

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

Consolidated financial statements
for the year ended 31 December 2010,
and Independent Auditor’s Report

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of JSC «Abrau-Durso» and its subsidiaries (collectively 'the Group') at 31 December 2010, 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:

- properly selecting and applying accounting policies;
- 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.

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 2010 were approved on behalf of the management of the Group on 8 August 2011 by:

Pavel Titov

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of JSC "Abrau-Durso" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC "Abrau-Durso" and its subsidiaries as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Elena Khromova
Partner

08 August 2011

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JSC «Abrau-Durso»
 Consolidated statement of comprehensive income for the year ended 31 December 2010
 (In thousand USD)

	Notes	Year ended 31 December	
		2010	2009
Revenue	8	64,486	40,419
Cost of sales	9	(29,696)	(20,307)
Gross profit		34,790	20,112
Selling and distribution expenses	9	(8,104)	(4,093)
General and administrative expenses	9	(8,712)	(6,225)
Goodwill impairment		-	(964)
Other expenses	11	(1,425)	(662)
Operating profit		16,549	8,168
Finance income/(costs), net	10	(5,605)	(4,036)
Profit before income tax		10,944	4,132
Income tax expenses	12	(3,363)	(1,556)
Profit for the year		7,581	2,576
Other comprehensive income:			
Foreign currency translation differences		(721)	(2,485)
Other reserves		13	-
Total comprehensive income		6,873	91
Profit for the year attributable to			
Owners of the Company		5,498	1,550
Non-controlling interest	13	2,083	1,026
Total comprehensive income attributable to			
Owners of the Company		5,081	111
Non-controlling interest	13	1,792	(20)

Approved and signed on behalf of the management of the Group

 Pavel Titov

08 August 2011

Moscow, Russia

JSC «Abrau-Durso»
Consolidated statement of financial position at 31 December 2010
(In thousand USD)

	Notes	31 December		
		2010	2009	2008
Assets				
Current assets				
Cash and cash equivalents	14	2,937	1,246	352
Inventories	16	31,995	25,709	18,842
Trade and other receivables	15	26,508	25,163	14,417
Advances paid and prepaid expenses		3,830	2,180	1,403
Other financial assets		-	-	75
Total current assets		65,270	54,298	35,089
Non-current assets				
Property, plant and equipment	17	108,197	104,667	102,512
Investment property		1,220	317	116
Intangible assets		61	43	43
Deferred tax assets	12	926	551	152
Other non-current assets		25	-	-
Total non-current assets		110,429	105,578	102,823
Total assets		175,699	159,876	137,912
Equity and liabilities				
Current liabilities				
Trade and other payables	18	9,277	11,320	5,855
Loans and borrowings	19	30,860	31,608	14,433
Income tax payable		1,089	839	585
Other tax liabilities	20	4,686	2,473	464
Provisions		695	743	27
Financial lease liability	21	37	25	33
Other liabilities		26	-	-
Total current liabilities		46,670	47,008	21,397
Non-current liabilities				
Loans and borrowings	19	10,553	3,470	6,383
Deferred tax liabilities	12	17,512	17,188	17,852
Other long-term payables		-	-	211
Finance lease liability	21	12	50	-
Total non-current liabilities		28,077	20,708	24,446
Equity				
Ordinary shares	22	2,449	530	530
Other reserves		13	-	-
Foreign currency translation reserve		(1,869)	(1,439)	-
Retained earnings		59,896	54,398	52,848

JSC «Abrau-Durso»
Consolidated statement of financial position at 31 December 2010 (Continued)
(In thousand USD)

Equity attributable to owners of the Group		60,489	53,489	53,378
Non-controlling interest	13	40,463	38,671	38,691
Total equity		100,952	92,160	92,069
Total equity and liabilities		175,699	159,876	137,912

Approved and signed on behalf of the management of the Group

Pavel Titov

08 August 2011

Moscow, Russia

JSC «Abrau-Durso»
Consolidated statement of cash flows for the year ended 31 December 2010
(In thousand USD)

	Notes	Year ended 31 December	
		2010	2009
Cash flows from operating activities			
Receipts from customers		81,568	36,503
Payments to suppliers		(47,807)	(29,062)
Payments to employees		(9,511)	(6,102)
Payments taxes		(14,139)	(7,421)
Cash generated from operations		10,111	(6,082)
Interest paid		(5,810)	(2,853)
Income tax paid		(3,455)	(601)
Net cash flows from operating activities		846	(9,536)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	7	(448)	156
Purchases of property, plant and equipment		(7,677)	(2,832)
Sale of property, plant and equipment		267	158
Proceeds from repayment of loans issued		778	70
Payment of loans issued		(883)	-
Net cash flows from investing activities		(7,963)	(2,448)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		1,920	-
Proceeds from loans and borrowings		31,518	27,003
Repayment of loans and borrowings		(24,607)	(14,043)
Payment of finance lease liabilities		(65)	(130)
Net cash flows from financing activities		8,766	12,830
Net increase in cash and cash equivalents		1,649	846
Cash and cash equivalents at beginning of year		1,246	352
Foreign currency translation differences		42	48
Cash and cash equivalents at end of year		2,937	1,246

JSC «Abrau-Durso»
 Consolidated statement of changes in equity for the year ended 31 December 2010
 (In thousand USD)

	Ordinary shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009	530	-	-	52,848	53,378	38,691	92,069
Profit for the period	-	-	-	1,550	1,550	1,026	2,576
Changes in foreign currency translation reserve	-	(1,439)	-	-	(1,439)	(1,046)	(2,485)
Total comprehensive income for the period	-	(1,439)	-	1,550	111	(20)	91
Balance at 31 December 2009	530	(1,439)	-	54,398	53,489	38,671	92,160
Issue of shares	1,919	-	-	-	1,919	-	1,919
Total transactions with owners	2,449	(1,439)	-	54,398	55,408	38,671	94,079
Profit for the period	-	-	-	5,498	5,498	2,083	7,581
Changes in foreign currency translation reserve	-	(430)	-	-	(430)	(291)	(721)
Profit distribution	-	-	13	-	13	-	13
Total comprehensive income/loss for the period	-	(430)	13	5,498	5,081	1,792	6,873
Balance at 31 December 2010	2,449	(1,869)	13	59,896	60,489	40,463	100,952

Note 1. General information

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

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

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

The ultimate controlling party of the Group is the citizen of the Russian Federation Boris Titov.

