OAO Baltika Breweries and subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

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Independent Auditors’ Report

The Management

OAO Baltika Breweries

We have audited the accompanying consolidated financial statements of OAO Baltika Breweries (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

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

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

Opinion

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

ZAO KPMG

18 February 2011

’000 RUB	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	12	39,078,860	42,177,090
Intangible assets	13	14,255,934	14,001,800
Investments in equity accounted investees	14	215,186	293,183
Other investments	15	87,251	9,781
Total non-current assets		53,637,231	56,481,854
Current assets			
Inventories	17	5,781,434	4,296,053
Other investments	15	3,895,312	9,051,299
Income tax receivable		98,573	6,566
Trade and other receivables	18	6,660,671	8,062,093
Cash and cash equivalents	19	566,986	1,740,702
Total current assets		17,002,976	23,156,713
Total assets		70,640,207	79,638,567
EQUITY AND LIABILITIES			
Equity			
Preference shares		84,978	84,978
Ordinary shares		736,129	736,129
Share capital		821,107	821,107
Share premium		4,171,716	4,171,716
Foreign currency translation reserve		753,745	691,405
Retained earnings		49,281,269	57,997,085
Total equity		55,027,837	63,681,313
Non-current liabilities			
Deferred tax liabilities	16	1,943,118	1,631,672
Total non-current liabilities		1,943,118	1,631,672
Current liabilities			
Loans and borrowings	22	-	181,572
Trade and other payables	23	13,258,512	13,398,581
Deferred income		284,895	129,057
Income tax payable		125,845	616,372
Total current liabilities		13,669,252	14,325,582
Total liabilities		15,612,370	15,957,254
Total equity and liabilities		70,640,207	79,638,567

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 52.

'000 RUB	**Note**	**2010**	**2009**
Revenue		79,306,979	93,720,164
Cost of sales		(34,161,877)	(42,466,337)
Gross profit		45,145,102	51,253,827
Other income	6	75,551	72,217
Distribution expenses		(18,551,647)	(19,150,073)
Administrative expenses	7	(2,429,000)	(2,528,721)
Other expenses	8	(551,231)	-
Results from operating activities		23,688,775	29,647,250
Finance income	10	1,269,192	1,834,591
Finance costs	10	(712,991)	(2,349,918)
Net finance costs		556,201	(515.327)
Share of loss of equity accounted investees (net of income tax)		(57,629)	(29,734)
Profit before income tax		24,187,347	29,102,189
Income tax expense	11	(5,016,165)	(5,729,920)
Profit for the year		19,171,182	23,372,269
Other comprehensive income			
Foreign currency translation differences for foreign operations		62,340	257,818
Total comprehensive income for the year		19,233,522	23,630,087
Earnings per share			
Basic and diluted earnings per share	21	112.55 RUB	147.14 RUB

These consolidated financial statements were approved by management on 18 February 2011 and were signed on its behalf by:

Anton Artemiev	Ekaterina Azimina
President	*Vice-President of finance and economy*

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 52.

'000 RUB	**Preference shares**	**Ordinary shares**	**Share premium**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2009	84,978	736,129	4,171,716	433,587	48,584,719	54,011,129
Total comprehensive income for the year						
Profit for the year	-	-	-	-	23,372,269	23,372,269
Other comprehensive income						
Foreign currency translation differences	-	-	-	257,818	-	257,818
Total other comprehensive income	-	-	-	257,818	-	257,818
Total comprehensive income for the year	-	-	-	257,818	23,372,269	23,630,087
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(13,959,903)	(13,959,903)
Total transactions with owners	-	-	-	-	(13,959,903)	(13,959,903)
Balance at 31 December 2009	84,978	736,129	4,171,716	691,405	57,997,085	63,681,313

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 52.

’000 RUB	**Preference shares**	**Ordinary shares**	**Share premium**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2010	84,978	736,129	4,171,716	691,405	57,997,085	63,681,313
Total comprehensive income for the year						
Profit for the year	-	-	-	-	19,171,182	19,171,182
Other comprehensive income						
Foreign currency translation differences	-	-	-	62,340	-	62,340
Total other comprehensive income	-	-	-	62,340	-	62,340
Total comprehensive income for the year	-	-	-	62,340	19,171,182	19,233,522
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(27,886,998)	(27,886,998)
Total transactions with owners	-	-	-	-	(27,886,998)	(27,886,998)
Balance at 31 December 2010	84,978	736,129	4,171,716	753,745	49,281,269	55,027,837

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 52.

