Abrau-Durso Group

Preliminary consolidated financial statements for the year ended 31 December 2009

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Tel: +7 495 797 56 65
Fax: +7 495 797 56 60
reception@bdo.ru
www.bdo.ru

Section 11, Build. 1,
125, Warshavskoe shosse,
Moscow, 117587, Russia

Independent Auditor's Report

To the Shareholders and the Board of Directors of Abrau-Durso Group

We have audited the accompanying preliminary consolidated financial statements of Abrau-Durso Group (the Group), which comprise the preliminary consolidated statement of financial position as at 31 December 2009, and the preliminary consolidated statement of comprehensive income, preliminary consolidated statement of changes in equity and preliminary consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

These preliminary consolidated financial statements have been prepared by management of the Group in accordance with International Financial Reporting Standards as a comparative financial information to consolidated financial statements of Abrau-Durso Group, that are to be prepared in compliance with International Financial Reporting Standards as at 31 December 2010. Date of transition from national accounting standards to International Financial Reporting Standards is 1 January 2009.

Management is responsible for the preparation and fair presentation of these preliminary consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on this preliminary 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 whether the preliminary consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the preliminary consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the preliminary 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 preliminary 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 preliminary consolidated financial statements.

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

Basis for qualified opinion

The Group did not disclose the name of its ultimate controlling party. This disclosure is required by IAS 24 "Related party disclosures".

Qualified opinion

In our opinion, except for the effect on the accompanying preliminary consolidated financial statements of the matter and omission described above, the preliminary consolidated financial statements prepared as a comparative financial information to consolidated financial statements of Abrau-Durso Group that are to be prepared in compliance with International Financial Reporting

Standards as at 31 December 2010, present fairly, in all material respects the financial position of Abrau-Durso Group as at 31 December 2009, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Audit Engagement Partner

Viktoria Salamatina

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12 November 2010

Moscow, Russia

Abrau-Durso Group
Preliminary consolidated statement of comprehensive income for the year ended 31 December 2009
(In thousands of USD)

	Notes	Year ended 31 December 2009
Revenue	8	40,695
Cost of sales	9	(19,927)
Gross profit		**20,768**
Selling and distribution expenses	9	(3,926)
General and administrative expenses	9	(6,537)
Other operating expenses	11	(921)
Operating profit		**9,384**
Finance income/costs, net	10	(4,074)
Profit before income tax		**5,310**
Income tax expenses	12	(1,561)
Profit for the year		**3,749**
Other comprehensive income:		
Foreign currency translation differences		(2,550)
Total comprehensive income		**1,199**
Profit for the year attributable to		
Owners of the Company		2,664
Non-controlling interest	13	1,085
Total comprehensive income attributable to		
Owners of the Company		1,164
Non-controlling interest	13	35

Approved and signed on behalf of the management of the Group

Pavel Titov

12 November 2010

Moscow, Russia

Abrau-Durso Group
Preliminary consolidated statement of financial position at 31 December 2009
(In thousands of USD)

	Notes	31 December 2009	2008
Assets			
Current assets			
Cash and cash equivalents	14	1,246	353
Inventories	16	25,708	18,842
Trade and other receivables	15	25,132	14,417
Advances to suppliers		2,234	1,417
Other financial assets		-	75
Total current assets		**54,320**	**35,104**
Non-current assets			
Property, plant and equipment	17	104,949	102,643
Goodwill	7	965	-
Intangible assets		43	43
Deferred tax assets	12	514	144
Other non-current assets		707	724
Total non-current assets		**107,178**	**103,554**
Total assets		**161,498**	**138,658**
Equity and liabilities			
Current liabilities			
Trade and other payables	18	10,967	5,753
Loans and borrowings	19	32,252	15,039
Income tax payable		845	585
Other taxes liabilitiy	20	2,439	464
Provisions		784	54
Financial lease liability	21	25	33
Total current liabilities		**47,312**	**21,928**
Non-current liabilities			
Loans and borrowings	19	3,470	6,383
Deffered tax liabilities	12	17,331	18,000
Other long-term payables		-	211
Finance lease liability	21	50	-
Total non-current liabilities		**20,851**	**24,594**

(In thousands of USD)

		31 December	
	Notes	**2009**	**2008**
Equity			
Ordinary shares	22	21	21
Foreign currency translation reserve		(1,500)	-
Retained earnings		55,842	53,178
Equity attributable to owners of the Group		**54,363**	**53,199**
Non-controlling interest	13	38,972	38,937
Total equity		**93,335**	**92,136**
Total equity and liabilities		**161,498**	**138,658**

Approved and signed on behalf of the management of the Group

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Pavel Titov

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12 November 2010

Moscow, Russia

Abrau-Durso Group
Preliminary consolidated statement of cash flows for the year ended 31 December 2009
(In thousands of USD)