The principal activities of the Group are production and sale of sparkling wine under the brand name Abrau-Durso in the Russian Federation. The Group also conducts public catering and hotel services.

Further details and structure of the Group are presented in Note 23.

Note 2. Basis of preparation**First Adoption of IFRSs**

These consolidated financial statements are the first full set of consolidated financial statements that have been prepared by the Group in accordance with International Financial Reporting Standards (IFRS) adopted by International Accounting Standards Board including all previously adopted standards and interpretations. The date of transition to IFRSs is 1 January 2009.

As the Group has not previously prepared IFRS financial statements it qualifies as a first-time adopter under IFRS 1. IFRS 1 requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet and requires specific reconciliation of equity and profits reported under previous GAAP (Russian standards of accounting (RSA)) to its equity and profits under IFRS. These reconciliations are presented below: Data provided by IFRS 1 “First-time Adoption of International Financial Reporting Standards” concerning transition from Russian standards of accounting (RSA) to IFRS, are presented in the table below:

	31 December 2009		1 January 2009
	Equity	Changes in the year (Total comprehensive income)	Equity
RSA	460	258	202
Effect on consolidation of subsidiaries	29,482	4,018	25,464
Fair value estimation of property, plant and equipment	81,866	(3,805)	85,671
Correction of balances of inventories	(1,462)	(1,322)	(140)
Recognition of deferred taxes	(15,508)	1,262	(16,770)
Allowance for doubtful debts	(632)	(475)	(157)
Other adjustments	(1,838)	155	(1,993)
Elimination of investments in subsidiaries	(208)	-	(208)
Non-controlling interest	(38,671)	20	(38,691)
IFRS	53,489	111	53,378

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Group has applied the mandatory exceptions and certain optional exemptions, as set out below.

In preparing these consolidated financial statements in accordance with IFRS 1 the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS:

- (a) **Business combinations exemption.** The Group elected to not restate business combinations that took place prior to 1 January 2009.
- (b) **Fair value as deemed cost exemption.** Fair value of buildings, constructions and transfer mechanisms components of PP&E was used as a deemed cost at 1 January 2009.
- (d) **Cumulative translation differences exemption.** The Group has deemed the cumulative translation differences for foreign operations at the date of transition to be zero. Adjustments to give effect to this are recorded against opening equity. After the date of transition, translation differences arising on translation of foreign operations are recognized in other comprehensive income and included in a separate 'translation reserve' within equity.
- (e) **Derecognition of financial assets and liabilities exception.** Financial assets and liabilities derecognised under previous GAAP before 1 January 2009 are not recognised under IFRS.
- (f) **Hedge accounting exception.** The Group does not apply hedge accounting.
- (g) **Estimates exception.** The Group has used estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error.

Note 3. Significant accounting policy

3.1. Consolidation

3.1.1. Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

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.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

3.1.2. Business combinations

Business combinations from 1 January 2010

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 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. 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. This includes the separation of embedded derivatives in host contracts by the acquiree.

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.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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 less accumulated impairment losses, if any.

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

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

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

3.2. Functional and presentation currency

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

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

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

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each balance sheet presented;
- income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case exchange rates at the date of transactions are used;
- all equity items are translated at the historical exchange rates;
- all resulting exchange differences are recognised as separate component in equity, and
- 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 (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 net basis.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<i>Russian Rouble / US Dollar</i>			
31 December	30.4769	30.2442	29.3804
Average rate for the year ended	30.3553	31.5929	-

3.4. Property, plant and equipment

3.4.1. Recognition and measurement

The deemed cost of property, plant and equipment at 1 January 2009, the date of transition to IFRS, was measured at its fair value. The fair value of property and equipment as at 1 January 2009 was defined as the amount for which they could be exchanged between knowledgeable willing parties. However, as property and equipment items were mostly specialized they were valued at their amortised recoverable cost. For each item of property and equipment, the recoverable amount was then adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence, in arriving at the fair value of the asset. The resulting adjustment was included in retained earnings as at 1 January 2009.

Property, plant and equipment acquired subsequent to 1 January 2009 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. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. 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.

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

3.4.2. Subsequent costs

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

3.4.3. Depreciation

Depreciation is calculated over the 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, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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;

Vehicles - 5-10 years;

Equipment and machinery - 5-35 years;

Fixtures and fittings - 5-10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.4.4. 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 production.

3.5. 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.

3.6. Leasing

3.6.1. 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.

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.

3.6.2. 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.

3.6.3. Operating lease

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

3.7. Intangible assets

3.7.1. Goodwill

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

Subsequent measurement

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

3.7.2. Patents and licences

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

3.7.3. Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks and licences 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 and licences over their estimated useful lives of 10 years.

3.7.4. Other intangible assets

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

3.7.5. Subsequent expenditure

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

3.7.6. Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, 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, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

3.8. 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 is accounted for as follows:

Raw materials: purchase cost on a weighted average basis.

Finished goods and work in progress: cost of direct materials and labor 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.