’000 RUB	**Note**	**2010**	**2009**
OPERATING ACTIVITIES			
Profit for the year		19,171,182	23,372,269
Adjustments for:			
Depreciation	12	4,777,578	4,447,579
Amortisation	13	227,831	196,730
Impairment losses on property, plant and equipment	8	550,248	-
Gain on disposal of property, plant and equipment and intangible assets	6	(72,902)	(72,217)
Share of loss of equity accounted investees (net of income tax)	14	57,629	29,734
Gain on disposal of subsidiary	6	(2,568)	-
Interest expense	10	1,025	190,319
Interest income	10	(543,396)	(466,342)
Income tax expense	11	5,016,165	5,729,920
Operating profit before changes in working capital and provisions		29,182,792	33,427,992
Change in inventories		(1,308,974)	3,221,273
Change in trade and other receivables		1,401,422	(551,052)
Change in trade and other payables		(158,470)	2,621,163
Cash flows from operations before income taxes and interest paid		29,116,770	38,719,376
Income taxes paid		(5,287,253)	(4,688,122)
Interest paid		(1,110)	(261,011)
Cash flows from operating activities		23,828,407	33,770,243

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 52.

’000 RUB	Note	2010	2009
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment and intangible assets		217,205	95,898
Disposal of subsidiary, net of cash disposed of		4,160	-
Interest received		521,229	386,600
Dividends received		-	27,300
Acquisition of property, plant and equipment and intangible assets		(3,045,724)	(3,818,693)
Sales of investment securities		-	15
Repayment of- /(origination of) loans to related parties		1,689,360	(2,189,360)
Acquisition of investments		-	(6,782,197)
Proceeds from disposal of investments		3,488,794	-
Cash flows from /(used in) investing activities		2,875,024	(12,280,437)
FINANCING ACTIVITIES			
Proceeds from borrowings		-	52,172
Repayment of borrowings		(181,487)	(7,539,049)
Dividends paid		(27,695,522)	(13,979,751)
Cash flows used in financing activities		(27,877,009)	(21,466,628)
Net (decrease) /increase in cash and cash equivalents		(1,173,578)	23,178
Cash and cash equivalents at 1 January		1,740,702	1,691,594
Effect of exchange rate fluctuations on cash and cash equivalents		(138)	25,930
Cash and cash equivalents at 31 December	19	566,986	1,740,702

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 52.

1 Background

(a) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

OAO Baltika Breweries (the "Company") is an open joint stock company as defined by the Civil Code of the Russian Federation and was registered on 21 July 1992, and, through a controlling interest in eight companies and ten branches (together referred to as the "Group"), produces and distributes beer, soft drinks and mineral water.

The Company's registered office is situated at 6 Verkhny pereulok, 3, St. Petersburg, 194292, Russia.

As at 31 December 2010 Baltic Beverages Holding AB owned and controlled 93.65% of the Company's ordinary shares and 31.9% of the Company's preference shares. The remainder of the ordinary and preference shares are widely held.

As at 31 December 2010 the Group consisted of twelve production plants: Baltika-Saint-Petersburg, Baltika-Tula, Baltika-Rostov, Baltika-Samara, Baltika-Khabarovsk, Baltika-Vena, Baltika-Chelyabinsk, Baltika-Pikra, Baltika-Yaroslavl, Baltika-Voronezh, Baltika-Novosibirsk and Baltika-Baku and eight subsidiaries: OOO Terminal Podolsk, OOO Baltika-Ukraine, OOO Baltika, Baltika S.R.L., OOO Baltika-Bel, Baltika Deutschland GmbH, LLC Baltika-Baku and OJSC Baku-Pivo.

In November 2010 the Group sold 3% of the shares of OOO Universalopttorg to a third party. In December 2010, it sold the remaining shares to the same third party. The sale of the subsidiary did not have a significant effect on the Group's operations.

Most of the Group's customers are located in Russia. The Group's raw materials are readily available and the Group is not dependent on a single supplier or only a few suppliers.

Related party transactions are detailed in note 28.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency, the functional currency of the majority of the Company's subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 13 - Intangible assets;
- Note 17 – Inventories; and
- Note 18 – Trade and other receivables

(e) Changes in accounting policies and presentation

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

- accounting for business combinations
- accounting for leases of land
- distribution of non-cash assets to owners of the Group

(i) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

  the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For the measurement of goodwill prior to 1 January 2010, see note 3(f)(i).

(ii) Accounting for leases of land

The amendment to IAS 17 *Leases* regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and, therefore, the classification was not changed (see note 25).