	Notes	Year ended 31 December 2009
Cash flows from operating activities		
Receipts from customers		36,503
Payments to suppliers		(29,062)
Payments to employees		(6,102)
Payments taxes		(7,421)
Cash generated from operations		**(6,082)**
Interest paid		(2,853)
Income tax paid		(601)
Net cash flows from operating activities		**(9,536)**
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	7	156
Purchases of property, plant and equipment		(2,832)
Sale of property, plant and equipment		158
Proceeds from repayment of loans issued		70
Net cash flows from investing activities		**(2,448)**
Cash flows from financing activities		
Proceeds from loans and borrowings		27,003
Repayment of loans and borrowings		(14,043)
Payment of finance lease liabilities		(130)
Net cash flows from financing activities		**12,830**
Net increase in cash and cash equivalents		846
Cash and cash equivalents at beginning of year		353
Foreign currency translation differences		47
Cash and cash equivalents at end of year		**1,246**

Abrau-Durso Group
Preliminary consolidated statement of changes in equity for the year ended 31 December 2009
(In thousands of USD)

	Attributable to equity holders of the Group					
	Ordinary shares	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	**21**	**-**	**53,178**	**53,199**	**38,937**	**92,136**
Profit for the period			2,664	**2,664**	1,085	**3,749**
Changes in foreign currency translation reserve		(1,500)		**(1,500)**	(1,050)	(2,550)
Total comprehensive income/(loss) for the period	**-**	**(1,500)**	**2,664**	**1,164**	**35**	**1,199**
Balance at 31 December 2009	**21**	**(1,500)**	**55,842**	**54,363**	**38,972**	**93,335**

Note 1. General information

These preliminary consolidated financial statements of Abrau-Durso Group comprise the parent company SVL Agro Limited ('SVL Agro Limited' or 'the Company') and its subsidiaries (collectively 'the Group') as listed in Note 23.

SVL Agro Limited was incorporated in Cyprus on 26 August 2005 as a Limited Liability Company under the Companies Law, Cap.113. The address of the Company's registered office is in Theklas Lyssioti, 29, Cassandra Centre, 2nd floor Flat/Office 201-202, P.C. 3030 Limassol, Cyprus.

The parent company of the Company is Express Capital Limited.

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

Statement of compliance

For all periods up to and including the year ended 31 December 2009, the Group prepared their financial statements in accordance with locally accepted accounting practice.

These preliminary consolidated financial statements have been prepared following the requirements of IFRS I First-time Adoption of International Financial Reporting Standards for the future adoption of IFRS. When the Group prepares its first complete set of IFRS consolidated financial statements, as of and for the year ended 31 December 2010, they will be prepared in accordance with the Standards and Interpretations in effect as of that date.

Accordingly these preliminary consolidated financial statements, which are intended to form the comparative information in the Group's first complete set of IFRS consolidated financial statements, have been prepared by management using the accounting policies expected to be applied in the Group's first complete set of IFRS consolidated financial statements. Any changes to such accounting policies may require adjustment to these preliminary IFRS consolidated financial statements before they comprise such comparative information.

In preparing these preliminary 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.

The Group has elected to apply the following optional exemptions from full retrospective application:

(a) ***Business combinations exemption.*** The Group has applied the business combinations exemption in IFRS 1. The Group has not restated business combinations that took place prior to the 1 January 2009 transition date.

(b) ***Fair value as deemed cost exemption.*** The Group has elected to measure items of property, plant and equipment at fair value at 1 January 2009.

(c) ***Cumulative translation differences exemption.*** The Group has elected to set the previous cumulative currency translation reserve to zero at 1 January 2009. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

(d) ***Derecognition of financial assets and liabilities exception.*** Financial assets and liabilities derecognised before 1 January 2009 are not re-recognised under IFRS. Management did not choose to apply the IAS 39 derecognition criteria from an earlier date.

(e) ***Hedge accounting exception.*** The Group does not apply hedge accounting.

(f) ***Estimates exception.*** Estimates under IFRS at 1 January 2009 and 31 December 2009 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error.

Management draws attention to the fact that these preliminary consolidated financial statements do not constitute a complete set of financial statements in accordance with IFRS, as they do not contain comparative financial information and accordingly they do not provide a fair presentation of the

Group financial position, results of operations and cash flows in accordance with IFRS, which can be achieved only by a complete set of financial statements with comparative financial information.

IFRS 1 requires a first-time adopter to disclose reconciliations that give sufficient details to enable users to understand the material adjustments to the balance sheet and requires specific reconciliations of equity reported under previous accounting principles to its equity under IFRS. No reconciliation is presented in these notes to the preliminary consolidated financial statements because IFRS are the primary accounting principles for the Company and, as a result, the Group did not have consolidated equity under previous accounting principles at 1 January 2009.

Note 3. Significant accounting policy

3.1. Consolidation

3.1.1. Basis of consolidation

The preliminary consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to 31 December 2009 after eliminations of intercompany transactions and balances.

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, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

3.1.2. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer measures the noncontrolling interest in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed.

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.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group’s 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.

3.1.3. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the amount of consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

(In thousands of USD unless otherwise stated below)

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, 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 all subsidiaries of the Group, except for the Company. The functional currency of the Company is US Dollar.