3.9. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets 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 groups of assets (the "cash-generating unit, 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. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. 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 units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10. Financial instruments - initial recognition and subsequent measurement

3.10.1. Financial assets

3.10.1.1. Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables. 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.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables.

3.10.1.2. 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.

3.10.1.3. 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.

3.10.2. Impairment of financial assets

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually 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 incurred, the amount of the loss is measured as the difference between the asset's 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 income statement.

The present value of the estimated future cash flows is discounted at the financial asset's 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.

3.10.3. Financial liabilities

3.10.3.1. Initial recognition and measurement

Financial liabilities 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.

3.10.3.2. 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 income statement.

3.10.3.3. 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 income statement.

3.10.4. 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.

3.10.5. Fair value

The Group's hold the financial instruments that are not traded in active markets. 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.

3.11. 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 method, less provision for impairment.

3.12. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks.

3.13. 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 method.

3.14. 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 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.

3.15. Borrowing costs

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

3.16. Share capital

3.16.1. Ordinary shares

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

3.17. Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

3.18. Provisions

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

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

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

3.19. Income tax

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

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

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

3.19.1. Current tax

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

3.19.2. Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests 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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

3.20. Revenue

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

3.20.1. Sale of goods

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

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

3.20.2. Rendering of services

Revenues from provision of services include revenue from hotel and tourist services. Revenue from rendering of services is recognised in the period the services are provided.

3.20.3. Interest income

Interest income 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 revenue is accrued using the effective interest rate method.

Interest income is classified as finance income.

3.20.4. Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3.21. Employee benefits

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

The Group contributes to the Pension Fund of the Russian Federation. The only obligation of the Group with respect to this defined contribution plan is to make specified contributions in the period in which they arise. These contributions are recognised in the consolidated statement of comprehensive income when employees have rendered services entitling them to the contribution.

3.22. Finance income and finance costs

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. 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 method.

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

Note 4. Adoption of new and revised International Financial Reporting Standards**4.1. Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)**

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

Standards affecting presentation and disclosure

Amendments to IAS 7 Statement of Cash Flows (as part of improvements to IFRSs issued in 2009)	The amendments states that only expenditures that result in recognising an asset can be classified as investing activities in the statement of cash flows.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of improvements to IFRSs issued in 2009)	The amendments clarify the requirements in respect of disclosure of non-current assets (disposal groups) classified as held for sale or discontinued operations.

Standards and Interpretations adopted with no effect on financial statements

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

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
Amendments to IFRS 2 Share-based Payment Group Cash-settled – Share-based Payment Transactions
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of improvements to IFRSs issued in 2008)
IAS 36 (amendment) Impairment of Assets
IAS 38 (amendment) Intangible Assets
IFRIC 17 Distribution of Non-cash Assets to Owners
IFRIC 18 Transfers of Assets from Customers

Standards and Interpretations issued, but not yet effective

	Standards & Interpretations	Effective date
IFRS 1	Limited Exemption from Comparative Disclosures for First-time Adopters	1 July 2010
IFRS 7	Disclosures - Transfers of Financial Assets	1 July 2011
IFRS 9 (as amended in 2010)	Financial Instruments	1 January 2013
IAS 24 (revised in 2009)	Related Party Disclosures	1 January 2011
Amendments to IAS 32	Classification of Rights Issues	1 February 2010
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

IFRS 1 First-time Adoption of International Financial Reporting Standards. IFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions in IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were amended to clarify that the disclosures need not be provided for: annual or interim periods, including any statement of financial position, presented with an annual comparative period ending before 31 December 2009; and any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.

IFRS 7 Disclosures Transfers of Financial Assets. The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

IAS 32 Classification of Rights Issues. The amendments address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.

IFRIC 14 Prepayments of a Minimum Funding Requirement. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

At present the Company evaluates the possible impact of these changes on its financial statements.

Note 5. Significant accounting judgments, estimates and assumptions

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

5.1. Estimates and assumptions

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

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. The assessment is based on the current condition of the assets and the

estimated period during which they will continue to bring economic benefit to the Group. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the profit and losses. The Group engaged independent valuation specialists to determine fair value as at 1 January 2009. The fair value of the investment property as at 31 December 2010 is estimated by the management of the Group and bases on analysis of market prices of the property depending on its location as well as other available information.

Impairment of assets excluding goodwill

The Group reviews the carrying amount of its fixed 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.

Operating lease commitments-group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Note 6. Financial risk management**Capital management**

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

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

Management of the Group analyzes regularly the ratio of net debt to capital involved to make sure the ratio is corresponded to international investment rating companies level in similar positions.

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

	31 December		1 January
	2010	2009	2008
Short-term borrowings and current portion of long-term borrowings	30,860	31,608	14,433
Long-term borrowings	10,553	3,470	6,383
Cash and cash equivalents	(2,937)	(1,246)	(352)
Net debt	38,476	33,832	20,464
Share capital	2,449	530	530
Reserves	58,040	52,959	52,848
Total capital	60,489	53,489	53,378
The ratio of net debt to capital, %	64%	63%	38%

The increase in gearing in 2009 refers to the growth in operating activity.

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 interest rate 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.

Managing foreign exchange risk

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

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

	Assets			Liabilities		
	31 December		1 January	31 December		1 January
	2010	2009	2009	2010	2009	2009
USD	213	60	728	5,611	13,991	3,656
Euro	21	29	163	31	256	413
Total	234	89	891	5,642	14,247	4,069

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

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

Changes in the Group profit before tax with the growth rates of the functional currencies of the Group companies in relation to USD and EURO at 5% are loss in the amount of 270 thousand USD (2009: 697 thousand USD; 2008: 146 thousand USD) and loss in the amount of 1 thousand USD (2009: 11 thousand USD; 2008: 12 thousand USD) respectively.