(f) Accounting policies for new transactions and events

Distributions of non-cash assets to owners of the Company

From 1 January 2010 the Group has applied IFRIC 17 *Distributions of Non-cash Assets to Owners* in accounting for distributions of non-cash assets to owners of the Company. The new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting date and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

3 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation in the amount of RUB 71,417 thousand resulting in an increase of revenue and an increase of cost of sales for the same amount.

Management believes that such presentation is more appropriate.

(a) Basis of consolidation

(i) Business combinations

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(i) for further details.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments is reduced to zero and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUB at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 January 2004, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise the following classes of assets: loans and receivables as presented in note 15 and trade and other receivables as presented in note 18.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits and highly liquid investments with maturities at initial recognition of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is transferred to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(d) Share capital

Ordinary shares

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

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company’s option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company’s shareholders.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are 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 asset to a working condition for its intended use, and 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 equity 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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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 20 – 40 years
- Machinery and equipment 3 – 20 years
- Kegs 10 years

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

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 2(e)(i).

Acquisitions prior to 1 January 2004

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the difference between the Company's interest in a subsidiary's net identifiable assets on the date of transition and the cost of that interest.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

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

(ii) Other intangible assets

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

(iii) 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.

(iv) 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 future economic benefits embodied in the asset. The estimated useful lives of other intangible assets, which comprise trademarks, software and licences, for the current and comparative periods vary from between 1 and 10 years.

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

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than 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 lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

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

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(l) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, excise taxes, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For certain sales, transfer usually occurs upon dispatch of the products to the customer; for other sales, transfer occurs upon receipt of the products by the customer.

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(n) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and foreign currency losses.

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 gross basis.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's Management Board include items directly attributable to a segment.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2010)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the revised standard.

- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement.* Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant and equipment is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Equity and debt securities

The fair value of equity securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

(e) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Segment reporting

The Group is engaged in the production and distribution of beer, soft drinks and mineral water and has identified these operations as a single reportable segment.

The Group identified the segment in accordance with the criteria set in IFRS 8 *Operating Segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources within the Group.

The Group’s chief operating decision maker has been determined as the Management Board.

The segment represents the Group’s business of production and distribution of beer, soft drinks and mineral water in Russia, Azerbaijan and other countries. Currently the Group’s operations in Azerbaijan and other countries make an insignificant contribution to the financial results of the Group.

Within the segment all business components demonstrate similar economic characteristics:

- the products and customers;

- the business processes are integrated and uniform: the Group manages its operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the Group's activities are mainly limited to Russia which has a uniform regulatory environment.

The Management Board assesses the performance of the operating segment based on measures for sales, adjusted earnings before interest, tax, depreciation and amortization (EBITDA), segment assets and segment liabilities and other information are consistent with that in the consolidated financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements as described in note 3.

The segment information for the year ended 31 December 2010 is as follows:

'000 RUB	**2010**	**2009**
Revenue	79,306,979	93,720,164
EBITDA (including share of loss of equity accounted investees (net of income tax) RUB (57,629) thousand (2009: RUB (29,734) thousand))	29,186,803	34,261,825
Segment assets	70,640,207	79,638,567
Investments in equity accounted investees	215,186	293,183
Capital expenditures	2,604,981	3,421,431
Segment liabilities	15,612,370	15,957,254

A reconciliation of EBITDA to profit for the year is as follows:

'000 RUB	**2010**	**2009**
EBITDA (including share of loss of equity accounted investees (net of income tax))	29,186,803	34,261,825
Depreciation and amortisation and impairment losses on property, plant and equipment	(5,555,657)	(4,644,309)
Finance income	1,269,192	1,834,591
Finance costs	(712,991)	(2,349,918)
Profit before income tax	24,187,347	29,102,189
Income tax	(5,016,165)	(5,729,920)
Profit for the year	19,171,182	23,372,269

Approximately 17.9% (2009: 14.9%) of the Group's revenue is attributable to sales transactions with a single customer. Substantially all of Group's customers are located in the Russian Federation.

