

Translation from the Russian original

**PJSC “Abrau - Durso” and its subsidiaries**

Consolidated financial statements  
for the year ended 31 December 2014,  
prepared in compliance with International  
Financial Reporting Standards,  
and Auditor’s Report

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## 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 2014

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of PJSC «Abrau-Durso» and its subsidiaries (collectively 'the Group') at 31 December 2014, 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 2014 were approved by the General Director of the PJSC "Abrau - Durso" on 27 April 2015.

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Pavel Titov

Translation from the Russian original

## AUDITOR'S REPORT

To the Shareholders of Public Joint Stock Company "Abrau-Durso"

### Audited Entity

Public Joint Stock Company "Abrau-Durso" (PJSC "Abrau-Durso"), formerly named prior to 19 March 2015 Joint-stock company "Abrau-Durso" (JSC "Abrau-Durso")

PJSC "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. 1077757978814, issued on 16 July 2007.

Registered office: Building 2, 43A Sevastopolski Prospect, Moscow, 117186.

### Auditor

BDO Unicon Aktsionernoe Obschestvo (BDO Unicon AO)

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 Unicon AO 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. 14-01/2015-БДО of 1 January 2015.

We have audited the accompanying consolidated financial statements of PJSC "Abrau-Durso" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, 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 consolidated financial statements for the year ended 31 December 2014 which consist of a summary of significant accounting policies and other explanatory information.

### Audited Entity's Responsibility for the Consolidated Financial Statements

Management of PJSC "Abrau-Durso" is responsible for the preparation and fair presentation of these 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 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 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 consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considered internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also 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 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 consolidated financial statements present fairly, in all material respects, the financial position of PJSC "Abrau-Durso" and its subsidiaries as at 31 December 2014, 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 Unicon AO

Signed by:

Elena Yu. Khromova  
Partner

27 April 2015

Total number of pages bound: \_\_\_\_

Translation from the Russian original

PJSC «Abrau - Durso»

Consolidated statement of comprehensive income for the year ended 31 December 2014

(In thousand USD)

|   | Notes | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2014                   | 2013            |
| Revenue   | 7     | 139,126                | 151,908         |
| Cost of sales   | 8     | (67,025)               | (70,059)        |
| <b>Gross profit</b>   |       | <b>72,101</b>          | <b>81,849</b>   |
| Selling and distribution expenses                             | 8     | (29,175)               | (27,312)        |
| General and administrative expenses                           | 8     | (12,625)               | (13,358)        |
| Other operative gains and expenses, net                       | 10    | (4,804)                | (4,217)         |
| <b>Operating profit</b>                                       |       | <b>25,498</b>          | <b>36,962</b>   |
| Finance income  | 9     | 530                    | 147             |
| Finance costs   | 9     | (22,260)               | (10,527)        |
| <b>Net finance income/(costs)</b>                             |       | <b>(21,730)</b>        | <b>(10,380)</b> |
| <b>Profit before income tax</b>                               |       | <b>3,768</b>           | <b>26,582</b>   |
| Income tax expenses   | 11    | (3,092)                | (6,696)         |
| <b>Net profit</b>   |       | <b>675</b>             | <b>19,886</b>   |
| <b>Other comprehensive income:</b>                            |       |                        |                 |
| <i>Items that will not be reclassified to profit or loss:</i> |       |                        |                 |
| Foreign currency translation reserve                          |       | (49,995)               | (8,596)         |
| <b>Total comprehensive income</b>                             |       | <b>(49,320)</b>        | <b>11,290</b>   |
| <b>Basic earnings per share</b>                               |       | <b>0.00001</b>         | <b>0.00030</b>  |
| <b>Diluted earnings per share</b>                             |       | <b>0.00001</b>         | <b>0.00030</b>  |

Approved and signed on behalf of the management of the Group

\_\_\_\_\_  
Pavel Titov  
27 April 2015  
Moscow, Russia

The accompanying notes on pages 10 to 47 are an integral part of these consolidated IFRS financial statements.

Translation from the Russian original

PJSC «Abrau - Durso»  
 Consolidated statement of financial position at 31 December 2014  
 (In thousand USD)

|                                      | Notes | 31 December    |                |
|--------------------------------------|-------|----------------|----------------|
|                                      |       | 2014           | 2013           |
| <b>Assets</b>                        |       |                |                |
| <b>Current assets</b>                |       |                |                |
| Cash and cash equivalents            | 12    | 2,638          | 4,484          |
| Inventories                          | 14    | 25,569         | 44,966         |
| Trade and other receivables          | 13    | 57,797         | 77,650         |
| Advances paid and prepaid expenses   |       | 1,725          | 2,071          |
| Other financial assets               |       | 160            | 332            |
| <b>Total current assets</b>          |       | <b>87,889</b>  | <b>129,503</b> |
| <b>Non-current assets</b>            |       |                |                |
| Property, plant & equipment          | 15    | 78,300         | 123,594        |
| Investment property                  |       | 2,825          | 702            |
| Intangible assets                    |       | 86             | 213            |
| Deferred tax asset                   | 11    | 3,421          | 3,423          |
| Other non-current assets             |       | 126            | 35             |
| <b>Total non-current assets</b>      |       | <b>84,758</b>  | <b>127,967</b> |
| <b>Total assets</b>                  |       | <b>172,647</b> | <b>257,470</b> |
| <b>Equity and liabilities</b>        |       |                |                |
| <b>Current liabilities</b>           |       |                |                |
| Trade and other payables             | 16    | 23,122         | 24,014         |
| Loans and borrowings                 | 17    | 24,258         | 45,633         |
| Income tax payable                   |       | 199            | 564            |
| Other tax liabilities                | 18    | 8,643          | 11,172         |
| Provisions                           |       | 632            | 1,066          |
| Other current liabilities            |       | 30             | 32             |
| <b>Total current liabilities</b>     |       | <b>56,884</b>  | <b>82,481</b>  |
| <b>Non-current liabilities</b>       |       |                |                |
| Loans and borrowings                 | 17    | 36,228         | 37,988         |
| Deferred tax liabilities             | 11    | 9,144          | 16,532         |
| <b>Total non-current liabilities</b> |       | <b>45,372</b>  | <b>54,520</b>  |
| <b>Equity</b>                        |       |                |                |
| Ordinary shares                      | 19    | 2,449          | 2,449          |
| Other reserves                       |       | 272            | 240            |
| Retained earnings                    |       | 128,851        | 128,966        |
| Foreign currency translation reserve |       | (61,181)       | (11,186)       |
| <b>Total equity</b>                  |       | <b>70,391</b>  | <b>120,469</b> |
| <b>Total equity and liabilities</b>  |       | <b>172,647</b> | <b>257,470</b> |

Approved and signed on behalf of the management of the Group

\_\_\_\_\_  
 Pavel Titov  
 27 April 2015  
 Moscow, Russia

The accompanying notes on pages 10 to 47 are an integral part of these consolidated financial statements.