Managing interest rate risk

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

The Group's sensitivity to an increase or a decrease of fixed interest rate by 10% is the change of profit or loss by 527 thousand USD (2009: 426 thousand USD). The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that the amount of liabilities outstanding at the balance sheet date would remain outstanding in the following year.

Commodity price risk

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

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

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

Credit risk management

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

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

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

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

Liquidity risk management

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

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>6 months or less</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2010							
Bank loans and borrowings	41,413	(41,413)	(10,186)	(20,674)	(2,337)	(7,308)	(908)
Finance lease liabilities	49	(49)	(18)	(19)	(12)	-	-
Trade and other payables	9,243	(9,243)	(6,070)	(3,173)	-	-	-
	<u>50,705</u>	<u>(50,705)</u>	<u>(16,274)</u>	<u>(23,866)</u>	<u>(2,349)</u>	<u>(7,308)</u>	<u>(908)</u>
December 31, 2009							
Bank loans and borrowings	35,078	(35,078)	(811)	(30,797)	(2,678)	(792)	-
Finance lease liabilities	75	(75)	(12)	(13)	(50)	-	-
Trade and other payables	10,622	(10,622)	(6,373)	(4,249)	-	-	-
	<u>45,775</u>	<u>(45,775)</u>	<u>(7,196)</u>	<u>(35,059)</u>	<u>(2,728)</u>	<u>(792)</u>	<u>-</u>
January 1, 2009							
Bank loans and borrowings	20,816	(20,816)	(4,833)	(9,600)	(5,090)	(1,293)	-
Finance lease liabilities	33	(33)	(24)	(9)	-	-	-
Trade and other payables	5,855	(5,855)	(3,864)	(1,991)	-	-	-
	<u>26,704</u>	<u>(26,704)</u>	<u>(8,721)</u>	<u>(11,600)</u>	<u>(5,090)</u>	<u>(1,293)</u>	<u>-</u>

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

Note 7. Substantial acquisitions**7.1. Acquisitions during the period**

There were no acquisitions during the period.

7.2. Acquisition of prior period

On 22 May 2009 the Group acquired 100% of the trading company "Atrium" Ltd. with the aim to create the distribution network. This Company has extended experience and strong relationships with retail chains and regional wine traders.

Details of the fair value of identifiable assets and liabilities acquired and purchase consideration and Goodwill are as follows:

	Year ended 31 December 2009
Total consideration transferred in cash	(636)
The amount of cash and cash equivalents in the acquired entities	344
Acquisition of subsidiary, net of cash acquired	(292)
	Fair value at acquisition date
Cash and cash equivalents	343
Inventories	1,607
Trade and other receivables	1,445
Property, plant and equipment	13
Intangible assets	4
Deferred tax assets	137
Trade and other payables	(3,326)
Loans and borrowings	(440)
Other tax liabilities	(21)
Current provisions	(90)
Net identifiable assets	(328)
Fair value of the total consideration transferred (see above)	636
Resulting goodwill	964

The Group received the client base of "Atrium" Ltd. as part of the acquisition. This asset is not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts; it is not recognized separately from goodwill.

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

The fair value of trade and other receivables acquired in the business combination comprise of the gross contractual amounts receivable of 1,934 thousand USD and the best estimate at the acquisition date of the contractual cash flows not expected to be collected of 490 thousand USD.

The goodwill was fully impaired in 2009 as a result of impairment test.

7.3. Acquisitions that were effective after the end of the reporting period but before the financial statements are authorised for issue

Refer to Note 26 for the acquisitions that occurred after the end of reporting period.

Note 8. Revenue

	Year ended 31 December	
	2010	2009
Sale of sparkling wines produced	61,893	38,702
Sale of other goods	1,360	1,161
Public catering, hospitality and other services	1,233	556
Total	64,486	40,419

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

	Year ended 31 December	
	2010	2009
Cost of sales of sparkling wines produced		
Bulk wine, other raw materials	20,930	13,681
Employee benefits expenses	3,193	2,689
Repair and maintenance cost	1,367	681
Amortisation and depreciation	1,025	873
Utilities	233	5
Other expenses	321	255
Cost of goods sold	1,253	1,736
Cost of public catering, hospitality and other services		
Employee benefits expenses	839	380
Other expenses	535	7
Total	29,696	20,307
Selling and distribution expenses		
Employee benefits expenses	3,257	1,364
Advertising expenses	2,245	792
Transportation expenses	841	352
Rent expenses	766	894
Marketing expenses	370	-
Materials	271	180
Depreciation	121	58
Other expenses	233	453
Total	8,104	4,093
General and administrative expenses		
Employee benefits expenses	3,829	2,736
Taxes other than income tax	698	476
Depreciation and amortisation	559	336
Security expenses	511	428

Bank charges	482	512
Repairs and maintenance cost	321	131
Materials	435	266
Utilities	322	194
Consulting and other professional services	231	231
Travel expense	170	171
Rent expenses	168	152
Communication expenses	105	46
Other expenses	881	546
Total	8,712	6,225

Other general and administrative expenses include the impairment losses of inventory of 55 thousand USD (2009: nil) and the net loss of the fair value adjustment of investment property of 62 thousand USD (2009: nil).

