price of the underlying share;
N =	cumulative distribution function of the probability for a standardized normal distribution;
q =	dividend yield (cumulative);
K =	present Value of Exercise Price;
r =	risk-free interest rate (cumulative);
ó =	Underlying share volatility on an annualized basis;
T =	expected term of the option (in years).

Note: 'e' - is a mathematical constant, the base of the natural logarithm (2.718282...), a 'ln' - the natural logarithm.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

When calculating formulas, the following assumptions were used:

- risk-free interest rate is the assumed current yield on zero-coupon government bonds;
- expected dividends on shares are determined by the policy of the shareholders of the Parent company;
- expected share price volatility assumption is based on historical volatility over the reporting year.

3.13. 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.

3.14. 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.

3.15. 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.

3.16. 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.

3.17. 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

3.18. Share capital

3.18.1. Ordinary shares

Ordinary shares are classified as equity.

3.19. 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.

3.20. 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.

3.20.1. 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.

3.20.2. 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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.

3.21. 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.

3.21.1. 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.

3.21.2. 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.

3.21.3. 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

3.21.4. 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.

3.22. Employee benefits

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

3.22.1. 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.

3.23. 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.

3.24. Government grants

Government grants are recognised at fair value when, and only when, there is a positive assurance that government grants become receivable and when, and only when, the Group meets all eligibility criteria required for receipt of grants.

Government grants related to costs are included in current liabilities and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate, or are debited to corresponding cost accounts.

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

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

None of the new and revised standards, interpretations and amendments, effective for the first time from 1 January 2013, have had a material effect on the financial statement. Details of Standards and Interpretations adopted in these financial statements but that have had no material effect on the amounts reported are set out in section 4.2.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

4.2 Standards and Interpretations adopted with no material effect on financial statements

IFRS 10, Consolidated Financial Statements

(Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation - Special Purpose Entities” and defines the principle of control, and establishes controls as the basis for consolidation. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. New definition of control contains three elements:

- (a) power over an investee,
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

All three of these criteria must be met for an investor to have control over investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

The application of IFRS 10 has not had any effect on the consolidation of interests held by the Group in other entities.

IFRS 11 “Joint Arrangements”

(Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)

IFRS 11 replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities - Non-Monetary Contributions by Venturers”. Previously, IAS 31 contained three types of joint arrangements - jointly controlled entities, jointly controlled operations and jointly controlled assets.

Under IFRS 11, there are only two types of joint arrangements. The type of classification depends on the rights and obligations of the parties to the joint arrangements. These types are:

Joint operation is an arrangement where the investors have rights for the assets and obligations for the liabilities of the arrangement. The party to a joint operation accounts for its share of the assets, liabilities, revenue and expenses.

Joint venture is an arrangement, where the investors have rights to the net assets of the arrangement. Investments in joint ventures are accounted for under the equity method.

Proportional consolidation of joint arrangements is no longer allowed.

The application of IFRS 11 has not had any effect on the accounting of the Group's joint arrangements.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

IFRS 12 “Disclosure of Interest in Other Entities”
(Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

The application of IFRS 12 has resulted in more extensive disclosures in consolidated financial statements (please see notes 33, 34 and 35).

IFRS 13 “Fair Value Measurement”
(Issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of guidance for all fair value measurements and disclosure requirements for use across IFRSs. The requirements provide the guidance on how fair value accounting should be applied. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs.

Prospective application

The application of IFRS 13 has not had any material effect on the fair value measurements of the Group.

IAS 19 (Revised 2011) “Employee Benefits”
(Issued in June 2011 and effective for periods beginning on or after 1 January 2013)

IAS 19 (Revised 2011) makes significant changes to the accounting for defined benefit plans and termination benefits. Amongst other things, the accounting for changes in defined benefit obligations and the fair value of plan assets has significantly changed.

Applied retrospectively with certain exceptions

The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Due to the changes in accounting model, the new element “net interest” (instead of the interest cost and expected return on plan assets) is introduced, which indicates the change during the period in the net defined benefit liability or asset that arises from the passage of time and is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, IAS 19 (Revised 2011) makes changes to the presentation of the defined benefit cost and requires more extensive disclosures.