Translation from the Russian original

PJSC «Abrau - Durso»

Consolidated statement of cash flows for the year ended 31 December 2014

(In thousand USD)

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2014                   | 2013            |
| <b>Cash flows from operating activities</b>                   |                        |                 |
| Receipts from customers                                       | 133,953                | 155,121         |
| Payments to suppliers   | (63,815)               | (90,474)        |
| Payments to employees   | (14,562)               | (13,814)        |
| Other operating expenses                                      | (23,699)               | (27,659)        |
| Other payments  | 222                    | -               |
| Interest received   | -                      | 2               |
| <b>Cash flows from operating activities</b>                   | <b>32,098</b>          | <b>23,175</b>   |
| Interest paid   | (4,641)                | (4,984)         |
| Income tax paid   | (7,527)                | (7,318)         |
| <b>Net cash flows from operating activities</b>               | <b>19,930</b>          | <b>10,873</b>   |
| <b>Cash flows from investing activities</b>                   |                        |                 |
| Purchases of property, plant and equipment                    | (16,927)               | (17,401)        |
| Sale of property, plant and equipment                         | 27                     | 179             |
| Proceeds from repayment of loans issued                       | -                      | 295             |
| Loans issued  | (213)                  | (405)           |
| Dividends paid  | (1,143)                | -               |
| Payments of other investing activities                        | (276)                  | -               |
| <b>Net cash flows from investing activities</b>               | <b>(18,533)</b>        | <b>(17,332)</b> |
| <b>Cash flows from financing activities</b>                   |                        |                 |
| Proceeds from loans and borrowings                            | 25,025                 | 26,728          |
| Repayment of loans and borrowings                             | (26,705)               | (18,408)        |
| Payments of other financing activities                        | (188)                  | (10)            |
| <b>Net cash flows from financing activities</b>               | <b>(1,868)</b>         | <b>8,309</b>    |
| Net increase in cash and cash equivalents                     | (471)                  | 1,850           |
| Cash and cash equivalents at beginning of year                | 4,484                  | 1,824           |
| Exchange differences on balances of cash and cash equivalents | (1,375)                | 810             |
| <b>Cash and cash equivalents at the end of year</b>           | <b>2,638</b>           | <b>4,484</b>    |

The accompanying notes on pages 10 to 47 are an integral part of these consolidated financial statements.



Translation from the Russian original

PJSC «Abrau - Durso»

Consolidated statement of changes in equity for the year ended 31 December 2014

(In thousand USD)

|   | Ordinary<br>shares | Foreign<br>currency<br>translation<br>reserve | Other reserves | Retained<br>earnings | Total           |
|---|--------------------|---|----------------|----------------------|-----------------|
| <b>Balance at 31 December 2012</b>                | <b>2,449</b>       | <b>(2,590)</b>                                | <b>106</b>     | <b>110,129</b>       | <b>110,094</b>  |
| Profit distribution                               | -                  | -   | 134            | (134)                | -               |
| Dividends   | -                  | -   | -              | (915)                | (915)           |
| <b>Total mutual settlements with shareholders</b> | -                  | -   | <b>134</b>     | <b>(1,049)</b>       | <b>(915)</b>    |
| Profit for the period                             | -                  | -   | -              | 19,886               | 19,886          |
| Changes in foreign currency translation reserve   | -                  | (8,596)                                       | -              | -                    | (8,596)         |
| <b>Total comprehensive income for the period</b>  | -                  | <b>(8,596)</b>                                | -              | <b>19,886</b>        | <b>11,290</b>   |
| <b>Balance at 31 December 2013</b>                | <b>2,449</b>       | <b>(11,186)</b>                               | <b>240</b>     | <b>128,966</b>       | <b>120,469</b>  |
| Profit distribution                               | -                  | -   | 32             | (32)                 | -               |
| Dividends   | -                  | -   | -              | (758)                | (758)           |
| <b>Total mutual settlements with shareholders</b> | -                  | -   | <b>32</b>      | <b>(790)</b>         | <b>(758)</b>    |
| Profit for the period                             | -                  | -   | -              | 675                  | 675             |
| Changes in foreign currency translation reserve   | -                  | (49,995)                                      | -              | -                    | (49,995)        |
| <b>Total comprehensive income for the period</b>  | -                  | <b>(49,995)</b>                               | -              | <b>675</b>           | <b>(49,320)</b> |
| <b>Balance at 31 December 2014</b>                | <b>2,449</b>       | <b>(61,181)</b>                               | <b>272</b>     | <b>128,851</b>       | <b>70,391</b>   |

The accompanying notes on pages 10 to 47 are an integral part of these consolidated financial statements.

## Translation from the Russian original

PJSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2014

(In thousand USD unless otherwise stated below)

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### Note 1. General information

These consolidated financial statements of Public Joint Stock Company «Abrau-Durso» comprise the parent company Public Joint Stock Company «Abrau - Durso» (PJSC «Abrau - Durso» or 'the Company') and its subsidiaries (collectively 'the Group') as listed in Note 20.

PJSC «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 ultimate controlling party of the Group as at 31 December 2014 and at the date of approval of these consolidated financial statements is the citizen of the RF Boris Titov, the shares are held in trust.

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

The Group's detailed description and structure are presented in Note 20.

### 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 2014.

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.