Note 10. Finance income and finance costs

	Year ended 31 December	
	2010	2009
Foreign exchange loss/(gains), net	126	(154)
Interest expense on:		
loans and borrowings	5,453	4,163
finance lease liabilities	26	27
Total finance costs	5,605	4,036

Note 11. Other operating expenses

	Year ended 31 December	
	2010	2009
Charity	802	463
Loss on disposals of property, plant and equipment	82	125
Other expenses	541	74
Total other expenses	1,425	662

Note 12. Income taxes

	Year ended 31 December	
	2010	2009
Current tax expense	3,344	1,981
Current income tax charge	3,240	1,895
Tax penalties	104	86
Deferred tax expense	19	(425)
The amount of deferred tax expense/(income) relating to the origination and reversal of temporary differences	19	(425)
Total income tax expense	3,363	1,556

A reconciliation between tax expense and the accounting profit

	Year ended 31 December	
	2010	2009
Profit for the period before tax	10,944	4,132
Income tax using the Company's domestic tax rate 20%	2,189	826
<i>Increase/decrease due to the following factors:</i>		
Permanent differences arising from:		
Non-deductible expenses	1,140	1,146
Translation differences, net	(70)	(501)
Tax penalties	104	85
Income tax expense	3,363	1,556

Recognised deferred tax assets and liabilities

	1 January 2010	Purchased or disposed with subsidiaries	The amount of the deferred tax income or expense recognised in profit or loss	Foreign currency translation differences	31 December 2010
Recognised deferred tax assets attributable to the following elements:					
Inventories	110	-	214	(2)	322
Trade and other receivables	118	-	(26)	2	94
Property, plant and equipment	13	-	(14)	(1)	(2)
Tax losses carried forward	89	-	264	(16)	337
Provisions	221	-	(44)	(2)	175
Deferred tax assets	551	-	394	(19)	926
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	(498)	-	(450)	(66)	(1,014)
Property, plant and equipment	(16,690)	-	37	155	(16,498)
Deferred tax liabilities	(17,188)	-	(413)	89	(17,512)
Total deferred tax assets and liabilities	(16,637)	-	(19)	70	(16,586)

	1 January 2009	Purchased or disposed with subsidiaries	The amount of the deferred tax income or expense recognised in profit or loss	Foreign currency translation differences	31 December 2009
Recognised deferred tax assets attributable to the following elements:					
Inventories	10	-	96	4	110
Trade and other receivables	31	98	(2)	(9)	118
Property, plant and equipment	15	-	(2)	-	13
Tax losses carried forward	52	-	37	-	89
Other	44	39	146	(8)	221
Deferred tax assets	152	137	275	(13)	551
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	(655)	-	120	37	(498)
Property, plant and equipment	(17,197)	-	30	477	(16,690)
Deferred tax liabilities	(17,852)	-	150	514	(17,188)
Total deferred tax assets and liabilities	(17,700)	137	425	501	(16,637)

Note 13. Non-controlling interests (NCI)

	31 December		Year ended	31 December		Year ended	1 January	
	2010		2010	2009		2009	2009	
	Non-controlling interests (%)	NCI in the acquiree's identifiable net assets	Profit/(loss) for the period attributable to NCI	Non-controlling interests (%)	NCI in the acquiree's identifiable net assets	Profit/(loss) for the period attributable to NCI	Non-controlling interests (%)	NCI in the acquiree's identifiable net assets
CJSC "Abrau-Durso"	41%	(40,778)	(2,182)	41%	(38,900)	(1,258)	41%	(38,691)
LLC "Wine atelier Abrau-Durso"	41%	193	(6)	41%	190	195	-	-
LLC "Abrau-Durso territory"	41%	(42)	(44)	41%	23	22	41%	-
LLC "Service Abrau-Durso"	41%	164	149	41%	16	15	-	-
LLC "Vine Yards Abrau-Durso"	41%	-	-	41%	-	-	41%	-
LLC "Abrau-Durso Public Utilities"	41%	-	-	-	-	-	-	-
LLC "Center of Wine Tourism Abrau-Durso"	41%	-	-	-	-	-	-	-
Total		(40,463)	(2,083)		(38,671)	(1,026)		(38,691)

Note 14. Cash and cash equivalents

	31 December		1 January
	2010	2009	2009
Cash and bank balances - Russian Ruble	2,912	1,228	333
Cash and bank balances - foreign currency	9	10	9
Cash on hand	16	8	10
Cash and cash equivalents	2,937	1,246	352

Note 15. Trade and other receivables

	31 December		1 January
	2010	2009	2009
Trade receivables	24,208	24,192	12,891
Value-added tax reimbursable	548	129	58
Other taxes receivable	177	42	575
Other receivables	2,074	1,432	1,050
Total trade and other receivables	27,007	25,795	14,574
Allowance for doubtful debts	(499)	(632)	(157)
Total trade and other receivables - net	26,508	25,163	14,417

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

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

At 31 December 2010 the Group had 6 customers that cumulatively owed the Group more than 49% from whole receivables (2009: 55%; 2008: 90%).

Ageing of trade receivables past due but not impaired:

	31 December		1 January
	2010	2009	2009
Less 30 days	216	126	-
30-90 days	21,965	22,557	-
90-180 days	213	1,493	-
180-360 days	2,665	860	-
	25,059	25,036	-

Movement in the allowance for doubtful debts during 2009-2010 is as follows:

	Year ended 31 December	
	2010	2009
Balance at beginning of the year	632	157
Increase arising from subsidiaries acquisitions	-	490
Increase in allowance for doubtful debts	(129)	(10)
Foreign exchange translation gains and losses	(4)	(5)
Balance at end of the year	499	632

The following table discloses expected maturity the Group receivables:

	As at 31 December		1 January
	2010	2009	2008
Less than 90 days	23,390	24,803	13,659
90-180 days	2,566	242	625
180-360 days	552	118	133
	26,508	25,163	14,417

At 31 December 2010, 2009 and 2008 there were trade and other receivables pledged as collateral for loans and borrowings received.