The presentation currency of the preliminary consolidated financial statements of the Group is US Dollar ("USD"), as USD is more relevant presentation currency for international users of the preliminary 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 preliminary consolidated financial statements were as follows:

	2009	2008
Russian Rouble / US Dollar		
31 December	30.2442	29.3804
Average rate for the year ended	31.5929	-
Russian Rouble / Euro		
31 December	43.3883	41.4411
Average rate for the year ended	44.1987	-

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 valuated 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. Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

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 are accounted for as follows:
Raw materials: purchase cost on a weighted average basis.

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

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

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

3.9. 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 fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

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.

3.16.2. Dividends 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.

3.17. 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.

3.18. 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.

3.18.1. 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.

3.18.2. 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 and associates, and interests in joint ventures, 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.

3.19. 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.

3.19.1. 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.

3.19.2. 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.

3.19.3. 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.

3.19.4. 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.

3.20. 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.

3.21. 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

The following new and amended IFRIC are mandatory for the accounting periods beginning on or after 1 January 2009 but are not relevant for the Group:

IFRIC 12, Service Concession Agreements effective for annual reporting periods beginning on or after 1 January 2008.

IFRIC 13, Customer Loyalty Programs effective for annual reporting periods beginning on or after 1 January 2008.

IFRIC 14 IAS 19, The Limit on a Defined Benefit Asset(s), Minimum Funding Requirements and their Interaction effective for annual periods beginning on or after 1 January 2008.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement. This Interpretation is not applied for any other hedges and will not have an impact on the Group's financial statements.

The following standards were early adopted by the Group:

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 July 2009). The Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11, Construction Contracts or IAS 18, Revenue and when revenue from the construction should be recognised. The main expected change in practice is a shift for some entities from recognising revenue using the percentage of completion method (i.e. as construction progresses, by reference to the stage of completion of the development) to recognising revenue at a single time (i.e. at completion upon or after delivery).

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer may have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

IAS 1 Presentation of Financial Statements (revised in September 2007, to be effective for annual periods beginning on or from January 1, 2009). The major change in IAS 1 is that a Profit and Loss Statement is to be replaced by a statement of comprehensive income that will also include all changes in its equity, that are not immediately attributed to participants (e.g., revaluation of financial assets available for sale). Companies will have an opportunity to present information in an alternative format: a statement of comprehensive income may be presented along with an income statement. Revised IAS 1 also requires an entity to include in its set of financial statements an opening statement of financial position for the earliest of the comparable periods in case any reclassification, accounting policy changes or corrections took place. The revised IAS 1 has affected the presentation of financial statements; however, it should not influence recognition or assessment of individual transactions or balances. The Group has adopted these amendments effective 1 January 2008.

IAS 23 (Amendment), Borrowing costs (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after July 1, 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The amendments have impacted the presentation of the financial statements.

IAS 40 (Amendment), Investment property (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

The following interpretations are to be adopted in 2009 but they are not supposed to significantly affect the Group’s financial statements:

IAS 16 (Amended) “Property, plant and equipment”

IAS 20 (Amended) “Accounting for Government Grants and Disclosure of Government Assistance”

IAS 28 (Amended) “Investments in Associates”

IAS 31 (Amended) “Interest in Joint Ventures”

IAS 32 (Amended) “Financial Instruments: Presentation”

IAS 36 (Amended) “Impairment of Assets”

IAS 38 (Amended) “Intangible Assets”

IFRS 1 (Amended) “First-time Adoption of International Financial Reporting Statements”

(In thousands of USD unless otherwise stated below)

IFRS 5 (Amended) “Non-current Assets Held for Sale and Discontinued Operations”

IFRS 7 (Amended) “Financial instruments: Disclosures”

IFRS 8 “Operating segments”

IFRIC 13 “Customer Loyalty Programmes”

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”

IFRIC 18 “Transfers of Assets from Customers”

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 2 (revised) “Share-based Payment” – Group Cash-settled Share-based Payment Transactions	January 1, 2010
IAS 24 (revised) “Related Party Disclosures”	January 1, 2011
IFRS 9 “Financial Instruments”	January 1, 2013
IFRIC 17 “Distributions of Non-Cash Assets to Owners”	July 1, 2009
IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”	July 1, 2010
Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Eligible Hedged Items	July 1,2009
Amendment to IAS 32 “Financial Instruments: Presentation”	February 1, 2010
Amendments to IFRIC 14/IAS 19 “Prepayments of a Minimum Funding Requirement”	January 1, 2011
Amendments to standards following April 2009 “improvements to IFRS” project (separate transitional provisions for each standard)	n/a

The impact of adoption of these standards and interpretations in the preparation of the preliminary consolidated financial statements in future periods is currently being assessed by the management.

Note 5. Significant accounting judgments, estimates and assumptions

The preparation of the Group’s preliminary 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 2009 is estimated by the management of the Group and bases on analysis of market prices of the property depending on it's location as well as other available information.