6 Other income

	2010 ’000 RUB	2009 ’000 RUB
Gain on disposal of property, plant and equipment and intangible assets	72,902	72,217
Gain on disposal of subsidiary	2,568	-
Other income	81	-
	75,551	72,217

7 Administrative expenses

	2010 ’000 RUB	2009 ’000 RUB
Wages and salaries	819,518	825,486
Depreciation and amortisation	533,724	484,592
Information technology and communications	145,829	170,580
Compulsory social security contributions	112,690	105,673
Other payroll expenses	74,450	105,064
Facilities	90,399	94,432
Charity	20,920	35,244
Contributions to defined contribution plan	11,003	9,989
Other administrative expenses	620,467	697,661
	2,429,000	2,528,721

8 Other expenses

	2010 ’000 RUB	2009 ’000 RUB
Impairment losses on property, plant and equipment	(550,248)	-
Other expenses	(983)	-
	(551,231)	-

9 Personnel costs

	2010	2009
	’000 RUB	**’000 RUB**
Wages and salaries	5,800,568	5,976,138
Compulsory social security contributions	1,030,152	1,029,079
Other payroll expenses	473,818	575,089
Contributions to defined contribution plan	11,003	9,989
	7,315,541	7,590,295

10 Finance income and finance costs

	2010	2009
	’000 RUB	**’000 RUB**
Recognised in profit or loss		
Foreign exchange gain	725,796	1,368,249
Interest income on bank deposits	406,766	372,086
Interest income on loans and receivables	136,630	94,256
Finance income	1,269,192	1,834,591
Foreign exchange loss	(711,966)	(2,159,599)
Interest expense on financial liabilities measured at amortised cost	(1,025)	(190,319)
Finance costs recognised in profit or loss	(712,991)	(2,349,918)
The above financial income and costs include the following in respect of assets/(liabilities) not at fair value through profit and loss:		
Total interest income on financial assets	543,396	466,342
Total interest expense on financial liabilities	(1,025)	(190,319)
Recognised in other comprehensive income		
Foreign currency translation differences for foreign operations	62,340	257,818
Finance income recognised in other comprehensive income, net of tax	62,340	257,818

11 Income tax expense

	2010 ’000 RUB	2009 ’000 RUB
Current tax expense		
Current year	4,705,847	5,498,430
Deferred tax expense		
Origination and reversal of temporary differences	310,318	231,490
Total income tax expense	5,016,165	5,729,920

The Group’s applicable tax rate is the corporate income tax rate of 20% for Russian companies (2009: 20%).

Reconciliation of effective tax rate:

	2010 ’000 RUB	%	2009 ’000 RUB	%
Profit before income tax	24,187,347	100	29,102,189	100
Income tax at applicable tax rate	4,837,469	20.0	5,820,438	20.0
Non-deductible expenses	361,430	1.5	353,281	1.2
Effects of tax concessions	(259,946)	(1.1)	(496,860)	(1.7)
Other	77,212	0.3	53,061	0.2
	5,016,165	20.7	5,729,920	19.7

12 Property, plant and equipment

’000 RUB	Land and buildings	Machinery and equipment	Kegs	Construction in progress	Total
Cost/Deemed cost					
At 1 January 2009	11,756,074	43,770,044	2,280,204	4,896,028	62,702,350
Additions	391,620	2,609,742	-	420,069	3,421,431
Disposals	(11,796)	(199,545)	(19,524)	(1,358)	(232,223)
Transfers	2,654,700	441,446	(10,258)	(3,088,393)	(2,505)
Effect of movements in exchange rates	34,468	(19,323)	(493)	11,430	26,082
At 31 December 2009	14,825,066	46,602,364	2,249,929	2,237,776	65,915,135
Additions	84,623	2,036,599	15,603	468,156	2,604,981
Disposals	(119,838)	(908,315)	(44,687)	-	(1,072,840)
Transfers	514,156	732,333	390	(1,246,879)	-
Effect of movements in exchange rates	7,028	17,694	51	807	25,580
At 31 December 2010	15,311,035	48,480,675	2,221,286	1,459,860	67,472,856
Depreciation and impairment losses					
At 1 January 2009	(1,330,796)	(17,219,459)	(795,347)	-	(19,345,602)
Depreciation for the year	(449,605)	(3,965,845)	(198,641)	-	(4,614,091)
Disposals	2,887	187,045	18,610	-	208,542
Transfers	(334,275)	351,138	(16,863)	-	-
Effect of movements in exchange rates	(78)	13,161	23	-	13,106
At 31 December 2009	(2,111,867)	(20,633,960)	(992,218)	-	(23,738,045)
Depreciation for the year	(459,341)	(4,277,014)	(217,630)	-	(4,953,985)
Disposals	23,386	790,476	36,978	-	850,840
Impairment	-	(550,248)	-	-	(550,248)
Transfers	-	-	-	-	-
Effect of movements in exchange rates	(418)	(2,111)	(29)	-	(2,558)
At 31 December 2010	(2,548,240)	(24,672,857)	(1,172,899)	-	(28,393,996)
Carrying amounts					
At 1 January 2009	10,425,278	26,550,585	1,484,857	4,896,028	43,356,748
At 31 December 2009	12,713,199	25,968,404	1,257,711	2,237,776	42,177,090
At 31 December 2010	12,762,795	23,807,818	1,048,387	1,459,860	39,078,860