Note 16. Inventories

	31 December		
	2010	2009	2008
Work in progress			
cuvée	12,406	9,742	6,252
tank wine	6,478	5,360	6,047
construction in progress	176	1,462	140
Raw materials and consumables	5,533	5,202	4,633
Finished goods			
bottled wine	1,440	1,597	822
residential property	2,845	-	-
Goods for resale	1,347	1,459	436
Others	1,770	887	512
Total	31,995	25,709	18,842

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

Cuvée is semi finished products of own manufacture, namely sparkling wine in bottles, produced under the traditional method (méthode champenoise). The operating cycle is equal to the period of ageing, which is about 1.5-3 years. Cuvée is classified as current assets though not the whole amount of it is expected to be realised within twelve months after the reporting period. At 31 December 2010 cuvée includes the amount of 10,601 thousand USD (2009: 8,148 thousand USD; 2008: 4,624 thousand USD), which is not expected to be realized within twelve months after the balance sheet date.

JSC «Abrau-Durso»

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

(In thousand USD unless otherwise stated below)

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

Additionally work in progress as at 31 December 2010 includes land plots under development (the building under construction, as at 31 December 2009).

At 31 December 2010 cuvée with the carrying value of 10,573 thousand USD (2009: 3,871 thousand USD; 2008: 4,483 thousand USD) was pledged to secure bank loans (Note 19).

Raw materials and consumables consist mainly of bulk wine.

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

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

Note 17. Property, plant and equipment

	Land	Buildings and constructions	Tunnels	Equipment and machinery	Other	Construction in progress	Total
<i>Cost</i>							
1 January 2010	5,469	17,204	66,521	10,879	1,331	2,934	104,338
<i>Additions</i>							
Additions	-	705	-	2,000	563	4,937	8,205
Transfers	-	2,762	72	1,391	-	(4,225)	-
<i>Disposals</i>							
Disposals	-	(72)	-	(113)	(19)	-	(204)
Exchange differences	(41)	(145)	(509)	(96)	(12)	(25)	(828)
31 December 2010	5,428	20,454	66,084	14,061	1,863	3,621	111,511
<i>Depreciation</i>							
1 January 2010	-	(480)	(144)	(833)	(205)	-	(1,662)
Depreciation charge for the year	-	(516)	(145)	(1,191)	(278)	-	(2,130)
Release on disposal	-	9	-	34	11	-	54
Exchange differences	-	6	1	11	3	-	21
31 December 2010	-	(981)	(288)	(1,979)	(469)	-	(3,717)
<i>Net book value</i>							
1 January 2010	5,469	16,724	66,377	10,046	1,126	2,934	102,676
31 December 2010	5,428	19,473	65,796	12,082	1,394	3,621	107,794

	Land	Buildings and constructions	Tunnels	Equipment and machinery	Other	Construction in progress	Total
Advances for property, plant and equipment							
1 January 2010	1,738	129	-	-	-	-	1,867
31 December 2010	-	305	-	-	-	-	305
Assets held under finance leases at net book value							
1 January 2010	-	-	-	-	124	-	124
31 December 2010	-	-	-	-	98	-	98

	Land	Buildings and constructions	Tunnels	Equipment and machinery	Other	Construction in progress	Total
Cost							
1 January 2009	5,597	17,116	67,731	9,326	1,169	1,388	102,327
<i>Additions</i>							
Acquired at Business combination	-	-	-	3	15	-	18
Additions	30	459	-	1,157	312	2,954	4,912
Transfers	-	93	693	647	-	(1,433)	-
<i>Disposals</i>	-	-	-	(65)	(141)	-	(206)
Exchange differences	(158)	(464)	(1,903)	(189)	(24)	25	(2,713)
31 December 2009	5,469	17,204	66,521	10,879	1,331	2,934	104,338
Depreciation							
1 January 2009							
Depreciation charge for the year	-	(459)	(138)	(807)	(213)	-	(1,617)
Release on disposal	-	-	-	9	17	-	26
Exchange differences	-	(21)	(6)	(35)	(9)	-	(71)
31 December 2009	-	(480)	(144)	(833)	(205)	-	(1,662)
Net book value							
1 January 2009	5,597	17,116	67,731	9,326	1,169	1,388	102,327
31 December 2009	5,469	16,724	66,377	10,046	1,126	2,934	102,676

	Land	Buildings and constructions	Tunnels	Equipment and machinery	Other	Construction in progress	Total
Advances for property, plant and equipment							
1 January 2009	-	185	-	-	-	-	185
31 December 2009	1,738	129	-	-	-	-	1,867
Assets held under finance leases at net book value							
1 January 2009	-	-	-	-	-	-	-
31 December 2009	-	-	-	-	124	-	124

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

Contractual commitments include the following amounts of future capital expenditures within signed contracts but expenditures are not accrued:

	31 December	
	2010	2009
Acquisition of property, plant and equipment	92	94
Expenditures for thorough overhaul, technical reequipment and reconstruction	277	1,830

As at 31 December 2010 land, buildings, vehicles, equipment and machinery carried at 18,540 thousand USD (2009: 23,039 thousand USD; 2008: 24,419 thousand USD) (Note 19) have been pledged to banks as collateral for loans.