The application of IAS 19 (Revised 2011) has not had any material effect on the financial statements of the Group.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

<p>IFRIC Interpretation 20 “Stripping Costs in the Production Phase of a Surface Mine” (Issued in October 2011 and effective for annual periods beginning on or after 1 January 2013)</p>	<p>This Interpretation provides guidance on the accounting for stripping costs incurred in the production phase of a surface mine. The interpretation addresses the accounting for the benefit from the stripping activity.</p> <p>The Group currently have no such arrangements, and the application of IFRIC 20 has not had any effect on the financial statements of the Group.</p>
<p>Amendments to IFRS 7 “Offsetting Financial Assets and Financial liabilities and the Related Disclosures” (Issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) Applied retrospectively</p>	<p>The amendments to IFRS 7 require an entity to disclose information about rights to set-off and related arrangements (such as collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 “Financial Instruments: Presentation”.</p> <p>The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.</p> <p>As the Group does not have any set-off arrangements, the application of Amendments to IFRS 7 has not had any effect on the financial statements of the Group.</p>
<p>Amendments to IAS 1, “Presentation of Financial Statements” (Issued in June 2011 and effective for annual periods beginning on or after 1 July 2012)</p>	<p>Amendments to IAS 1 changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future.</p> <p>The amendments also introduce new terminology - the “statement of comprehensive income” is renamed as “statement of profit or loss and other comprehensive income”, but the use of the new terminology is not obligatory.</p> <p>The Group applied the amendments retrospectively, and changed the presentation of items of other comprehensive income accordingly. Other than presentation changes, the application of the amendments has not had any material impact on Group’s financial position or performance.</p>
<p>Annual Improvements to IFRSs 2009-2011 Cycle (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013).</p>	
<p>IAS 16 “Property Plant and Equipment” - Classification of servicing equipment</p>	<p>This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.</p> <p>The application of the amendment to IAS 16 has not had any effect on the financial statements of the Group.</p>

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

IAS 32 “Financial Instruments: Presentation” - Tax effects of distributions to holders of equity instruments

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

The application of the amendment to IAS 32 has not had any effect on the financial statements of the Group.

IAS 1 “Presentation of Financial Statements” - Clarification of the requirement for comparative information

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the third statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied with related notes.

As the Group did not provide comparative information beyond the required minimum, the application of the amendment to IAS 1 has not had any effect on the financial statements of the Group.

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
IFRS 9 (as amended in 2010)	Financial Instruments	1 January 2015
Amendments to IFRS 10	Consolidated Financial Statements	1 January 2014
Amendments to IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
Amendments to IAS 27	Separate Financial Statements	1 January 2014
Amendments to IAS 36	Impairment of Assets	1 January 2014
Amendments to IAS 39	Financial Instruments: Recognition and measurement	1 January 2014
IFRIC 21	Levies	1 January 2014
Amendments to IAS 32	Financial Instruments: presentation	1 January 2014

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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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 necessarily 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.

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 2013 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 necessarily 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 6. Financial risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns in the foreseeable future and simultaneously maximize profits for shareholders by optimizing the debt-to-equity ratio.

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 parent company capital which includes share capital, reserves and retained earnings.

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

	31 December	
	2013	2012
Short-term borrowings and current portion of long-term borrowings	45,633	22,292
Long-term borrowings	37,988	54,009
Cash and cash equivalents	(4,484)	(3,851)
Net debt	79,137	72,450
Share capital	2,449	2,449
Reserves	118,020	107,645
Total capital involved	120,469	110,094
The ratio of net debt to capital involved, %	66%	66%

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

The Group earns much of its revenue in roubles. Also, a major part of the operating and capital costs, settlements of other obligations and agreements (including TAX liabilities) is carried in roubles. But a significant part of payments under contracts is carried out in USD and EURO. As a result the Group is exposed to currency risk if any change of USD and EURO exchange 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 the balance sheet date is as follows:

	Assets		Liabilities	
	31 December		31 December	
	2013	2 012	2013	2 012
USD	-	173	13,302	12,528
Euro	1,060	189	33,311	32,741
Total	1,060	362	46,613	45,269

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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.