Depreciation expense of RUB 2,750,918 thousand has been included in cost of goods sold (2009: RUB 2,526,958 thousand), RUB 1,677,216 thousand in distribution expenses (2009: RUB 1,600,430 thousand), RUB 349,444 thousand in administrative expense (2009:

RUB 320,191 thousand) and RUB 176,407 thousand in cost of inventories as at 31 December 2010 (2009: RUB 166,512 thousand).

Impairment loss

In 2010 the Group has decided to cease production of beer at one of its production plants. The Group tested related brewery production facilities for impairment and recognized an impairment loss of RUB 550,248 thousand with respect to property, plant and equipment.

The recoverable amount represents the assets' fair value less cost to sell and it was determined by reference to both external sources (active market) and internal sources (historical data on sale of similar and same assets).

The impairment provision was recognised in other expenses in the amount of RUB 550,248 thousand.

13 Intangible assets

'000 RUB	Goodwill	Trademarks	Software and licences	Total
Cost				
At 1 January 2009	13,514,680	52,612	666,343	14,233,635
Additions	-	-	253,141	253,141
Transfers	-	-	2,505	2,505
Effect of movements in exchange rates	145,976	5,167	350	151,493
At 31 December 2009	13,660,656	57,779	922,339	14,640,774
Additions	-	-	426,934	426,934
Transfers	-	-	-	-
Effect of movements in exchange rates	53,692	1,513	196	55,401
At 31 December 2010	13,714,348	59,292	1,349,469	15,123,109
Amortisation				
At 1 January 2009	-	(1,315)	(441,129)	(442,444)
Amortisation for the year	-	(6,054)	(190,676)	(196,730)
Effect of movements in exchange rates	-	139	61	200
At 31 December 2009	-	(7,230)	(631,744)	(638,974)
Amortisation for the year	-	(5,883)	(221,948)	(227,831)
Effect of movements in exchange rates	-	(236)	(134)	(370)
At 31 December 2010	-	(13,349)	(853,826)	(867,175)
Carrying amounts				
At 1 January 2009	13,514,680	51,297	225,214	13,791,191
At 31 December 2009	13,660,656	50,549	290,595	14,001,800
At 31 December 2010	13,714,348	45,943	495,643	14,255,934

Amortisation expense of RUB 16,232 thousand has been included in cost of goods sold (2009: RUB 12,589 thousand), RUB 27,319 thousand in distribution expenses (2009: RUB 19,740 thousand) and RUB 184,280 thousand in administrative expense (2009: RUB 164,401 thousand).

(a) Impairment testing for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is considered at the Group level and has not been allocated to individual plants. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the Group's plants was based on their value in use and was determined by discounting future cash flows generated from the continuing use of the plants. Unless indicated otherwise, value in use in 2010 was determined similarly as in 2009.

(b) Key assumptions used in discounted cash flow projections

Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value growth rates and EBITDA margins.

(i) Discount rate

An after-tax discount rate of 14.5% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on an average industry debt to total capital ratio of 30.00% at market interest rate of 8.56%. The pre-tax discount rate is 19.24%.

(ii) Terminal value growth rate

Cash flows were projected based on past experience, actual operating results and the Group’s five-year business plan. Cash flows for a further 5-year period were extrapolated using a declining growth rate of 2% - nil (2009: 5% - nil), which does not exceed the long-term average growth rate for the industry.

(iii) Budgeted EBITDA growth

Budgeted EBITDA is expressed as the compound annual growth rates in the initial five years of the plans used for impairment testing and has been based on past experience adjusted for the following:

- In the first year of the business plan sales volume was projected to be higher than in 2010 since the market continued to grow after the general downturn the market experienced during the past two years and substantial increase in excise tax in 2010. The anticipated annual sales volume growth included in the cash flow projections for the years 2012 to 2015 is based on expectations of demand growth levels driven by a return to beer consumption levels of 3 years ago.
- Sales price growth was assumed to be a small margin above inflation in 2011 and in line with the inflation forecast by official state authorities in 2012 - 2015.
- Raw material costs are expected to increase significantly in 2011 due to the poor harvest in 2010 and to increase at a rate of 22% reducing to 10% during the years 2012 to 2015. Other costs are expected to increase at a rate of 10% reducing to 7% during the years 2012 to 2015.