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PJSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2014

(In thousand USD unless otherwise stated below)

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### 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

PJSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2014

(In thousand USD unless otherwise stated below)

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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>2014</u> | <u>2013</u> |
|--|-------------|-------------|
| <i><b>Russian Rouble / US Dollar</b></i> |             |             |
| 31 December                              | 56.2584     | 32.7292     |
| Average rate for the year ended          |             | 31.8143     |
| Average rate for 9 months                | 35.3408     |             |
| Average rate for October                 | 40.7470     |             |
| Average rate for November                | 45.8144     |             |
| Average rate for December                | 55.2923     |             |

### 3.4. Segment reporting

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

### **3.5. Property, plant and equipment**

#### **3.5.1. Recognition and measurement**

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

#### **3.5.2. Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### **3.5.3. Depreciation**

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings and constructions - 10-80 years;

Tunnels - 500 years;

Equipment and machinery - 5-35 years;

Other - 5-10 years;

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

#### **3.5.4. Capital construction in progress**

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

## Translation from the Russian original

PJSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2014

(In thousand USD unless otherwise stated below)

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### 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.

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### 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.

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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.



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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.

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### 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.

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### 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 <sub>0</sub> = | 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.

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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.

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### 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.

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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.

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### 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)

In the current period none of the new and revised standards, interpretations and amendments, have had a material effect on amounts presented in the financial statement. Details of Standards and Interpretations adopted in these financial statements for the first time but that have had no material effect on the amounts reported are set out in section 4.2.

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

|   |   |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities                               | Amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.  |
| Issued in October 2012 and effective for annual periods beginning on or after 1 January 2014  | The application of those amendments has no impact on the Group's financial position or performance for current and prior year.  |
| Amendments to IAS 32 - Offsetting Financial Assets and Financial liabilities                  | The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.   |
| Issued in December 2011 and effective for annual periods beginning on or after 1 January 2014 | The application of the amendments to IAS 32 has no impact on the Group's financial position or performance for current and prior year.  |
| Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting           | The objective of the Amendment to IAS 39 is to provide relief from the requirement for the discontinuance of hedge accounting in IAS 39 and IFRS 9 in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations.   |
| Issued in June 2013 and effective for annual periods beginning on or after 1 January 2014     | The Group has not entered in the arrangements of the derivatives novation. The application of the amendments to IAS 39 will not impact the Group's financial position or performance.   |
| IFRIC 21 - Levies   | The Interpretation sets out the accounting for an obligation to pay a levy that is not income tax. It clarifies, that the obligating event that gives rise to a liability to pay a levy, is the activity described in the relevant legislation that triggers the payment of the levy. The liability for the levies is recognised in the financial statements when the event set by the relevant legislation occurs. |
| Issued in May 2013 and effective for annual periods beginning on or after 1 January 2014      | The Group is not subject to significant levies and anticipates that application of the interpretation will not impact the Group's financial position or performance.  |
| Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets                | The amendments to IAS 36 remove the requirement to disclose the recoverable amount of an asset (or cash-generating unit) when there has been no impairment or reversal of impairment during the period. The amendments also introduce additional disclosure requirements about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal.                             |
| Issued in May 2013 and effective for annual periods beginning on or after 1 January 2014      | The adoption of the amendments to IAS 36 has no impact on the Group's financial position or performance for current and prior year as the Group did not conduct those operations.   |



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### 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. The Group anticipates that application of the amendments will not impact the Group's financial position or performance.

The Group currently evaluates the effect of IFRS 15, IFRS 9, IFRS14 and plans to adopt new standard at the date it will become effective.

| Standards & Interpretations |                                       | Effective date |
|-----------------------------|---------------------------------------|----------------|
| Amendment to IAS 19         | Employee Benefits                     | 1 July 2014    |
| Amendment to IFRS 11        | Joint Arrangements                    | 1 January 2016 |
| Amendments to IAS 16        | Property Plant and Equipment          | 1 January 2016 |
| Amendments to IAS 38        | Intangible Assets                     | 1 January 2016 |
| Amendments to IAS 41        | Agriculture                           | 1 January 2016 |
| Amendments to IFRS 10       | Consolidated Financial Statements     | 1 January 2016 |
| Amendments to IAS 28        | Investments in Associates             | 1 January 2016 |
| Amendments to IAS 27        | Separate Financial Statements         | 1 January 2016 |
| IFRS 14                     | Regulatory Deferral Accounts          | 1 January 2016 |
| IFRS 15                     | Revenue from Contracts with Customers | 1 January 2017 |
| IFRS 9                      | Financial Instruments                 | 1 January 2018 |

### 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.

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

**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 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.

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In assessing of the fair value, the Group adopts a comparative method. With this method, the fair value measurement is obtained from information used in market transactions of identical or similar / comparable assets. The method is based on a comparison of the object offered for sale with market comparables. Investment property consists of land. The market price for a hundred square meters is 2 - 5 thousand dollars, depending on the location of the land and other factors.

With a decrease / increase in the value of the price per hundred square meters of land at 10% it is expected for change in fair value of investment property by 217 thousand US dollars.

During the period the methods of measurement of fair value was not changed.

**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.

### Note 6. Financial risk management

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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   |                |
|---|---------------|----------------|
|   | 2014          | 2013           |
| Short-term borrowings and current portion of long-term borrowings | 24,258        | 45,633         |
| Long-term borrowings  | 36,228        | 37,988         |
| Cash and cash equivalents   | (2,638)       | (4,484)        |
| Net debt  | 57,848        | 79,137         |
| Share capital   | 2,449         | 2,449          |
| Reserves  | 67,942        | 118,020        |
| <b>Total capital involved</b>                                     | <b>70,391</b> | <b>120,469</b> |
| The ratio of net debt to capital involved, %                      | 82%           | 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

Since 2014 the economic situation in Russia has deteriorated significantly due to the introduction of reciprocal sanctions by Russia, the EU and the US, as well as a number of political factors. The consequence of which, was the decline of the Russian Rouble's exchange rate.

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   |               |
|              | 2014        | 2013         | 2014          | 2013          |
| USD          | -           | -            | 15,138        | 13,302        |
| Euro         | 628         | 1,060        | 26,439        | 33,311        |
| <b>Total</b> | <b>628</b>  | <b>1,060</b> | <b>41,577</b> | <b>46,613</b> |

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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 1,514 thousand USD (2013: 1,330 thousand USD) and a loss in the amount of 2,574 thousand USD (2013: 3,225 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 724 thousand USD (2013: 973 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 a suitable combination of loans with fixed and floating interest rate. During 2014 the Company restructured the Loan agreement w/n from 19.11.2011, provided by the Black Sea Trade and Development Bank (loan in foreign currency) and reduced floating interest rate by 1%.

### 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 14, 17, 18.

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### 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.