At a 10% growth in the rates of functional currencies of the Group companies in relation to USD and EURO, the Group's profit before tax will change as follows: a loss in the amount of 1,330 thousand USD (2012: 1,236 thousand USD) and a loss in the amount of 3,225 thousand USD (2012: 3,255 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. The Group depends on interest rate risk as the Group companies borrowed loans both at a fixed and floating rates.

The Group's sensitivity to a possible increase or a decrease of floating interest rate by 10% is the change of profit or loss by 973 thousand USD (2012: 805 thousand USD). The sensitivity 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 during the whole year.

This risk is managed by the Group by means of a suitable combination of fixed and floating interest rate loans.

Commodity price risk

The risk of price changes is the risk or uncertainty arising from possible changes in market prices and its 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 meet its obligations. Management estimates a decline in the market prices as limited, and the Group does not use derivative instruments for reducing exposure to this risk.

The Group engages in long-term contracts based on standard commercial terms, so the Group is not exposed to risk of loss of revenue as a result of an increase in market 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 constantly monitors exposure to credit risk. 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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 borrowed funds, 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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 2013							
Bank loans and borrowings	83,621	(83,621)	(14,050)	(31,583)	(11,603)	(26,385)	-
Trade and other payables	22,862	(24,062)	(12,290)	(11,168)	(565)	(36)	(3)
Total	<u>107,635</u>	<u>(107,683)</u>	<u>(26,340)</u>	<u>(42,751)</u>	<u>(12,168)</u>	<u>(26,421)</u>	<u>(3)</u>
31 December 2012							
Bank loans and borrowings	76,301	(91,109)	(19,743)	(7,253)	(30,667)	(26,110)	(7,336)
Finance lease liabilities							
Trade and other payables	17,515	(17,455)	(17,103)	(287)	(59)	(6)	-
Total	<u>93,816</u>	<u>(108,564)</u>	<u>(36,846)</u>	<u>(7,540)</u>	<u>(30,726)</u>	<u>(26,116)</u>	<u>(7,336)</u>

The Management believes that the carrying value of financial liabilities recognised in the financial statements approximates 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 7. Substantial disposals

7.1. Disposals during the period

On 09 December 2013 the Group sold 100% of LTD «AL&Q».

In 2013 LTD «AL&Q» was not engaged in business activity.

Net profit/loss from the activity of LTD «AL&Q» for 2013 to the date of sale:

	Year ended 31 December	
	2013	2012
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Other gains and expenses, net	-	-
Operating profit	-	-
Finance costs	(79)	-
Net finance costs	(79)	-
Profit before income tax	(79)	-
Income tax expenses	-	-
Net loss	(79)	-

Note 8. Revenue

	Year ended 31 December	
	2013	2012
Sale of sparkling wines produced	134,512	104,375
Public catering, hospitality and other services	11,168	9,086
Royalty	5,848	-
Sale of other goods	380	1,967
Total	151,908	115,428

Revenue growth was caused by a number of successful marketing campaigns, as well as expansion of cooperation with regional retail networks.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

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

	Year ended 31 December	
	2013	2012
Cost of sales of sparkling wines produced		
Bulk wine, other stores and raw materials	30,578	29,661
Employee benefits expenses	6,945	6,187
Amortisation and depreciation	2,369	2,190
Repair and maintenance	1,646	714
Utilities	969	732
Other	355	58
Cost of goods sold	24,069	12,373
Cost of public catering, hospitality and other services		
Employee benefits expenses	2,424	1,413
Other	704	360
Total	70,059	53,688
Selling and distribution expenses		
Advertising expenses	14,003	11,751
Transportation expenses	4,358	3,765
Employee benefits expenses	3,991	3,601
Rent expenses	2,309	2,277
Materials	1,025	1,287
Other expenses	968	1,485
Depreciation	282	368
Total	27,312	24,967
General and administrative expenses		
Employee benefits expenses	6,230	5,792
Materials	947	1,299
Depreciation and amortisation	790	622
Taxes other than income tax	717	768
Travel expense	610	269
Rent expenses	513	946
Security expenses	350	297
Communication expenses	337	150
Consulting and other professional services	330	176
Utilities	139	190
Bank charges	119	89
Other expenses	2,276	2,425
Total	13,358	13,023