Impairment of assets excluding goodwill

The Group reviews the carrying amount of its 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 necessary applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash generating units, and also in estimating the timing and value of the underlying cash flows within the value-in-use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Impairment of goodwill

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

Allowance for doubtful debts

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

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

Note 6. Financial risk management

Capital management

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

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

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	
	2009	**2008**
Short-term borrowings and current portion of long-term borrowings	32,252	15,039
Long-term borrowings	3,470	6,383
Cash and cash equivalents	(1,246)	(353)
Net debt	**34,476**	**21,069**
Share capital	21	21
Reserves	53,775	52,611
Total capital	**53,796**	**52,632**
The ratio of net debt to capital, %	64%	40%

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.

(In thousands of USD unless otherwise stated below)

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

	Assets		Liabilities	
	31 December		31 December	
	2009	2008	2009	2008
USD	59	718	16,478	5,870
Euro	20	114	177	289
Total	**79**	**832**	**16,655**	**6,159**

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 currency 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 821 thousands of USD (2008: 258 thousands of USD) and loss in the amount of 8 thousands of USD (2008: 9 thousands of 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 285 thousands of 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:

(In thousands of USD unless otherwise stated below)

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
December 31, 2009						
Bank loans and borrowings	35,722	(35,722)	(811)	(31,441)	(2,678)	(792)
Finance lease liabilities	75	(75)	(12)	(13)	(50)	-
Trade and other payables	10,261	(10,261)	(6,115)	(4,146)	-	-
	46,058	**(46,058)**	**(6,938)**	**(35,600)**	**(2,728)**	**(792)**
December 31, 2008						
Bank loans and borrowings	21,422	(21,422)	(4,833)	(10,206)	(3,691)	(2,692)
Finance lease liabilities	33	(33)	(24)	(9)		
Trade and other payables	5,753	(5,753)	(3,798)	(1,955)	-	-
	27,208	**(27,208)**	**(8,655)**	**(12,170)**	**(3,691)**	**(2,692)**

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.

(In thousands of USD unless otherwise stated below)

7.1. Acquisitions during the period

7.1.1. Acquisitions of subsidiaries during the period

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

7.1.2. Summary of financial information

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	(186)
Contingent consideration arrangement	(450)
The amount of cash and cash equivalents in the acquired entities	343
Acquisition of subsidiary, net of cash acquired	**(293)**

	Fair value at acquisition date
Cash and cash equivalents	343
Inventories	1,607
Trade and other receivables	1,444
Property, plant and equipment	13
Intangible assets	4
Deferred tax assets	137
Trade and other payables	(3,326)
Loans and borrowings	(440)
Other taxes liabilitiy	(21)
Current provisions	(90)
Net identifiable assets	**(329)**
Fair value of the total consideration transferred (see above)	636
Resulting goodwill	**965**

The Group received the client base of LLC Atrium 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 USD 1,934 and the best estimate at the acquisition date of the contractual cash flows not expected to be collected of USD (490).

7.1.3. Contingent consideration

As part of the purchase agreement with the previous owner of LLC Atrium, a contingent consideration has been agreed. There will be additional cash payments due to the previous owner of LLC Atrium of 907 thousand of USD, if the entity collects bad debts and makes offsetting of accounts payable.

(In thousands of USD unless otherwise stated below)

As at date of preparing these preliminary financial statements most of the above requirements were accomplished. The Management does not expect material changes in the amount of consideration.

The Group will pay the additional amount of 450 thousands of USD before the end of the year 2010.

7.2. Acquisition of prior period

The preliminary consolidated financial statements at 31 December 2009 and for the year then ended are prepared by the Group using IFRS in accordance with the guidance prescribed by IFRS 1 “First-time adoption of International Financial Reporting Standards”. In accordance with IFRS 1, Appendix C “Exemptions for business combinations” a first-time adopter may elect not to apply IFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). In respect of this, the Group has not restated business combinations that took place prior to the 1 January 2009 transition date.

In accordance with the purchase and sale contract dated 14 July 2008 107,023 shares of CJSC Abrau-Durso in the total of 56,612 thousands of rubles were acquired.

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 2009
Sale of sparkling wine	39,272
Public catering	408
Other	1,015
Total	**40,695**

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

	Year ended 31 December 2009
Cost of sales	
Bulk wine, other stores and raw materials	15,589
Employee benefits expenses	2,089
Amortisation and depreciation	842
Taxes	501
Repair and maintenance	466
Utilities	193
Other	247
Total	**19,927**

(In thousands of USD unless otherwise stated below)

Selling and distribution expenses	
Employee benefits expenses	1,364
Advertising expenses	792
Rent expenses	726
Transportation expenses	352
Repair and maintenance expense of PP&E	299
Materials	180
Depreciation	58
Other	155
Total	**3,926**

General and administrative expenses	
Employee benefits expenses	2,740
Bank charges	512
Taxes other than income tax	819
Consulting and other professional services	576
Repairs and maintenance	432
Depreciation	320
Materials	213
Business trip	171
Rent expenses	152
Legal and audit services	71
Communication expenses	46
Transportation expenses	45
Insurance	37
Other	403
Total	**6,537**