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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<br/>amount</u> | <u>Contractual<br/>cash flows</u> | <u>6 months or<br/>less</u> | <u>6-12 months</u>     | <u>1-2 years</u>       | <u>2-5 years</u>       | <u>More than<br/>5 years</u> |
|---------------------------|----------------------------|-----------------------------------|-----------------------------|------------------------|------------------------|------------------------|------------------------------|
| <b>31 December 2014</b>   |                            |                                   |                             |                        |                        |                        |                              |
| Bank loans and borrowings | 60,486                     | (71,471)                          | (6,902)                     | (22,018)               | (15,956)               | (19,664)               | (6,931)                      |
| Trade and other payables  | <u>22,376</u>              | <u>(22,375)</u>                   | <u>(22,321)</u>             | <u>(33)</u>            | <u>(9)</u>             | <u>(11)</u>            | <u>(1)</u>                   |
| <b>Total</b>              | <b><u>82,863</u></b>       | <b><u>(93,846)</u></b>            | <b><u>(29,223)</u></b>      | <b><u>(22,051)</u></b> | <b><u>(15,965)</u></b> | <b><u>(19,675)</u></b> | <b><u>(6,932)</u></b>        |
| <b>31 December 2013</b>   |                            |                                   |                             |                        |                        |                        |                              |
| Bank loans and borrowings | 83,621                     | (99,746)                          | (17,590)                    | (40,990)               | (13,248)               | (27,918)               | -                            |
| Trade and other payables  | <u>22,862</u>              | <u>(22,862)</u>                   | <u>(12,221)</u>             | <u>(10,445)</u>        | <u>(166)</u>           | <u>(29)</u>            | <u>(1)</u>                   |
| <b>Total</b>              | <b><u>106,483</u></b>      | <b><u>(122,608)</u></b>           | <b><u>(29,811)</u></b>      | <b><u>(51,435)</u></b> | <b><u>(13,414)</u></b> | <b><u>(27,947)</u></b> | <b><u>(1)</u></b>            |

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.

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**Note 7. Revenue**

|   | <b>Year ended 31 December</b> |                |
|---|-------------------------------|----------------|
|   | <b>2014</b>                   | <b>2013</b>    |
| Sale of sparkling wines produced                | 125,656                       | 134,512        |
| Public catering, hospitality and other services | 11,543                        | 11,168         |
| Royalty   | 1,833                         | 5,848          |
| Sale of other goods                             | 94                            | 380            |
| <b>Total</b>                                    | <b>139,126</b>                | <b>151,908</b> |

**Note 8. Cost of sales, distribution costs and administrative expenses**

|  | <b>Year ended 31 December</b> |               |
|--|-------------------------------|---------------|
|  | <b>2014</b>                   | <b>2013</b>   |
| <b>Cost of sales of sparkling wines produced</b>               |                               |               |
| Bulk wine, other stores and raw materials                      | 30,259                        | 30,578        |
| Employee benefits expenses                                     | 5,958                         | 6,945         |
| Amortisation and depreciation                                  | 2,209                         | 2,369         |
| Repair and maintenance   | 792                           | 969           |
| Utilities  | 167                           | 1,646         |
| Other  | 444                           | 355           |
| <b>Cost of goods sold</b>                                      | <b>24,180</b>                 | <b>24,069</b> |
| <b>Cost of public catering, hospitality and other services</b> |                               |               |
| Employee benefits expenses                                     | 2,347                         | 2,424         |
| Other  | 669                           | 704           |
| <b>Total</b>   | <b>67,025</b>                 | <b>70,059</b> |
| <b>Selling and distribution expenses</b>                       |                               |               |
| Advertising expenses   | 15,070                        | 14,003        |
| Transportation expenses  | 4,469                         | 3,991         |
| Employee benefits expenses                                     | 4,236                         | 4,358         |
| Rent expenses  | 2,354                         | 2,309         |
| Materials  | 744                           | 1,025         |
| Other expenses   | 458                           | 282           |
| Depreciation   | 389                           | 433           |
| Other expenses   | 1,455                         | 968           |
| <b>Total</b>   | <b>29,175</b>                 | <b>27,312</b> |
| <b>General and administrative expenses</b>                     |                               |               |
| Employee benefits expenses                                     |                               |               |
| Materials  | 5,867                         | 6,230         |
| Depreciation and amortisation                                  | 1,015                         | 790           |
| Taxes other than income tax                                    | 869                           | 717           |
| Travel expense   | 812                           | 513           |
| Rent expenses  | 463                           | 350           |
| Security expenses  | 401                           | 330           |
| Communication expenses   | 309                           | 119           |
| Consulting and other professional services                     | 300                           | 947           |
| Utilities  | 168                           | 337           |
| Bank charges   | 164                           | 610           |
| Other expenses   | 148                           | 139           |
| <b>Other</b>   | <b>2,109</b>                  | <b>2,276</b>  |
| <b>Total</b>   | <b>12,625</b>                 | <b>13,358</b> |

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**Note 9. Finance income and (finance costs)**

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014                   | 2013            |
| Exchange gain/loss, net                      | (16,563)               | (4,228)         |
| Interest expense on:<br>loans and borrowings | (5,405)                | (6,299)         |
| Interest income on:<br>loans and borrowings  | 238                    | 147             |
| <b>Total, net</b>                            | <b>(21,703)</b>        | <b>(10,380)</b> |

**Note 10. Other operating income and (expenses)**

|  | Year ended 31 December |                |
|--|------------------------|----------------|
|  | 2014                   | 2013           |
| Exchange gain/loss, net  | (2,936)                | (399)          |
| Territory improvement and social expenses                                    | (523)                  | (623)          |
| Loss on disposal of electric power, heat power, water supply and<br>sewerage | (275)                  | (465)          |
| Loss on disposal of property, plant and equipment                            | (251)                  | (477)          |
| Loss on disposals of inventories   | (136)                  | (1,020)        |
| Other expenses   | (683)                  | (1,233)        |
| <b>Total, net</b>  | <b>(4,804)</b>         | <b>(4,217)</b> |