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 10. Finance income and (finance costs)

	Year ended 31 December	
	2013	2012
Exchange gain/loss, net	(4,228)	357
Interest income on:		
loans and borrowings	147	213
Interest expense on:		
loans and borrowings	(6,299)	(7,331)
finance lease liabilities	-	(1)
Changes in fair value of financial obligations	-	1,343
Total, net	(10,380)	(5,419)

Note 11. Other operating income and (expenses)

	Year ended 31 December	
	2013	2012
Territory improvement and social expenses	(623)	(907)
Loss on disposals of inventories	(1,020)	(385)
Loss on disposal of property, plant and equipment	(477)	33
Loss on disposal of electric power, heat power, water supply and sewerage	(465)	(346)
Charity	(173)	(192)
Impairment of goodwill	-	(476)
Other expenses	(1,459)	(743)
Total, net	(4,217)	(3,016)

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 12. Income taxes

	<u>Year ended 31 December</u>	
	<u>2013</u>	<u>2012</u>
Current tax expense		
Current income tax charge	6,816	6,734
Tax penalties	6,783	5,666
	<u>33</u>	<u>3</u>
Deferred tax expense		
The amount of deferred tax expense/income relating to the origination and reversal of temporary differences	(120)	(1,760)
	<u>(120)</u>	<u>(736)</u>
Total income tax expense	<u><u>6,696</u></u>	<u><u>4,933</u></u>
	<u>Year ended 31 December</u>	
	<u>2013</u>	<u>2012</u>
Profit for the period before tax	26,486	15,315
Income tax using the Company's domestic tax rate 20%	5,297	3,063
<i>Increase/decrease due to the following factors:</i>		
Permanent differences arising from:		
Non-deductible expenses	1,366	1,867
Tax penalties	<u>33</u>	<u>3</u>
Income tax expense	<u><u>6,696</u></u>	<u><u>4,933</u></u>

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

As at 31 December 2012 the Group did not recognize a deferred tax asset arising from a tax loss in the amount of USD 539 thousand (2012: 392) due to the fact that management does not have confidence that these assets will be used in case of potential receipt of taxable profit.

	1 January 2013	The amount of the deferred tax income or expense recognised in profit or loss	Foreign currency translation differences	31 December 2013
Recognised deferred tax assets attributable to the following elements:				
Inventories	977	73	(67)	983
Trade and other receivables	127	26	(9)	144
Property, plant and equipment	48	7	(5)	50
Tax losses carried forward	1,150	360	(143)	1,367
Provisions	334	(165)	(12)	157
Other	163	(114)	(21)	28
Deferred tax assets	2,799	901	(277)	3,423
Recognised deferred tax liabilities attributable to the following elements:				
Inventories	(163)	(449)	22	(590)
Property, plant and equipment	(16,374)	93	1,175	(15,106)
Other	(459)	(425)	48	(836)
Deferred tax liabilities	(16,996)	(781)	1,245	(16,532)
Total deferred tax assets and liabilities	(14,197)	120	968	(13,109)

	1 January 2012	The amount of the deferred tax income or expense recognised in profit or loss	Foreign currency translation differences	31 December 2012
Recognised deferred tax assets attributable to the following elements:				
Inventories	726	203	48	977
Trade and other receivables	234	(118)	11	127
Property, plant and equipment	-	36	12	48
Tax losses carried forward	612	489	49	1,150
Provisions	252	65	17	334
Other	-	160	3	163
Deferred tax assets	1,824	835	140	2,799
Recognised deferred tax liabilities attributable to the following elements:				
Inventories	(451)	308	(20)	(163)
Property, plant and equipment	(15,470)	40	(944)	(16,374)
Other	-	(447)	(12)	(459)
Deferred tax liabilities	(15,921)	(99)	(976)	(16,996)
Total deferred tax assets and liabilities	(14,097)	736	(836)	(14,197)

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 13. Cash and cash equivalents

	31 December	
	2013	2012
Cash and bank balances - RUB	4,323	3,776
Cash on hand	16	45
Cash and bank balances - foreign currency	116	3
Cash in transit	29	27
Cash and cash equivalents	4,484	3,851

Note 14. Trade and other receivables

	31 December	
	2013	2012
Trade receivables	72,078	55,291
Other taxes receivable	3,392	1,822
Value-added tax reimbursable	677	641
Other receivables	2,191	968
Total trade and other receivables	78,338	58,722
Allowance for doubtful debts	(688)	(1,159)
Total trade and other receivables, net of allowance	77,650	57,563

Management believes that the carrying value of trade and other receivables recognised in the financial statements approximates 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 2012 the Group had 6 customers that cumulatively owed the Group more than 45% of total receivables (2012: 38%).