(c) Sensitivity to changes in assumptions

Although no impairment loss was recognized in respect of goodwill the determination of the recoverable amount is sensitive to the rate at which the Group achieves its planned growth in production.

In determining a value in use of RUB 195,757,003 thousand (compared to a carrying amount of RUB 53,334,794 thousand), management has assumed that production volume will gradually increase and by 2015 will be 21% greater than volumes projected for 2011.

If actual production volume were to be below estimated production volume by 22% in 2011 and subsequent years, the value in use would approximate the carrying amounts of the plants and goodwill.

14 Equity accounted investees

The Group has the following investment in an equity accounted investee:

	Country	Ownership/Voting
CJSC Malterie Soufflet Saint Petersburg (“Soufflet”)	Russia	30%

This company produces malt.

In 2010 the Group did not receive dividends from its investment in the equity accounted investee.

The Group’s share of losses in its equity accounted investee for the year ended 31 December 2010 was RUB 57,629 thousand (2009: loss RUB 29,734 thousand). The Group’s share of post-acquisition total recognised gains and losses in associates as at 31 December 2010 was RUB 154,258 thousand (31 December 2009: RUB 232,255 thousand).

15 Other investments

	2010 ’000 RUB	2009 ’000 RUB
Non-current		
Available-for-sale investments:		
Measured at cost	87,251	9,781
Current		
Loans and receivables:		
Deposits	3,395,262	6,860,751
Originated loans to related parties	500,050	2,190,548
	3,895,312	9,051,299

Available-for-sale investments stated at cost comprise unquoted equity securities in the brewery and banking industries. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. However, management believes it unlikely that the fair value at the end of the reporting period would differ significantly from their carrying amount.

The Group's exposure to credit, currency and interest rate risks related to other investments are disclosed in note 24.

16 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	**Assets**		**Liabilities**		**Net**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	-	-	(2,632,587)	(2,557,771)	(2,632,587)	(2,557,771)
Intangible assets	17,230	15,281	(9,188)	(10,102)	8,042	5,179
Investments	-	-	(10,440)	(17,459)	(10,440)	(17,459)
Inventories	44,652	33,157	(70,338)	(15,246)	(25,686)	17,911
Trade and other receivables	209,558	186,752	-	-	209,558	186,752
Trade and other payables	507,995	733,716	-	-	507,995	733,716
Net tax assets/(liabilities)	779,435	968,906	(2,722,553)	(2,600,578)	(1,943,118)	(1,631,672)

During the year ended 31 December 2010 RUB 310,318 thousand (2009: RUB 231,490 thousand) of the movement in the net deferred tax liability was recognized in the income statement and RUB 1,128 thousand (2009: RUB 13,058 thousand), relating to foreign exchange differences, was recognized directly in other comprehensive income.

17 Inventories

	2010	**2009**
	'000 RUB	**'000 RUB**
Raw materials and consumables	4,215,009	3,328,168
Work in progress	449,659	288,884
Finished goods and goods for resale	1,116,766	679,001
	5,781,434	4,296,053
Write-down of inventories in the current year	127,316	178,636

In 2010 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to RUB 24,926,176 thousand (2009: RUB 30,616,587 thousand).

18 Trade and other receivables

	2010 ’000 RUB	2009 ’000 RUB
Trade receivables	3,241,860	6,791,244
Advances to suppliers	2,228,165	720,358
VAT receivable	134,331	165,512
Other receivables	1,056,315	384,979
Trade and other category receivables (current)	6,660,671	8,062,093

The Group’s exposure to credit risk and currency risk related to trade and other receivables is disclosed in note 24.

19 Cash and cash equivalents

	2010 ’000 RUB	2009 ’000 RUB
Bank balances	361,145	288,368
Deposits	205,841	1,452,334
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	566,986	1,740,702

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

20 Capital and reserves

(a) Share capital and share premium

Number of shares unless otherwise stated	Ordinary shares 2010	Ordinary shares 2009	Preference shares 2010	Preference shares 2009
Authorised shares				
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at beginning of the year	151,714,594	151,714,594	12,326,570	12,326,570
On issue at end of the year, fully paid	151,714,594	151,714,594	12,326,570	12,326,570

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to the nominal value of the shares multiplied by the interest rate of the

Savings Bank of the Russian Federation, plus 10%. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation of the Company.