**Note 11. Income taxes**

|  | Year ended 31 December |              |
|--|------------------------|--------------|
|  | 2014                   | 2013         |
| <b>Current tax expense</b>   | <b>5,255</b>           | <b>6,816</b> |
| Current income tax charge  | 5,080                  | 6,783        |
| Correction of reserve for prior periods  | 174                    | -            |
| Tax penalties  | 1                      | 33           |
| <b>Deferred tax expense</b>  | <b>(2,163)</b>         | <b>(120)</b> |
| The amount of deferred tax expense/income relating to the<br>origination and reversal of temporary differences | (2,163)                | (120)        |
| <b>Total income tax expense</b>  | <b>3,092</b>           | <b>6,696</b> |

|   | Year ended 31 December |              |
|---|------------------------|--------------|
|   | 2014                   | 2013         |
| Profit for the period before tax                            | 3,768                  | 26,486       |
| <b>Income tax using the Company's domestic tax rate 20%</b> | <b>735</b>             | <b>5,297</b> |
| <i>Increase/decrease due to the following factors:</i>      |                        |              |
| Correction of reserve for prior periods                     | 174                    |              |
| <b>Permanent differences arising from:</b>                  |                        |              |
| Non-deductible expenses                                     | 2,164                  | 1,366        |
| Tax penalties   | 1                      | 33           |
| <b>Income tax expense</b>                                   | <b>3,092</b>           | <b>6,696</b> |



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As at 31 December 2014 the Group did not recognize a deferred tax asset arising from a tax loss in the amount of USD 351 thousand (2013: 539) 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<br>2014 | The amount of the<br>deferred tax<br>income or expense<br>recognised in profit<br>or loss | Foreign<br>currency<br>translation<br>differences | 31<br>December<br>2014 |
|--|-------------------|---|---|------------------------|
| <b>Recognised deferred tax assets<br/>attributable to the following elements:</b>      |                   |   |   |                        |
| Inventories  | 983               | (140)   | (400)   | 443                    |
| Trade and other receivables  | 144               | 67  | (61)  | 150                    |
| Property, plant and equipment  | 50                | (6)   | (34)  | 10                     |
| Tax losses carried forward   | 1,367             | 1,988   | (809)   | 2,545                  |
| Provisions   | 157               | (18)  | (48)  | 91                     |
| Loans  | 694               | (355)   | (284)   | 55                     |
| Other  | 28                | 75  | 23  | 126                    |
| <b>Deferred tax assets</b>   | <b>3,423</b>      | <b>1,611</b>  | <b>(1,613)</b>                                    | <b>3,421</b>           |
| <b>Recognised deferred tax liabilities<br/>attributable to the following elements:</b> |                   |   |   |                        |
| Inventories  | (590)             | 421   | 168   | (1)                    |
| Property, plant and equipment  | (15,106)          | (265)   | 6,325   | (9,046)                |
| Other  | (836)             | 396   | 343   | (97)                   |
| <b>Deferred tax liabilities</b>  | <b>(16,532)</b>   | <b>552</b>  | <b>6,836</b>                                      | <b>(9,144)</b>         |
| <b>Total deferred tax assets and liabilities</b>                                       | <b>(13,109)</b>   | <b>2,163</b>  | <b>5,223</b>                                      | <b>(5,723)</b>         |
|  | 1 January<br>2013 | The amount of the<br>deferred tax<br>income or expense<br>recognised in profit<br>or loss | Foreign<br>currency<br>translation<br>differences | 31<br>December<br>2013 |
| <b>Recognised deferred tax assets<br/>attributable to the following elements:</b>      |                   |   |   |                        |
| 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                     |
| <b>Deferred tax assets</b>   | <b>2,799</b>      | <b>901</b>  | <b>(277)</b>                                      | <b>3,423</b>           |
| <b>Recognised deferred tax liabilities<br/>attributable to the following elements:</b> |                   |   |   |                        |
| Inventories  | (163)             | (449)   | 22  | (590)                  |
| Property, plant and equipment  | (16,374)          | 93  | 1,175   | (15,106)               |
| Other  | (459)             | (425)   | 48  | (836)                  |
| <b>Deferred tax liabilities</b>  | <b>(16,996)</b>   | <b>(781)</b>  | <b>1,245</b>                                      | <b>(16,532)</b>        |
| <b>Total deferred tax assets and liabilities</b>                                       | <b>(14,197)</b>   | <b>120</b>  | <b>968</b>  | <b>(13,109)</b>        |

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**Note 12. Cash and cash equivalents**

|   | 31 December  |              |
|---|--------------|--------------|
|   | 2014         | 2013         |
| Cash and bank balances - RUB              | 2,558        | 4,323        |
| Cash on hand                              | 20           | 16           |
| Cash and bank balances - foreign currency | -            | 116          |
| Cash in transit                           | 60           | 29           |
| <b>Cash and cash equivalents</b>          | <b>2,638</b> | <b>4,484</b> |

**Note 13. Trade and other receivables**

|  | 31 December   |               |
|--|---------------|---------------|
|  | 2014          | 2013          |
| Trade receivables  | 54,030        | 72,078        |
| Other taxes receivable                                     | 2,613         | 3,392         |
| Value-added tax reimbursable                               | 405           | 677           |
| Other receivables  | 1,329         | 2,191         |
| <b>Total trade and other receivables</b>                   | <b>58,377</b> | <b>78,338</b> |
| Allowance for doubtful debts                               | (580)         | (688)         |
| <b>Total trade and other receivables, net of allowance</b> | <b>57,797</b> | <b>77,650</b> |

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 2014 the Group had 6 customers that cumulatively owed the Group more than 48% of total receivables (2013: 45%).

Ageing of trade receivables past due but not impaired:

|                   | 31 December  |               |
|-------------------|--------------|---------------|
|                   | 2014         | 2013          |
| Less than 30 days | 8,006        | 10,690        |
| 30-90 days        | 1,505        | 63            |
| 90-180 days       | 141          | 603           |
|                   | <b>9,652</b> | <b>11,356</b> |

Movement in the allowance for doubtful debts during 2013-2014 is as follows:

|   | Year ended 31 December |            |
|---|------------------------|------------|
|   | 2014                   | 2013       |
| Balance at beginning of the year                  | 688                    | 1,159      |
| Increase/decrease in allowance for doubtful debts | 269                    | (399)      |
| Foreign exchange translation gains and losses     | (377)                  | (72)       |
|   | <b>580</b>             | <b>688</b> |

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The following table discloses expected maturity of the Group receivables:

|                   | 31 December   |               |
|-------------------|---------------|---------------|
|                   | 2014          | 2013          |
| Less than 90 days | 46,661        | 69,227        |
| 90-180 days       | 7,411         | 7,533         |
| 180-360 days      | 3,725         | 890           |
|                   | <b>57,797</b> | <b>77,650</b> |

At 31 December 2014 and 2013 trade and other receivables were not pledged as collateral for loans and borrowing received.