Ageing of trade receivables past due but not impaired:

	31 December	
	2013	2012
Less than 30 days	10,690	41,567
30-90 days	63	2,625
90-180 days	603	143
	11,356	44,335

Movement in the allowance for doubtful debts during 2012-2013 is as follows:

	Year ended 31 December	
	2013	2012
Balance at beginning of the year	1,159	1,224
Increase/decrease in allowance for doubtful debts	(399)	(135)
Foreign exchange translation gains and losses	(72)	70
	688	1,159

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

The following table discloses expected maturity of the Group receivables:

	31 December	
	2013	2012
Less than 90 days	69,227	54,772
90-180 days	7,533	1,824
180-360 days	890	967
	77,650	57,563

At 31 December 2013 and 2012 trade and other receivables were not pledged as collateral for loans and borrowing received.

Note 15. Inventories

	31 December	
	2013	2012
Work in progress		
cuvée	10,963	13,345
tank wine	10,446	10,193
construction in progress	271	152
Raw materials and consumables	5,592	5,825
Goods for resale	9,009	1,216
Finished goods		
bottled sparkling wine	6,411	6,420
residential property	1,083	2,127
Others	1,191	1,243
Total	44,966	40,521

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.

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 2013 also includes land plots under development.

At 31 December 2013 cuvée with the carrying value of USD 4,463 thousand (2012: USD 4,757 thousand) was pledged as collateral to secure bank loans (Note 18).

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

Finished goods comprise sparkling wine and champagne with the name “Abrau - Durso” under the trade mark “Abrau” and «VICTOR DRAVIGNY .

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

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 16. Property, plant and equipment

	Land	Buildings and constructions	Tunnels	Equipment and machinery	Other	Construction in progress	Total
<i>Cost</i>							
1 January 2013	7,002	25,799	66,314	19,230	4,499	3,769	126,613
Additions	1,267	1,075	-	1,519	1,033	7,057	11,951
Transfers	-	5,546	-	553	68	(6,167)	-
Disposals	-	(653)	-	(239)	(125)	(27)	(1,044)
Foreign exchange translation gains and losses	(540)	(2,025)	(4,774)	(1,423)	(318)	(307)	(9,387)
31 December 2013	7,729	29,742	61,540	19,640	5,157	4,325	128,133
<i>Depreciation</i>							
1 January 2013	-	(2,208)	(579)	(5,335)	(1,335)	-	(9,457)
Depreciation charge for the year	-	(875)	(138)	(2,185)	(702)	-	(3,900)
Release on disposal	-					-	-
Foreign exchange translation gains and losses	-	215	46	569	210	-	1,040
31 December 2013	-	(2,868)	(671)	(6,951)	(1,827)	-	(12,317)
<i>Net book value</i>							
1 January 2013	7,002	23,591	65,735	13,895	3,164	3,769	117,156
31 December 2013	7,729	26,874	60,869	12,689	3,330	4,325	115,816
<i>Advances for property, plant and equipment</i>							
1 January 2013	-	1,083	-	1,426	286	-	2,795
31 December 2013	-	184	-	1,615	1	5,978	7,778
<i>Assets held under finance leases at net book value</i>							
1 January 2013	-	-	-		65	-	65
31 December 2013	-	-	-		-	-	-