Note 10. Finance income and finance costs

	Year ended 31 December
	2009
Foreign exchange gains, net	154
Interest expense on:	
loans and borrowings	(4,201)
finance lease liabilities	(27)
Total finance costs	**(4,074)**

(In thousands of USD unless otherwise stated below)

Note 11. Other expenses

	Year ended 31 December 2009
Charity	463
Loss on disposals of property, plant and equipment	137
Other expenses	321
Total other expenses	**921**

Note 12. Income taxes

Income tax expenses

	Year ended 31 December 2009
Current tax expense	**1,935**
Current income tax charge	1,850
Tax Penalties	85
Deferred tax expense	**(374)**
The amount of deferred tax expense/(income) relating to the origination and reversal of temporary differences	(374)
Total income tax expense	**1,561**

(In thousands of USD unless otherwise stated below)

Recognised deferred tax assets and liabilities

	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	-	100	4	114
Trade and other receivables	31	98	(2)	(1)	126
Advances paid and prepaid expenses	31	21	29	-	81
Property, plant and equipment	14	-	-	-	14
Provisions	6	18	62	3	89
Tax losses carried forward	52	-	38	-	90
Deffered tax assets	**144**	**137**	**227**	**6**	**514**
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	(661)	-	114	25	(522)
Property, plant and equipment	(17,339)	-	33	497	(16,809)
Deffered tax liabilities	**(18,000)**	**-**	**147**	**522**	**(17,331)**
Total deffered tax assets and liabilities	**(17,856)**	**137**	**374**	**528**	**(16,817)**

(In thousands of USD unless otherwise stated below)

A reconciliation between tax expense and the accounting profit

	Year ended 31 December 2009
Profit for the period before tax	**5,310**
Income tax expense calculated at 20%	1,062
Increase/decrease due to the following factors:	
Effect of tax rates in foreign jurisdictions	(5)
Permanent differences arising from:	
Non-deductible expenses	947
Translation differences, net	(528)
Tax penalties	85
Income tax expense recognised in profit	**1,561**

The Group operates in the Russian Federation; consequently the Russian tax rate of 20% was used for the reconciliation.

The Company as a stand alone legal entity registered in Cyprus is subject to corporation tax on taxable profit at the rate of 10%.

(In thousands of USD unless otherwise stated below)

Note 13. Non-controlling interests (NCI)

	31 December		Year ended 31 December	31 December	
	2009		2009	2008	
	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%	39,134	1,253	41%	38,937
LLC "Wine atelier Abrau-Durso"	41%	(92)	(101)		
LLC "Abrau-Durso territory"	41%	(59)	(56)	41%	-
LLC "Service Abrau-Durso"	41%	(12)	(12)		
LLC "Vine Yards Abrau-Durso"	41%	-	-	41%	-
Total		**38,971**	**(1,084)**		**38,937**

(In thousands of USD unless otherwise stated below)

Note 14. Cash and cash equivalents

	31 December	
	2009	2008
Cash and bank balances – Russian Ruble	1,236	343
Cash and bank balances – foreign currency	2	-
Short-term deposits	8	10
Cash and cash equivalents	**1,246**	**353**

Note 15. Trade and other receivables

	31 December	
	2009	2008
Trade receivables	24,191	12,189
Value-added tax reimbursable	89	58
Other taxes receivable	43	575
Other receivables	1,441	1,752
Total trade and other receivables	**25,764**	**14,574**
Allowance for doubtful debts	(632)	(157)
Total trade and other receivables - net	**25,132**	**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 2009 the Group had 6 customers that cumulatively owed the Group more than 55% from whole receivables (2008: 90%).

Ageing of trade receivables past due but not impaired:

	31 December
	2009
Less 30 days	126
30-90 days	22,557
90-180 days	1,493
180-360 days	860
	25,036

(In thousands of USD unless otherwise stated below)

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

	Year ended 31 December
	2009
Balance at beginning of the year	157
Increase arising from subsidiaries acquisitions	490
Amounts written off during the year as uncollectible	(10)
Foreign exchange translation gains and losses	(5)
Balance at end of the year	**632**

The following table details the Group’s expected maturity for its receivables:

	As at 31 December	
	2009	2008
Less than 90 days	24,772	13,659
90-180 days	241	625
180-360 days	119	133
	25,132	**14,417**

At 31 December 2009 and 2008 trade and other receivables have not been pledged as collateral for loans and borrowings received.

Note 16. Inventories

	31 December	
	2009	2008
Work in progress		
cuvée	9,742	6,252
reservoir’s champagne	5,508	6,047
building under construction	1,314	140
Raw materials and consumables	6,002	5,066
Finished goods	1,590	822
Goods for resale	1,467	436
Others	85	79
Total	**25,708**	**18,842**

Work in progress is divided into: cuvee, reservoir’s champagne and building under construction

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 2009 cuvée includes the amount of 8,148 thousands of USD (2008: 4,624 thousands of USD), which is not expected to be realized within twelve months after the balance sheet date.