In the event of liquidation, preference shareholders first receive any declared unpaid dividends and the par value of the preference shares ("liquidation value"). Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(b) Dividends

In accordance with Russian legislation, distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements, prepared in accordance with Russian Accounting Principles. As at 31 December 2010 the Company had retained earnings, including profit for the current year, of approximately RUB 24,166,377 thousand (31 December 2009: RUB 34,906,210 thousand).

The following table details the dividends declared by the Company for the years ended 31 December 2010 and 31 December 2009:

	RUB per share	'000 RUB
Year ended 31 December 2009		
Preference shares		
Dividends for 2008	85.1	1,048,991
Ordinary shares		
Dividends for 2008	85.1	12,910,912
Year ended 31 December 2010		
Preference shares		
Dividends for 2009	128	1,577,801
Ordinary shares		
Dividends for 2009	128	19,419,468
Preference shares		
Interim dividends for 2010	42	517,716
Ordinary shares		
Interim dividends for 2010	42	6,372,013

The shareholders' meeting held on 8 April 2010 approved dividends amounting to RUB 20,997,269 thousand. The interim dividends for 6 months of 2010 amounting to RUB 6,889,729 thousand were approved by an extraordinary shareholders' meeting on 26 August 2010.

21 Earnings per share

The calculation of earnings per share at 31 December 2010 was based on the profit for the year attributable to ordinary shareholders of RUB 17,075,665 thousand (2009: RUB 22,323,278 thousand), and a weighted average number of ordinary shares outstanding during the year of 151,714,594 (2009: 151,714,594), calculated as shown below. The Company has no dilutive potential ordinary shares.

Weighted average number of ordinary shares

Number of shares	**2010**	**2009**
Issued shares at 1 January	151,714,594	151,714,594
Weighted average number of shares for the for the year ended 31 December	151,714,594	151,714,594

The following is a reconciliation of the profit attributable to ordinary shareholders:

Profit attributable to ordinary shareholders

	2010	**2009**
	'000 RUB	**'000 RUB**
Profit for the year attributable to shareholders of the Company	19,171,182	23,372,269
Preference dividends recognised during the year	(2,095,517)	(1,048,991)
Profit attributable to ordinary shares	17,075,665	22,323,278

22 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risks, see note 24.

	2010	**2009**
	'000 RUB	**'000 RUB**
Current liabilities		
Current portion of secured bank loans	-	181,572
	-	181,572

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2010		31 December 2009	
’000 RUB	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	USD	LIBOR 6m +0.75%	2009-2010	-	-	181,572	181,572
				-	-	181,572	181,572

The bank loan was fully secured by the guarantee of the Company’s parent company, Baltic Beverages Holding AB.

23 Trade and other payables

	2010 ’000 RUB	2009 ’000 RUB
Trade payables	6,387,505	5,214,709
Taxes payable	3,787,166	4,214,958
Accrued salaries, wages and benefits	1,449,655	1,276,828
Dividends payable	306,131	114,655
Payables to equity accounted investee	38,487	42,902
Other payables and provisions	1,289,568	2,534,529
	13,258,512	13,398,581

There are potential claims against the Group from certain of its suppliers that allege the Group has not fulfilled contract terms. The information usually required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in respect of these claims is not disclosed on the grounds that it can be expected to prejudice seriously the position of the Group in potential disputes.

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

24 Financial instruments and risk management

(a) Overview

The Group has exposures to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Board has established an Audit Committee which is responsible for developing and monitoring the Group’s risk management policies. The Audit Committee reports regularly to the Board of Directors on its activities.

The Group’s risk management systems are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group’s Audit Committee oversees how management monitors compliance with the Group’s risk management system and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and loans and receivables.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the management also considers the demographics of the Group’s customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. Approximately 17.9% (2009: 14.9%) of the Group's revenue is attributable to sales transactions with a single customer. Substantially all of Group's customers are located in the Russian Federation.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group’s review includes background checks on new customers. Purchase limits are established for each customer, and represent the maximum open amount without requiring approval from the Credit Committee; these limits are reviewed monthly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

About 68% of the Group's customers have been transacting with the Group for more than two years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customers, geographic location, maturity, and existence of any previous financial difficulties. Trade receivables relate mainly to the Group’s wholesale customers. The Group requires collateral in respect of trade receivables in the form of bank guarantees. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Loans and receivables

The Group limits its exposure to credit risk by only investing in liquid securities in accordance with Group's deposit policy and only with counterparties that are mostly state-owned banks or the banks approved by ultimate parent company. In order to determine the amounts to be deposited with each bank the Group studies the financial statements of the bank and bank credit ratings. The status of the banks is reconsidered every 6 months. The Group does not expect any counterparties to fail to meet its obligations.