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

	Land	Buildings and constructions	Tunnels	Equipment and machinery	Other	Construction in progress	Total
<i>Cost</i>							
1 January 2012	5,394	19,673	62,560	17,151	3,456	3,294	111,528
Additions	1,256	1,449	-	733	1,097	4,024	8,559
Transfers	-	3,390	-	361	-	(3,751)	-
Disposals	-	(1)	-	(87)	(262)	(1)	(351)
Foreign exchange translation gains and losses	352	1,288	3,754	1,072	208	203	6,877
31 December 2012	7,002	25,799	66,314	19,230	4,499	3,769	126,613
<i>Depreciation</i>							
1 January 2012	-	(1,428)	(409)	(3,164)	(735)	-	(5,736)
Depreciation charge for the year	-	(681)	(142)	(1,978)	(663)	-	(3,464)
Release on disposal	-	2	-	43	115	-	160
Foreign exchange translation gains and losses	-	(101)	(28)	(236)	(52)	-	(417)
31 December 2012	-	(2,208)	(579)	(5,335)	(1,335)	-	(9,457)
<i>Net book value</i>							
1 January 2012	5,394	18,245	62,151	13,987	2,721	3,294	105,792
31 December 2012	7,002	23,591	65,735	13,895	3,164	3,769	117,156
<i>Advances for property, plant and equipment</i>							
1 January 2012	-	405	-	-	-	-	405
31 December 2012	-	1,083	-	1,426	286	-	2,795
<i>Assets held under finance leases at net book value</i>							
1 January 2012	-	-	-	-	69	-	69
31 December 2012	-	-	-	-	65	-	65

The group tunnels included two-storey tunnels with the total extent of more than five kilometers are located at the depth of 45-60 meters, used for aging the sparkling wines with the classical method of production.

As at 31 December 2013 land, buildings, vehicles, equipment and machinery carried at USD 73,207 thousand (2012: USD 76,222 thousand) (Note 18) have been pledged to banks as collateral for loans.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 17. Trade and other payables

	31 December	
	2013	2012
Trade payables	21,999	16,380
Payroll payable	346	344
Advances received	1,152	24
Other accounts payable	517	791
Total	24,014	17,539

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

Share-based payment

In June 2012 JSC "Abrau - Durso» entered into five similar agreements on share-based payments with individuals that are not company's employees.

Under the terms of the agreements defined individuals are given the unconditional right to receive shares of the Parent company or cash depending on JSC Abrau - Durso's choice. The amount of monetary compensation is determined on the basis of the market value of shares less the amount stated in the contract (hereinafter - «the exercise price of the agreement»). All the agreements concluded for the period of 3 years, maturity date is not until June 2013.

Agreements have been concluded in respect of 1 250 000 shares. There were no exercised and cancelled agreements in 2012 - 2013. The exercise price of the agreement is 52 roubles (1.7 USD) per share.

Below is a table that contains the original information used in the model of option valuation for the year:

	<u>2013</u>	<u>2012</u>
Option pricing model used	Black-Scholes-Merton model	Black-Scholes-Merton model
Dividend yield(%)	10	10
Volatility of the underlying share (%)	17	14
Risk-free interest rate (%)	3	3
Expected term of the option (in years) (year)	2	3
Current price of the underlying share (USD)	3,5	2,7
Exercise price of the option (USD)	1,7	1,7

As of 31 December 2013 the fair value of liabilities amounted to USD 165 thousand (as of 31 December 2012: USD 57 thousand). Liabilities are accounted for in line «Other accounts payable» in the consolidated statement of financial position at 31 December 2013.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 18. Loans and borrowings

	Currency	Interest rate	31 December	
			2013	2012
Long term				
Bank loans secured	RUB, EURO	6% -12,25%	40,214	42,178
Borrowings related parties	RUB	11%	4,583	12,192
<i>Except for current portion of non-current bank loans and borrowings</i>			(6,808)	(361)
Total long term loans and borrowings			37,988	54,009
Short term				
Bank loans secured	RUB	6% - 10,2%	15,091	6,890
Borrowings related parties other parties	RUB, USD	7%-14%	23,734	12,560 2,481
Current portion of long term bank loans and borrowings			6,808	361
Total short term loans and borrowings and current portion of long term bank loans and borrowings			45,633	22,292
Total loans and borrowings			83,621	76,301

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

	31 December	
	2013	2012
Property plant and equipment (Note 15)	73,207	76,222
Inventories (Note 14)	4,463	4,757
Total	77,670	80,979

As at 31 December 2013 CJSC «Abrau - Durso» received bank guarantees from Sberbank RF in the amount of USD 3,330 thousand as security for the fulfillment of obligations on the use in accordance with its intended of purchased federal special stamps (USD 3,732 thousand as at 31 December 2012).