### Note 14. Inventories

|                               | 31 December   |               |
|-------------------------------|---------------|---------------|
|                               | 2014          | 2013          |
| Work in progress              |               |               |
| tank wine                     | 5,643         | 10,446        |
| cuvée                         | 5,114         | 10,963        |
| juice                         | 74            | -             |
| construction in progress      | 1,639         | 271           |
| Raw materials and consumables | 5,168         | 5,592         |
| Goods for resale              | 3,987         | 9,009         |
| Finished goods                |               |               |
| bottled sparkling wine        | 2,698         | 6,411         |
| residential property          | 597           | 1,083         |
| Others                        | 649           | 1,191         |
| <b>Total</b>                  | <b>25,569</b> | <b>44,966</b> |

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.

As at 31 December 2014 construction in progress includes land under development, as well as the costs for the construction of cottage settlements attributable to projects Abrau Deluxe Club and Abrau Foresthill.

At 31 December 2013 cuvée with the carrying value of USD 4,463 thousand was pledged as collateral to secure bank loans, as of 31.12.2014 there is no inventories pledged as security for 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", «VICTOR DRAVIGNY» and «ABRAU-LIGHT».

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

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**Note 15. Property, plant and equipment**

|   | Land         | Buildings and constructions | Tunnels       | Equipment and machinery | Other          | Construction in progress | Total          |
|---|--------------|-----------------------------|---------------|-------------------------|----------------|--------------------------|----------------|
| <i>Cost</i>                                       |              |                             |               |                         |                |                          |                |
| 1 January 2014                                    | 7,729        | 29,742                      | 61,540        | 19,640                  | 5,157          | 4,325                    | 128,133        |
| Additions   | (969)        | 15,462                      | -             | 2,441                   | 1,704          | 410                      | 19,048         |
| Transfers   | -            | 1,089                       | 269           | 1,341                   | 29             | (2,721)                  | 7              |
| Disposals   | (171)        | (292)                       | -             | (199)                   | (992)          | -                        | (1,654)        |
| Foreign exchange translation gains and losses     | (2,871)      | (17,596)                    | (25,823)      | (9,345)                 | (2,392)        | (1,081)                  | (59,108)       |
| <b>31 December 2014</b>                           | <b>3,718</b> | <b>28,405</b>               | <b>35,986</b> | <b>13,878</b>           | <b>3,506</b>   | <b>933</b>               | <b>86,426</b>  |
| <i>Depreciation</i>                               |              |                             |               |                         |                |                          |                |
| 1 January 2014                                    | -            | (2,868)                     | (671)         | (6,951)                 | (1,827)        | -                        | (12,317)       |
| Depreciation charge for the year                  | -            | (1,107)                     | (115)         | (1,909)                 | (655)          | -                        | (3,786)        |
| Release on disposal                               | -            | 22                          | -             | 133                     | 242            | -                        | 397            |
| Foreign exchange translation gains and losses     | -            | 1,552                       | 317           | 3,469                   | 896            | 2                        | 6,236          |
| <b>31 December 2014</b>                           | <b>-</b>     | <b>(2,401)</b>              | <b>(469)</b>  | <b>(5,258)</b>          | <b>(1,344)</b> | <b>2</b>                 | <b>(9,470)</b> |
| <i>Net book value</i>                             |              |                             |               |                         |                |                          |                |
| 1 January 2014                                    | 7,729        | 26,874                      | 60,869        | 12,689                  | 3,330          | 4,325                    | 115,816        |
| <b>31 December 2014</b>                           | <b>3,718</b> | <b>26,004</b>               | <b>35,517</b> | <b>8,620</b>            | <b>2,162</b>   | <b>935</b>               | <b>76,956</b>  |
| <i>Advances for property, plant and equipment</i> |              |                             |               |                         |                |                          |                |
| 1 January 2014                                    | -            | 184                         | -             | 1,615                   | 1              | 5,978                    | 7,778          |
| <b>31 December 2014</b>                           | <b>-</b>     | <b>-</b>                    | <b>-</b>      | <b>21</b>               | <b>1,201</b>   | <b>122</b>               | <b>1,344</b>   |

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|   | Land  | Buildings and constructions | Tunnels | Equipment and machinery | Other   | Construction in progress | Total    |
|---|-------|-----------------------------|---------|-------------------------|---------|--------------------------|----------|
| <b>Cost</b>   |       |                             |         |                         |         |                          |          |
| 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  |
| <b>Depreciation</b>                                       |       |                             |         |                         |         |                          |          |
| 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) |
| <b>Net book value</b>                                     |       |                             |         |                         |         |                          |          |
| 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  |
| <b>Advances for property, plant and equipment</b>         |       |                             |         |                         |         |                          |          |
| 1 January 2013  | -     | 1,083                       | -       | 1,426                   | 286     | -                        | 2,795    |
| 31 December 2013  | -     | 184                         | -       | 1,615                   | 1       | 5,978                    | 7,778    |
| <b>Assets held under finance leases at net book value</b> |       |                             |         |                         |         |                          |          |
| 1 January 2013  | -     | -                           | -       | -                       | 65      | -                        | 65       |
| 31 December 2013  | -     | -                           | -       | -                       | -       | -                        | -        |

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 2014 land, buildings, vehicles, equipment and machinery carried at USD 42,232 thousand (2013: USD 73,207 thousand) (Note 18) have been pledged to banks as collateral for loans.

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### Note 16. Trade and other payables

|                        | 31 December   |               |
|------------------------|---------------|---------------|
|                        | 2014          | 2013          |
| Trade payables         | 21,682        | 21,999        |
| Payroll payable        | 218           | 346           |
| Advances received      | 746           | 1,152         |
| Other accounts payable | 476           | 517           |
| <b>Total</b>           | <b>23,122</b> | <b>24,014</b> |

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 - 2014. 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>2014</u>                | <u>2013</u>                |
|---|----------------------------|----------------------------|
| Option pricing model used                     | Black-Scholes-Merton model | Black-Scholes-Merton model |
| Dividend yield(%)                             | 10                         | 10                         |
| Volatility of the underlying share (%)        | 47                         | 17                         |
| Risk-free interest rate (%)                   | 3                          | 3                          |
| Expected term of the option (in years) (year) | 1                          | 2                          |
| Current price of the underlying share (USD)   | 2,6                        | 3,5                        |
| Exercise price of the option (USD)            | 1,7                        | 1,7                        |

As of 31 December 2014 the fair value of liabilities amounted to USD 65 thousand (as of 31 December 2013: USD 165 thousand). Liabilities are accounted for in line «Other accounts payable» in the consolidated statement of financial position at 31 December 2014.