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

Note 18. Trade and other payables

	31 December		1 January
	2010	2009	2008
Trade payables	8,277	6,477	3,117
Payroll payable	427	466	194
Advances received	34	698	-
Other accounts payable	539	3,679	2,544
Total	9,277	11,320	5,855

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

Note 19. Loans, borrowings and finance lease liabilities

	Currency	Weighted average rate	31 December		1 January
			2010	2009	2009
Long term					
Bank loans					
secured	RUR	19,75%	3,561	4,660	6,987
unsecured			-	-	-
Borrowings	RUR	13%-20%	7,353	-	1,644
inc. convertible bonds	RUR	20%	6,065	-	-
<i>Except of current portion of non-current bank loans and borrowings</i>			(361)	(1,190)	(2,248)
Total long term loans and borrowings			10,553	3,470	6,383
Short term					
Bank loans					
secured	RUR	8,45%-13%	18,473	15,430	12,185
unsecured			-	-	-
Borrowings	RUR, USD	7%-17%	12,026	14,988	-
Current portion of long term bank loans and borrowings			361	1,190	2,248
Total short term loans and borrowings and current portion of long term bank loans and borrowings			30,860	31,608	14,433
Total loans and borrowings			41,413	35,078	20,816

In February 2010 the Group has issued 43,000 convertible bonds by CJSC “Abrau-Durso” with the par value of 4,200 RUR per bond for the total amount of 180 600 thousand of RUR (6,065 thousand of USD). All of the above bonds have been acquired by SVL Agro Limited, the ultimate parent of the Group.

Each bond entitles the holder to convert to one ordinary share at a par value of 1,000 RUR. Conversion may occur at any time between the day of issue and the redemption day when all of the following conditions are met:

- The report on results of the issue of convertible bonds is registered with Federal Financial Markets Service

- The additional emission of ordinary shares is registered with the State Register
- The Issuer (CJSC “Abrau-Durso”) will not discharge the early settlement provision within 30 days

If the notes have not been converted, they will be redeemed on the 1,095th day after the issue.

The bonds are classified as financial liability as some of conversion conditions are not met at the reporting date.

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

	31 December		1 January
	2010	2009	2009
Property plant and equipment (Note 17)	18,540	23,039	24,419
Inventories (Note 16)	10,573	3,871	4,483
Total	29,113	26,910	28,902

Remaining maturity dates of loans and borrowings:

	31 December	2009	1 January
	2010	2009	2009
More than 1 but less than 2 years	1,050	9,003	6,552
More than 2 years	6,401	792	1,293
Total	7,451	9,795	7,845

Note 20. Other tax liabilities

	31 December		1 January
	2010	2009	2009
Value added tax	3,709	1,433	7
Excise tax	674	836	240
Property tax	126	90	93
Personal income tax and social security charge	113	93	84
Other	64	21	40
Total	4,686	2,473	464

Note 21. Finance lease liabilities

	31 December			31 December		
	2010		Present value of minimum lease payments	2009		Present value of minimum lease payments
Minimum lease payments	Interest expenses	Minimum lease payments		Interest expenses		
Not later than one year	49	12	37	51	26	25
Later than one year and not later than five years	13	1	12	63	13	50
	62	13	49	114	39	75

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

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

In 2010 the Group has not entered in new finance lease arrangements.

Note 22. Issued capital

In February 2010 the authorized share capital was increased to 153,500,000 RUR. 600,000 shares were issued and fully paid during the year.

	31 December		
	2010	2009	2008
	Number of shares	Number of shares	Number of shares
Authorised for issue shares	1,535,000	270,000	270,000
Issued and fully paid shares	735,000	135,000	135,000
Par value of 1 ordinary share, RUR	100	100	100

Note 23. Subsidiaries

The financial statements of subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

The consolidated financial statements as at 31 December 2010 and for the year then ended comprise the financial statements of the following entities:

Name	Country of incorporation	Principal activity	As at 31 December, % holding		
			2010	2009	2008
JSC "Abrau-Durso"	Russian Federation	Parent	n/a	n/a	n/a
CJSC "Abrau-Durso"	Russian Federation	Production	59	59	59
"Atrium" Ltd.	Russian Federation	Trading	100	100	-
JSC "Wine atelier Abrau-Durso"	Russian Federation	Retail trading	59	59	-
Fund for the revival of traditions of winemaking "Heritage of Abrau-Durso"	Russian Federation	Revival of traditions of winemaking	59	59	-
"Service Abrau-Durso Limited"	Russian Federation	Public catering, hotel services	59	59	-
LLC "Abrau-Durso territory"	Russian Federation	Development	84	59	59
Vine Yards Abrau-Durso Limited	Russian Federation	Agriculture	59	59	59
LLC Abrau-Durso Public Utilities	Russian Federation	Public utilities	59	59	-
CJSC Vino ER EF	Russian Federation	Tourism	59	59	-
LLC Center of Wine Tourism Abrau-Durso	Russian Federation	Tourism	59	59	-

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

In March 2010 60% of shares in LLC Territoriya Abrau-Durso were transferred from CJSC Abrau-Durso to JSC Abrau-Durso, as a result the effective share of the Group in this subsidiary has increased to 84%.

On 1 September 2010 CJSC Abrau-Durso established two subsidiaries: LLC Abrau-Durso Public Utilities and LLC Center of Wine Tourism Abrau-Durso. The equity of each company is 10,000 RUR (0.3306 thousand of USD). The Group's share in the above companies is 59%.

Note 24. Related party transactions

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

The ultimate parent company

SVL Agro Limited

Entities under control of the ultimate controlling party

Express Capital Limited

SOLVALUB (Cyprus) Ltd

SOLVALUB Trading Limited

SNRG Logistics & Trade Limited

Other related party

Kraievoe Gosudarstvennoe Unitarnoe Predpriyatie Abrau-Durso ('KGUP')

i). Transactions carried out with related parties:

Sales of goods or rendering of services

	Year ended 31 December	
	2010	2009
KGUP	265	342
	<u>265</u>	<u>342</u>

Purchases of goods or receiving of services

	Year ended 31 December	
	2010	2009
SOLVALUB (Cyprus) Ltd	232	764
KGUP	1,465	1,261
	<u>1,697</u>	<u>2,025</u>