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 is presented below:

	31 December	
	2013	2012
Guarantees given in respect of CJSC «Abrau - Durso»	7,547	13,693
Total	7,547	13,693

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 19. Other tax liabilities

	31 December	
	2013	2012
Value added tax	8,857	5,874
Excise tax	1,803	925
Personal income tax and social security charge	326	319
Property tax	162	175
Other	24	21
Total	11,172	7,314

Note 20. Issued capital

	31 December			
	2013		2012	
	Number of shares	Outstanding balance, 000 RUB	Number of shares	Outstanding balance, 000 RUB
Issued and fully paid shares	73,500,000	73,500	73,500,000	73,500
Par value of 1 ordinary share, RUB		1		1

Note 21. Subsidiaries

Company	Country	Main activity	31 December		31 December	
			2013	2013	2012	2012
			Total shares, %	Voting shares, %	Total shares, %	Voting shares, %
CJSC «Abrau - Durso»	RF	Production	100	100	100	100
«Atrium» Ltd.	RF	Distribution trade	100	100	100	100
LLC «Wine atelier Abrau - Durso»	RF	Distribution trade	99,999	99,999	99,999	99,999
Fund for the revival of traditions of winemaking «Heritage of Abrau - Durso»	RF	Revival of traditions of winemaking	100	100	100	100
LLC «Center of Wine Tourism Abrau - Durso»	RF	Catering, hotel and travel services	100	100	100	100
LLC «Abrau - Durso territory»	RF	Development	100	100	100	100
Vine Yards Abrau - Durso Limited	RF	Vine growing	100	100	100	100
LLC «Abrau - Durso Public Utilities»	RF	Housing services	100	100	100	100
CJSC «Vino ER EF»	RF	Retail sales	99,999	99,999	99,999	99,999
«Ecoly de gastronomie d'Abrau - Durso», SARL	RF	Education	100	100	100	100

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Company	Country	Main activity	31 December		31 December	
			2013	2013	2012	2012
			Total shares, %	Voting shares, %	Total shares, %	Voting shares, %
LLC «Kuban Wine Artel»	RF	Distribution trade	99,999	99,999	99,999	99,999
LLC «TH «Abrau»	RF	Distribution trade	99,999	99,999	99,999	99,999
PIAE «School of gastronomy «Abrau - Durso»	RF	Education	100	100	100	100
LTD «AL&Q»	RF	Distribution trade	-	-	100	100
LLC «Abrau-Stroy»	RF	Construction of buildings	100	100	-	-
LLC «CWT-Aqua»	RF	Purchase and sale of real estate	100	100	-	-
LLC «Abrau De Lux»	RF	Construction of buildings	65	65	-	-

On 13 May 2013 registered subsidiary company - LLC «Abrau-Stroy» founded by the CJSC «Abrau - Durso» and LLC «Abrau - Durso territory». Ownership share of CJSC "Abrau-Durso" is 99%, the share of LLC «Abrau-Durso territory» - 1%.

On 4 June 2013 registered subsidiary company - LLC «CWT-Aqua», founded by the LLC «Center of Wine Tourism Abrau-Durso». Ownership share of LLC «Center of Wine Tourism Abrau-Durso» is 100%.

On 28 August 2013 registered subsidiary company - LLC «Abrau De Lux», founded by the LLC «Abrau-Durso territory» and the citizen of the RF Andrey Semenovich Lvov. Ownership share of LLC «Abrau-Durso territory» is 65%, the share of the citizen of the RF Andrey Semenovich Lvov - 35%.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 22. Related party transactions

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

The ultimate parent company

Abrau Durso Group Limited

Transactions carried out with related parties:

	Year ended 31 December	
	2013	2012
Purchases of goods or receiving of services		
Solvalub Trading Limited	-	107
LLC Interkhimexport	72	-
Titov Y.B.	102	-
Titov P.B.	5	-
Sales of goods or rendering of services		
LLC Interkhimexport	72	110
Other transactions		
Finance costs (interest paid)	2,531	1,942
Borrowings received from related parties	19,124	3,536
Borrowings to related parties	168	-

In 2013, the companies of the Group received borrowings from SNRG Logistics & Trade Limited.