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Note 17. Loans and borrowings

|   | Currency  | Interest rate | 31 December   |               |
|---|-----------|---------------|---------------|---------------|
|   |           |               | 2014          | 2013          |
| <b>Long term</b>  |           |               |               |               |
| Bank loans secured  | RUB, EURO | 6% -12,25%    | 42,493        | 40,214        |
| Borrowings related parties  | RUB       | 11%           | -             | 4,583         |
| <i>Except for current portion of non-current bank loans and borrowings</i>                              |           |               | (6,265)       | (6,808)       |
| <b>Total long term loans and borrowings</b>   |           |               | <b>36,228</b> | <b>37,989</b> |
| <b>Short term</b>   |           |               |               |               |
| Bank loans secured  | RUB       | 6% - 10,2%    | 37            | 15,091        |
| Borrowings related parties  | RUB, USD  | 7%-14%        | 17,885        | 23,734        |
| other parties   |           |               | 71            |               |
| Current portion of long term bank loans and borrowings  |           |               | 6,265         | 6,808         |
| <b>Total short term loans and borrowings and current portion of long term bank loans and borrowings</b> |           |               | <b>24,258</b> | <b>45,633</b> |
| <b>Total loans and borrowings</b>   |           |               | <b>60,486</b> | <b>83622</b>  |

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

|  | 31 December   |               |
|--|---------------|---------------|
|  | 2014          | 2013          |
| Property plant and equipment (Note 15) | 42,323        | 73,207        |
| Inventories (Note 14)                  | -             | 4,463         |
| <b>Total</b>                           | <b>42,323</b> | <b>77,670</b> |

As at 31 December 2014 CJSC «Abrau - Durso» received bank guarantees from Sberbank RF in the amount of USD 3,266 thousand as security for the fulfillment of obligations on the use in accordance with its intended of purchased federal special stamps (USD 3,330 thousand as at 31 December 2013).

PJSC «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   |              |
|---|---------------|--------------|
|   | 2014          | 2013         |
| Guarantees given in respect of CJSC «Abrau - Durso» | 22,610        | 7,547        |
| <b>Total</b>  | <b>22,610</b> | <b>7,547</b> |

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**Note 18. Other tax liabilities**

|  | 31 December  |               |
|--|--------------|---------------|
|  | 2014         | 2013          |
| Value added tax                                | 6,160        | 8,857         |
| Excise tax                                     | 2,044        | 1,803         |
| Personal income tax and social security charge | 262          | 326           |
| Property tax                                   | 167          | 162           |
| Other  | 10           | 24            |
| <b>Total</b>                                   | <b>8,643</b> | <b>11,172</b> |

**Note 19. Issued capital**

|                                    | 31 December      |                              |                  |                              |
|------------------------------------|------------------|------------------------------|------------------|------------------------------|
|                                    | 2014             |                              | 2013             |                              |
|                                    | 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                            | 1                | 1                            |

**Note 20. Subsidiaries**

| Company  | Country | Main activity                       | 31 December     |                  | 31 December     |                  |
|--|---------|-------------------------------------|-----------------|------------------|-----------------|------------------|
|  |         |                                     | 2014            | 2014             | 2013            | 2013             |
|  |         |                                     | 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              |



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| Company                                    | Country | Main activity                         | 31 December     |                  | 31 December     |                  |
|--|---------|---------------------------------------|-----------------|------------------|-----------------|------------------|
|  |         |                                       | 2014            | 2014             | 2013            | 2013             |
|  |         |                                       | 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              |
| LLC «Abrau-Stroy»                          | RF      | Construction of buildings             | 100             | 100              | 100             | 100              |
| LLC «CWT-Aqua»                             | RF      | Purchase and sale of real estate      | 100             | 100              | 100             | 100              |
| LLC «Abrau De Lux»                         | RF      | Construction of buildings             | 65              | 65               | 65              | 65               |
| LLC "Project Company"                      | RF      | Buying and selling of own real estate | 100             | 100              | -               | -                |
| Air transport Abrau NP                     | RF      | Organization of air transport         | 100             | 100              | -               | -                |

On June 27, 2014 LLC Abrau - Durso territory founded a 100% subsidiary LLC "Project Company".

On June 4, 2014 CJSC «Abrau - Durso» and LLC «Center of Wine Tourism Abrau -Durso» founded a subsidiary company Air transport Abrau NP. Ownership of CJSC "Abrau-Durso" and LLC "Center of Wine Tourism Abrau -Durso" is 50% respectively.

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### Note 21. 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 |       |
|---------------------------------------|------------------------|-------|
|                                       | 2014                   | 2013  |
| <b>Senior management staff</b>        |                        |       |
| Purchases of goods and services       | 5                      | 5     |
| Sales of goods and services           | 6                      | -     |
| Loans to related parties              | 74                     | 168   |
| <b>Other related parties</b>          |                        |       |
| Purchases of goods and services       | 1,189                  | 72    |
| Sales of goods and services           | -                      | 72    |
| Financial expenses (accrued interest) | 1,763                  | 2,324 |
| Loans from related parties            | -                      | 4,715 |

#### The amount of outstanding balances:

|                                | 31 December     |                 |
|--------------------------------|-----------------|-----------------|
|                                | 2014            | 2013            |
| <b>Senior management staff</b> |                 |                 |
| Investments                    | 44              | 42              |
| <b>Other related parties</b>   |                 |                 |
| Trade and other receivables    | -               | 10              |
| Loans and borrowings           | (17,885)        | (28,317)        |
|                                | <b>(17,841)</b> | <b>(28,265)</b> |

### 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 2014 wages and salaries were accrued to key management in the amount of USD 1,699 thousand (2013: USD 2,359 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.

Other related parties, including those registered outside the Russian Federation, are not controlled by the ultimate controlling party and the owner of the Group.

The Group's average headcount for 2014 was 1001 employees (2013: 941).

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### **Note 22. 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 (2013: 92%).

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; 2013: 8%), 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.