Reservoir’s champagne is sparkling wine under the secondary fermentation in bulk tanks. The average period of ageing lasts up to three months.

Also work in progress includes the building under construction, in particular the residential property for sale.

At 31 December 2009 cuvée with the carrying value of 3,871 thousands of USD (2008: 4,483 thousands of USD) was pledged to secure bank loans (Note 20).

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.

(In thousands of USD unless otherwise stated below)

Note 17. Property, plant and equipment

	Land	Buildings and constructions	Tunnels	Vehicles	Equipment and machinery	Fixtures and fittings	Construction in progress	Total
Cost								
1 January 2009	5,597	17,246	67,731	721	9,327	447	1,388	**102,457**
Additions								
Acquired at Business combination	-	-	-	-	3	15	-	**18**
Additions	225	459	-	147	1,158	163	2,941	**5,093**
Transfers	-	93	693	-	653	-	(1,439)	**-**
Disposals	-	-	-	(129)	(65)	(12)	-	**(206)**
Foreign currency translation differences	(149)	(468)	(1,903)	(20)	(189)	(5)	27	**(2,707)**
31 December 2009	**5,673**	**17,330**	**66,521**	**719**	**10,887**	**608**	**2,917**	**104,655**
Depreciation and impairment								
1 January 2009								
Depreciation charge for the year	-	(465)	(138)	(118)	(807)	(94)	-	**(1,622)**
Release on disposal	-	-	-	16	9	1	-	**26**
Foreign currency translation differences	-	(20)	(6)	(5)	(35)	(5)	-	**(71)**
31 December 2009	**-**	**(485)**	**(144)**	**(107)**	**(833)**	**(98)**	**-**	**(1,667)**
Net book value								
1 January 2009	**5,597**	**17,246**	**67,731**	**721**	**9,327**	**447**	**1,388**	**102,457**
31 December 2009	**5,673**	**16,845**	**66,377**	**612**	**10,054**	**510**	**2,917**	**102,988**

(In thousands of USD unless otherwise stated below)

	Land	Buildings and constructions	Tunnels	Vehicles	Equipment and machinery	Fixtures and fittings	Construction in progress	Total
Advances for property, plant and equipment								
1 January 2009	**-**	**186**	**-**	**-**	**-**	**-**	**-**	**186**
31 December 2009	**1,738**	**99**	**-**	**-**	**-**	**-**	**-**	**1,837**
Assets held under finance leases at net book value								
1 January 2009	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2009	**-**	**-**	**-**	**124**	**-**	**-**	**-**	**124**

Two-storeyed tunnels with the general extent more than five kilometers are located on the depth of 45-60 meters. They are used both as a part of the excursion route and as the storage facility, where sparkling wine is being aged (with the total amount up to 8 million bottles).

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

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

(In thousands of USD unless otherwise stated below)

Bank borrowings are secured on land, buildings, vehicles, equipment and machinery for the value of 23,039 thousands of USD (2008: 24,419 thousands of USD) (Note 19), which corresponds with 16,127 thousands of USD as hypothecation value.

The Group leases items of vehicles under the finance lease. The financial lease liability is disclosed in Note 21.

Note 18. Trade and other payables

	31 December	
	2009	**2008**
Trade payables	6,219	3,117
Other acounts payable	3,582	2,442
Advances received	706	-
Payroll payable	460	194
Total	**10,967**	**5,753**

A maturity analysis for financial liabilities that shows the remaining contractual maturities is disclosed in note 6.

Note 19. Loans, borrowings and finance lease liabilities

Loans and borrowings

	31 December	
	2009	**2008**
Long term		
Bank loans		
secured	4,660	6,987
unsecured	-	-
Borrowings	-	1,644
Except of current portion of non-current bank loans and borrowings	(1,190)	(2,248)
Total long term loans and borrowings	**3,470**	**6,383**
Short term		
Bank loans		
secured	15,430	12,185
unsecured	-	-
Borrowings	15,632	606
Current portion of long term bank loans and borrowings	1,190	2,248
Total short term loans and borrowings and current portion of long term bank loans and borrowings	**32,252**	**15,039**
Total loans and borrowings	**35,722**	**21,422**

(In thousands of USD unless otherwise stated below)

As at 31 December 2009 and 31 December 2008 the loans and borrowings were represented by the long-term and short-term as follows:

Creditor		Rate of interest	Currency of contract	As at 31 December 2009 In currency of contract, thousands of units	As at 31 December 2009 USD thousands	As at 31 December 2008 In currency of contract, thousands of units	As at 31 December 2008 USD thousands
Long-term loans and borrowings							
Sberbank RF (Contract 1360)		19.75%	Ruble	**66,946**	**2,214**	**-**	**-**
including	the principal			66,946	2,214	-	-
	interest			-	-	-	-
Sberbank RF (Contract 709)		13%	Ruble	**74,000**	**2,446**	**110,000**	**3,743**
including	the principal			74,000	2,446	110,000	3,743
	interest			-	-	-	-
Sberbank RF (Contract 1219)		17.50%	Ruble	**-**	**-**	**95,300**	**3,244**
including	the principal			-	-	95,300	3,244
	interest			-	-	-	-
Solvalub (Cyprus) Limited (№ SCY 12-0708/326)		12%	Ruble	**-**	**-**	**25,000**	**851**
including	the principal			-	-	25,000	851
	interest			-	-	-	-
Solvalub (Cyprus) Limited (SCY 12-0408/323)		7%	USD	**-**	**-**	**793**	**793**
including	the principal			-	-	750	750
	interest			-	-	43	43
Total long-term borrowings					**4,660**		**8,631**
including	*the principal*				4,660		8,588
	interest				-		43

(In thousands of USD unless otherwise stated below)

Creditor		Rate of interest	Currency of contract	As at 31 December 2009 In currency of contract, thousands of units	As at 31 December 2009 USD thousands	As at 31 December 2008 In currency of contract, thousands of units	As at 31 December 2008 USD thousands
Short-term loans and borrowings							
Sberbank RF (Contract 1263)		16%	Ruble	**154,700**	**5,115**	**-**	**-**
including	*the principal*			154,700	5,115	-	-
	interest			-		-	-
Sberbank RF (Contract 1219)		17.5 %	Ruble	**119,940**	**3,966**	**-**	**-**
including	*the principal*			119,940	3,966	-	-
	interest			-	-	-	-
Sberbank RF (Contract № 1343)		17.5 %	Ruble	**192,055**	**6,350**	**-**	**-**
including	*the principal*			192,055	6,350	-	-
	interest			-	-	-	-
Sberbank RF (Contract 1164)		13.25%	Ruble	**-**	**-**	**120,000**	**4,085**
including	*the principal*			-	-	120,000	4,085
	interest			-	-	-	-
Sberbank RF (Contract 1030)		11.5%	Ruble	**-**	**-**	**41,998**	**1,429**
including	*the principal*			-	-	41,998	1,429
	interest			-	-	-	-
Sberbank RF (Contract 1208)		13.25%	Ruble	**-**	**-**	**96,000**	**3,267**
including	*the principal*			-	-	96,000	3,267
	interest			-	-	-	-
Sberbank RF (Contract 1083)		12.5%	Ruble	**-**	**-**	**100,000**	**3,404**
including	*the principal*			-	-	100,000	3,404
	interest			-	-	-	-
Solvalub (Cyprus) Limited		0%	USD	**644**	**644**	**606**	**606**
including	*the principal*			565	565	24	24
	interest			79	79	-	-
SNRG Logistics & Trade Limited		15%-24%	USD	**12,254**	**12,254**	**-**	**-**
including	*the principal*			11,033	11,033	-	-
	interest			1,221	1,221	-	-
SNRG Logistics & Trade Limited		20%	Ruble	**16,139**	**534**	**-**	**-**
including	*the principal*			14,481	479	-	-
	interest			1,658	55	-	-
Borodin D.V.		0%	Ruble	**3,400**	**112**	**-**	**-**
including	*the principal*			3,400	112	-	-
	interest			-	-	-	-

SNRG Logistics & Trade Limited		17%	USD	**1,143**	**1,143**	**-**	**-**
including	*the principal*			1,120	1,120	-	-
	interest			23	23	-	-
Solvalub (Cyprus) Limited (SCY 12-0408/323)		7%	USD	**845**	**845**	**-**	**-**
including	*the principal*			750	750	-	-
	interest			95	95	-	-
Promkholod LLC		0%	Ruble	**3,000**	**99**	**-**	**-**
including	*the principal*			3,000	99	-	-
	interest			-	-	-	-
Total short-term borrowings					**31,062**		**12,791**
including	*the principal*				29,588		12,791
	interest				1,474		-

Following assets were pledged as collateral for loans and borrowings:

	31 December	
	2009	**2008**
Property plant and equipment (Note 17)	23,039	24,419
Inventories (Note 16)	3,871	4,483
Total	**26,910**	**28,902**

Information about maturity dates of loans and borrowings:

More than 1 but less than 2 years	2,678	3,691
More than 2 years	792	2,692
Total	**3,470**	**6,383**

Note 20. Other tax liabilities

	31 December	
	2009	**2008**
Value added tax	1,374	6
Personal income tax	92	33
Other	973	425
Total	**2,439**	**464**

(In thousands of USD unless otherwise stated below)

Note 21. Finance lease liabilities

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

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

The description of finance lease agreements and assets held under finance leases (and their net book value) is presented in Note 17.

In 2008 the Group has not entered in finance lease arrangements.

Note 22. Issued capital

The authorized share capital of the Company is divided into Ten Thousand (10,000) shares par value of 1.71 EURO each. All the shares are issued and fully paid as at 31 December 2008.