The amount of outstanding balances:

	31 December	
	2013	2012
Trade and other receivables	10	14
Loans and borrowings	(28,317)	(24,752)
	(28,307)	(24,738)

Remuneration to key management personnel

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

During 2013 wages and salaries were accrued to key management in the amount of USD 2,359 thousand (2012: USD 1,903 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.

The Group's average headcount for 2012 was 941 employees (2012: 817).

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Note 23. 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 92% of external Group’s revenue (2012: 93%).

Other segment includes 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; 2012: 7%), 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.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Information on revenue, depreciation, interest expense, income tax expense and segment profit with a breakdown into segments for 2013 and 2012 is as follows:

Year ended 31 December 2013	Production and sales of sparkling wines	Other segments	Consolidated data
Revenues from external customers	135,043	11,022	146,065
Revenues from transactions with other segments	89,291	964	90,255
Royalty	-	2,876	2,876
Depreciation	(3,300)	(471)	(3,771)
Interest expense	(2,732)	(293)	(3,025)
Income tax expense	(6,736)	(80)	(6,816)
Segment profit/(loss)	20,852	(3,513)	17,338
Revenues from transactions with segments			5,849
Royalty			2,969
Rent			-
Obsolescence of goodwill			(1,894)
Interest expense			(3,013)
Other			(1,363)
Group profit			19,886
Year ended 31 December 2012	Production and sales of sparkling wines	Other segments	Consolidated data
Revenues from external customers	111,055	8,726	119,781
Revenues from transactions with other segments	81,788	994	82,782
Depreciation	(3,001)	(365)	(3,366)
Interest expense	(3,460)	(372)	(3,832)
Income tax expense	(5,682)	12	(5,670)
Segment profit/(loss)	15,243	(4,518)	10,725
Revenues from transactions with segments			5,530
Staff salaries and social charges			(2,107)
Rent			(535)
Obsolescence of goodwill			(476)
Interest expense			(2,942)
Other			187
Group profit			10,382

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

As at 31 December 2013	Production and sales of sparkling wines	Other segments	Consolidated data
Additions to non-current assets	7,311	4,281	11,592
Reportable segment assets	326,238	21,245	347,483
Total Group assets			257,470
Reportable segment liabilities	(187,943)	(30,930)	(218,873)
Total Group liabilities			(137,003)

As at 31 December 2012	Production and sales of sparkling wines	Other segments	Consolidated data
Additions to non-current assets	4,356	4,131	8,487
Reportable segment assets	283,765	19,251	303,016
Total Group assets			229,435
Reportable segment liabilities	(154,063)	(26,003)	(180,066)
Total Group liabilities			(119,342)

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	
	2013	2012	2013	2012
Moscow	110,517	91,601	1,735	1,907
Krasnodar Krai	44,800	28,180	125,442	124,491
	155,317	119,781	127,177	126,398

Note 24. 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	
	2013	2012
Profit for the year attributable to owners of the Company	19,886	10,382
Weighted average number of ordinary shares for the purposes of calculation of basic earnings per share	73,500,000	73,500,000

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Diluted earnings per share (calculation)

Diluted earnings per share amounts are calculated by dividing the net profit 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 diluted earnings per share are as follows

	Year ended 31 December	
	2013	2012
Earnings used in the calculation of diluted earnings per share	19,886	10,382
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	73,500,000	73,500,000

Note 25. 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 characterized 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.

Operating lease

The Group holds warehouses in the village Tsemdolina, several land plots and vehicles under the operating lease agreements. All the agreements have various terms and renewal options, and are cancellable on nature.

Translation from the Russian original

JSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2013

(In thousand USD unless otherwise stated below)

Environment

The Group regularly conducts revaluation of its environmental obligations in accordance with the legislation. Liabilities associated with the above obligations are recognized in the Group's consolidated financial statements 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 the consolidated financial statements.

Note 26. Events after the reporting period

On February 10, 2014 under the credit agreement from 19.11.2011 provided by the Black Sea Trade and Development Bank (The Black Sea Trade and Development Bank) decreased variable interest rate by 1%.