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Information on revenue, depreciation, interest expense, income tax expense and segment profit with a breakdown into segments for 2014 and 2013 is as follows:

| Year ended 31 December<br>2014   | Production and<br>sales of sparkling<br>wines      | Other<br>segments         | Management<br>Company         | Consolidated data        |
|--|--|---------------------------|-------------------------------|--------------------------|
| Revenue  | 214,779  | 12,151                    | 2,298                         | 229,228                  |
| Revenue from transactions<br>between segments                                      | (88,804)   | (833)                     | (2,298)                       | (91,935)                 |
| <b>Revenue from external<br/>customers</b>   | <b>125,975</b>                                     | <b>11,318</b>             | -                             | <b>137,293</b>           |
| Royalty  | 917  | -                         | 917                           | 1,834                    |
| <b>Group revenue in the<br/>consolidated statement of<br/>comprehensive income</b> | <b>126,892</b>                                     | <b>11,318</b>             | <b>917</b>                    | <b>139,126</b>           |
| Depreciation   | (3,511)  | (477)                     | (81)                          | (4,069)                  |
| Amortization of intangible<br>assets   | (54)   | -                         | (1)                           | (55)                     |
| Interest expenses  | (3,033)  | (375)                     | (1,997)                       | (5,405)                  |
| Interest income  | 224  | 13                        | -                             | 237                      |
| Income tax   | (5,240)  | (14)                      | -                             | (5,254)                  |
| <b>Profit / (loss) of the<br/>segment</b>  | <b>2,880</b>                                       | <b>(2,673)</b>            | <b>468</b>                    | <b>675</b>               |
| <b>Year ended 31 December<br/>2013</b>   | <b>Production and sales<br/>of sparkling wines</b> | <b>Other<br/>segments</b> | <b>Management<br/>Company</b> | <b>Consolidated data</b> |
| Revenue  | 224,334  | 14,862                    | 2,719                         | 241,915                  |
| Revenue from transactions<br>between segments                                      | (89,291)   | (964)                     | (2,719)                       | (92,974)                 |
| <b>Revenue from external<br/>customers</b>   | <b>135,043</b>                                     | <b>11,022</b>             | -                             | <b>146,065</b>           |
| Royalty  | 2,876  | -                         | 2,969                         | 5,845                    |
| <b>Group revenue in the<br/>consolidated statement of<br/>comprehensive income</b> | <b>135,043</b>                                     | <b>13,898</b>             | <b>2,969</b>                  | <b>151,910</b>           |
| Depreciation   | (3,292)  | (471)                     | (74)                          | (3,837)                  |
| Amortization of intangible<br>assets   | (8)  | -                         | (1)                           | (9)                      |
| Interest expenses  | (2,950)  | (293)                     | (3,056)                       | (6,299)                  |
| Interest income  | 127  | 1                         | 19                            | 147                      |
| Income tax   | (6,736)  | (80)                      | -                             | (6,816)                  |
| <b>Profit / (loss) of the<br/>segment</b>  | <b>20,852</b>                                      | <b>(3,513)</b>            | <b>2,548</b>                  | <b>19,887</b>            |

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| As at 31 December 2014          | Production and sales of sparkling wines | Other segments | Consolidated data |
|---------------------------------|---|----------------|-------------------|
| Additions to non-current assets | 23,452                                  | 2,149          | 25,601            |
| Reportable segment assets       | 222,164                                 | 16,928         | 239,092           |
| <b>Total Group assets</b>       |   |                | <b>172,647</b>    |
| Reportable segment liabilities  | (140,538)                               | (23,847)       | (164,385)         |
| <b>Total Group liabilities</b>  |   |                | <b>(102,256)</b>  |

  

| As at 31 December 2013          | Production and sales of sparkling wines | Other segments | Consolidated data |
|---------------------------------|---|----------------|-------------------|
| Additions to non-current assets | 7,268                                   | 4,485          | 11,753            |
| Reportable segment assets       | 326,238                                 | 21,245         | 347,483           |
| <b>Total Group assets</b>       |   |                | <b>257,470</b>    |
| Reportable segment liabilities  | (187,943)                               | (30,930)       | (218,873)         |
| <b>Total Group liabilities</b>  |   |                | <b>(137,001)</b>  |

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 |                |
|----------------|---|----------------|--|----------------|
|                | 2014                                      | 2013           | 2014                                     | 2013           |
| Moscow         | 93,628                                    | 107,110        | 457                                      | 1,825          |
| Krasnodar Krai | 45,498                                    | 44,798         | 84,301                                   | 126,143        |
|                | <b>139,126</b>                            | <b>151,908</b> | <b>84,758</b>                            | <b>127,968</b> |

**Note 23. 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 |            |
|--|------------------------|------------|
|  | 2014                   | 2013       |
| Profit for the year attributable to owners of the Company  | 675                    | 19,886     |
| Weighted average number of ordinary shares for the purposes of calculation of basic earnings per share | 73,500,000             | 73,500,000 |

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### 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 |            |
|--|------------------------|------------|
|  | 2014                   | 2013       |
| Earnings used in the calculation of diluted earnings per share                                   | 675                    | 19,886     |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | 73,500,000             | 73,500,000 |

### Note 24. 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, non residential office space with total area of 743.7 sq.m. under the operating lease agreements. All the agreements have various terms and renewal options, and are cancellable on nature.

## Translation from the Russian original

PJSC «Abrau - Durso»

Notes to consolidated financial statements for the year ended 31 December 2014

(In thousand USD unless otherwise stated below)

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### 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 25. Events after the reporting period**

A new version of the Company's Charter was approved at an extraordinary general meeting of the shareholders on 10 March 2015 and was registered on 19 March 2015. The new full name of the Company is Public Joint Stock Company "Abrau-Durso" (PJSC "Abrau-Durso").

On 21 March 2015 the Group's subsidiary CJSC "Vino ER EF" was liquidated. As of 31.12.2014, all provisions required with respect to the company's liquidation are recognized in the consolidated financial statements.

In accordance with Decision No. 1 adopted by the sole participant of "Atrium" Ltd. on 10 March 2015, "Atrium" Ltd. is to be liquidated. As of 31.12.2014, all provisions required with respect to the company's liquidation are recognized in the consolidated financial statements.

On 2 March 2015 LLC "TH Abrau" took a decision to establish LLC "TH "Abrau South". LLC "TH "Abrau South" was registered on 16 March 2015.