Other transactions

	Year ended 31 December	
	2010	2009
Finance costs	690	1,258

Finance costs consist mainly from the interest expenses on the loans taken by LLC "Abrau-Durso territory" from SNRG Logistics & Trade Limited (2009: finance costs consisted mainly from the interest expenses on the loans taken by CJSC Abrau-Durso from SNRG Logistics & Trade Limited and SOLVALUB (Cyprus) Ltd).

ii). Balances with related parties:

The amount of outstanding balances

	31 December		1 January
	2010	2009	2009
Trade and other receivables	1,710	1,412	1,085
Advances paid and prepaid expenses	1,638	879	434
Loans and borrowings	(19,378)	(14,888)	(1,644)
Trade and other payables	(24)	(3,105)	(2,426)
	<u>(16,054)</u>	<u>(15,702)</u>	<u>(2,551)</u>

The amount of outstanding balances with related parties

Name of related party	31 December		1 January
	2010	2009	2009
SVL Agro Limited			
Loans and borrowings	(6,065)	-	-
Trade and other payables	-	(1,971)	(2,029)
SOLVALUB (Cyprus) Ltd			
Loans and borrowings	-	-	(1,644)
Trade and other payables	(19)	(602)	-
SOLVALUB Trading Limited			
Trade and other payables	-	(70)	-
SNRG Logistics & Trade Limited			
Loans and borrowings	(13,313)	(14,776)	-
KGUP			
Trade and other receivables	1,680	1,408	1,081
Advances paid and prepaid expenses	1,638	879	434
Other related parties			
Trade and other receivables	30	4	4
Loans and borrowings	-	(112)	-
Trade and other payables	(5)	(462)	(397)
Total:	<u>(16,054)</u>	<u>(15,702)</u>	<u>(2,551)</u>

Key management personnel compensation

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

During 2010 year wages and salaries were accrued to key management in the amount of 1,064 thousand USD (2009: 550 thousand USD). There were no other transactions with key management.

	Year ended 31 December	
	2010	2009
Wages and salaries accrued	1,035	550
Other	29	-
	<u>1,064</u>	<u>550</u>

Related parties are primarily involved in sales and purchases of services, which are made at normal market prices. There are no guarantees provided or received for any related party receivables or payables. The Group has not recorded any impairment of receivables relating to amounts owed by related parties.

Note 25. Contingent liabilities

Business conditions in the Russian Federation

Russian Federation economy has some features of developing economy, namely high level of inflation. The global financial crisis has influenced Russian economy: business activity has declined, oil prices have decreased and ruble has been devaluated. Management of the Company is unable to forecast all tendencies which could influence on Russian economy development and Company's financial position in future.

Legal claims

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on results of operations or financial position of the Group.

Taxation

The tax system of the Russian Federation is developing at the moment. Tax legislation changes often, official statements of legislative authorities may contain vague and contradictory points and may be interpreted differently by tax authorities. Calculation of taxes can be audited by tax authorities that in accordance with legislation are able to impose penalties on taxpayers. Tax authorities may audit calculation of taxes for the period of three years preceding the current year, although in some cases this period can be extended.

Recent events indicate that tax authorities have started to take a stricter position toward compliance of tax payers with tax legislation. As a result the tax risks in the Russian Federation may be much higher than in other countries.

In accordance with their interpretation of tax legislation, official statements of authorities and court decisions management of a company might presume that all tax liabilities are calculated and accrued correctly. At the same time tax authorities may have another interpretation of tax legislation, official statements of authorities and court decisions and in cases where they use their own interpretation of the aforementioned prevailing legislation, this may have a significant effect on the consolidated statement of financial position and consolidated statement of comprehensive income in accordance with IFRS.

With regard to situations where clarity with respect to tax payment practice is lacking, management estimated the probable tax risks at 31 December 2010 in the amount of 125 thousand of USD (2009: 535 thousand of USD; 2008: nil). These amounts were accrued in the consolidated financial statements at corresponding reporting dates.

Operating lease

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

Environment

Company in force regularly conducts revaluation of its environmental obligations in accordance with the legislation. Liabilities associated with the above obligations are recognized in the Group's Financial

Statement at the moment when they appear. Potential liabilities which could appear as a result of changes in current legislation could not be measured reliably, but they could be material. With the existent internal control system the management of the Company believes that there are no material liabilities in respect of environmental damage which are not shown in financial statements.

Note 26. Events after the reporting period

In March 2011 CJSC "Abrau-Durso" received bank loan in total amount of 100,000 thousand RUR (3,526 thousand USD).

In March 2011 the Company received loan in total amount of 100,000 thousand RUR (3,526 thousand of USD) from the related party SNRG Logistics & Trade Limited.

In April 2011 the Company established subsidiary Limited Liability Company «Trade House «Abrau» («TH «Abrau» LLC). The equity of the new established subsidiary is 10,000 thousand of RUR (357 thousand of USD). The Group's share in the above company is 99.999 %.

In June 2011 the term of license to produce, storage and supply sparkling wines issued to CJSC "Abrau-Durso" was extended.

In July 2011 the license to purchase, storage and supply of spirits, given to "Atrium" Ltd., expired.

In July 2011 TH «Abrau» LLC obtained the license to storage and supply of spirits.

In July 2011 the Company acquired 74 977 (41%) shares of CJSC "Abrau-Durso". As a result of this transaction the Group's share in CJSC "Abrau-Durso", JSC "Wine atelier Abrau-Durso", Fund for the revival of traditions of winemaking "Heritage of Abrau-Durso", "Service Abrau-Durso Limited", LLC "Abrau-Durso territory", Vine Yards Abrau-Durso Limited, LLC Abrau-Durso Public Utilities, CJSC Vino ER EF, LLC Center of Wine Tourism Abrau-Durso increased to 100%.

In July 2011 share capital of LLC Abrau-Durso Public Utilities was increased to 10,000 thousand RUR (357 thousand USD).