Note 23. Subsidiaries

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

The preliminary consolidated financial statements as at 31 December 2009 and for the year then ended comprise the preliminary financial statements of the following entities:

Name	Country of incorporation	Principal activity	As at 31 December, % holding 2009	2008
SVL Agro Limited	Cyprus	parent	n/a	n/a
JSC "Abrau-Durso"	Russian Federation	management services	100	100
CJSC "Abrau-Durso"	Russian Federation	production	59	59
LLC "Atrium"	Russian Federation	trading	100	-
LLC "Wine atelier Abrau-Durso"	Russian Federation	retail trading	59	-
Fund "Heritage of Abrau-Durso"	Russian Federation	revival of traditions of winemaking	59	-
LLC "Service Abrau-Durso"	Russian Federation	Public catering, hotel services	59	-
LLC "Abrau-Durso territory"	Russian Federation	Acquisition of land plots	59	59
LLC "Vine Yards Abrau-Durso"	Russian Federation	Agriculture	59	59

(In thousands of USD unless otherwise stated below)

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

In July 2010 the Group acquired two companies in France: SAS K et Cie and SCI BIGAULT.

Note 24. Related party transactions

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

The Parent company of the Company

Express Capital Limited

Entities under control of the ultimate controlling party

SOLVALUB (Cyprus) Ltd

SOLVALUB Trading Limited

Entity under control of the Parent company of the Company

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
	2009
KGUP	451
	451

Purchases of goods or receiving of services

	Year ended 31 December
	2009
SOLVALUB (Cyprus) Ltd	764
KGUP	1,261
	2,025

Other transactions

	Year ended 31 December
	2009
Finance costs	1,296

Finance costs consist mainly from the interest expenses on the loans taken by Abrau-Durso, CJSC from SNRG Logistics & Trade Limited and SOLVALUB (Cyprus) Ltd.

(In thousands of USD unless otherwise stated below)

ii). Balances with related parties:

The amount of outstanding balances

	31 December	
	2009	**2008**
Trade and other receivables	1,412	1,085
Advances paid and prepaid expenses	879	434
Loans and borrowings	(15,532)	(2,250)
Trade and other payables	(3,078)	(2,053)
	(16,319)	**(2,784)**

	2009	**2008**
the expense recognised during the period in respect of bad or doubtful debts due from related parties	-	-

The amount of outstanding balances in accordance with related parties

Name of related party	31 December	
	2009	**2008**
SOLVALUB (Cyprus) Ltd		
Loans and borrowings	(1,489)	(2,250)
Trade and other payables	(2,554)	(1,651)
SOLVALUB Trading Limited		
Trade and other payables	(70)	(1)
SNRG Logistics & Trade Limited		
Loans and borrowings	(13,931)	-
KGUP		
Trade and other receivables	1,408	1,081
Advances paid and prepaid expenses	879	434
Other related parties		
Trade and other receivables	4	4
Loans and borrowings	(112)	-
Trade and other payables	(454)	(401)
Total:	**(16,319)**	**(2,784)**

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 2009 year wages and salaries were acrrued to key management in the amount of 550 thousands of USD. There were no other transactions with key management.

Related parties are primarily involved in sales and purchases of services, which are made at normal market prices. There have 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. From the the date of transition to IFRS (1 January 2009) till 31 December 2009 the Group did not participate in any court proceedings.

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 preceeding current year, although in some cases this period can be extended.

Recent events indicate that tax authorities has begun to take more strict position toward compliance of tax payers with tax legislation. Due to all this facts tax risks in 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 case they are able to insist on using of their interpretation it may significantly influence consolidated statement of financial position and consolidated statement of comprehensive income in accrodance 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 2009 in the amount of USD 495 thousand (31 December 2008: 0 thousand of USD). These amounts were accrued in the consolidated financial statements at corresponding reporting dates.

Rent agreement

The Group holds warehouses in the village Tsemdolina, 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 regulary conducts revaluation of its environmental obligatory 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 exsistent internal control system management of the Company believes that there are no any material liabilities in respect of environmental damage which are not shown in financial statements.

Note 26. Events after the reporting period

General information

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. All of the above bonds have been acquired by SVL Agro Limited, the Parent Company of the Group. The report on results of this transaction was registered with Federal Financial Markets Service on March 23, 2010.

In February - June, 2010 the Group has acquired land plots for the further development for the total consideration of 1,930 thousand of USD paid in cash.

In March 2010 there was a transaction on share transfer (60% from equity) in LLC Territoriya Abrau-Durso from CJSC Abrau-Durso to OJSC Abrau-Durso, as the result the effective share of the Group in this subsidiary has increased to 84%.

Business combinations

On 24 March 2010 LLC Atrium established subsidiary CJSC Vino ER EF. The equity of the company is 1,000,000 RUR (33.06 thousand of USD). The Group's share in the above company is 99%.

In July 2010 the Group acquired two companies in France: SAS K et Cie and SCI BIGAULT. As the result of this bargain the Group paid 1,527 thousand of EURO.

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%.