(iii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2010	**2009**
	’000 RUB	**’000 RUB**
Trade and other receivables	4,298,175	7,176,223
Available-for-sale financial assets	87,251	9,781
Loans and receivables	3,895,312	9,051,299
Cash and cash equivalents	566,986	1,740,702
	8,847,724	17,978,005

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	2010	**2009**
	’000 RUB	**’000 RUB**
Wholesale customers	1,798,666	5,752,447
Retail customers	1,529,902	1,120,191
	3,328,568	6,872,638
Accumulated impairment losses on receivables	(86,708)	(81,394)
	3,241,860	6,791,244

The Group's most significant customer, a domestic wholesaler, accounts for RUB 960,911 thousand of the trade receivables carrying amount at 31 December 2010 (2009: RUB 998,900 thousand).

Substantially all the Group's receivables relate to sales to customers in Russia.

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2010 '000 RUB	Impairment 2010 '000 RUB	Gross 2009 '000 RUB	Impairment 2009 '000 RUB
Current	2,965,484	-	6,680,914	-
Past due 0 – 90 days	277,686	1,310	110,330	-
Past due more than 90 days	85,398	85,398	81,394	81,394
	3,328,568	86,708	6,872,638	81,394

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 '000 RUB	2009 '000 RUB
Balance at beginning of the year	81,394	111,898
Impairment loss recognised/(reversed)	10,788	(8,501)
Amounts written off against trade receivables	(5,474)	(22,003)
Balance at end of the year	86,708	81,394

Based on historic default rates the Group believes that no general impairment allowance is necessary in respect of trade receivables not past due and past due by up to 90 days. 97% of the balance, which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group. The total impairment loss 31 December 2010 of RUB 86,708 thousand relates to collective loss established for overdue receivables (2009: RUB 81,394 thousand).

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 18 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as instability of financial system and the impact of monopolists and changes in statutory regulations. In addition the Group maintains the following lines of credit:

- USD 205,991 thousand multicurrency unsecured credit facility. Interest would be payable for EURO/USD/RUB at the rate of LIBOR/EURIBOR/Cost of funds for the lender+0.75%.
- USD 105,935 thousand multicurrency unsecured credit/overdraft facility. Interest would be determined as each tranche is drawn down.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of the netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2010 **’000 RUB**	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade and other payables	13,258,512	13,258,512	13,258,512	-	-	-	-
	13,258,512	13,258,512	13,258,512	-	-	-	-

31 December 2009 **’000 RUB**	**Carrying amount**	**Contractu al cash flows**	**0-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 year s**
Non-derivative financial liabilities							
Secured bank loans	181,572	182,674	182,674	-	-	-	-
Trade and other payables	13,398,581	13,398,581	13,398,581	-	-	-	-
	13,580,153	13,581,255	13,581,255	-	-	-	-

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the Russian Rouble (RUB). The currencies in which these transactions are primarily denominated are USD, EURO and AZN.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group’s policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

’000 RUB	EUR-denominated 2010	USD-denominated 2010	AZN-denominated 2010	EUR-denominated 2009	USD-denominated 2009	AZN-denominated 2009
Current assets						
Cash and cash equivalents	3,579	12,734	64,891	11,428	29,234	17,593
Loans and receivables	558,944	2,728,235	108,083	738,816	2,797,109	-
Trade receivables	11,100	-	60,907	15,789	-	31,315
Current liabilities						
Secured bank loans	-	-	-	-	(181,572)	-
Trade payables	(388,857)	(363,427)	(15,083)	(576,325)	(109,563)	(8,275)
Gross balance sheet exposure	184,766	2,377,542	218,798	189,708	2,535,208	40,633
Net exposure	184,766	2,377,542	218,798	189,708	2,535,208	40,633

The following exchange rates applied during the year and as at the end of the year:

RUB 1 equals	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD	0.0329	0.0315	0.0328	0.0331
EURO	0.0248	0.0227	0.0248	0.0230
AZN	0.0264	0.0252	0.0262	0.0266

Sensitivity analysis

A 20% strengthening of the RUB, as indicated below, against the following currencies at 31 December would have decreased profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

’000 RUB	Equity	Profit or loss
2010		
USD (20% strengthening)	-	(475,508)
EUR (20% strengthening)	-	(26,069)
AZN (20% strengthening)	-	(43,672)
2009		
USD (20% strengthening)	-	(507,042)

'000 RUB	**Equity**	**Profit or loss**
EUR (20% strengthening)	-	(22,914)
AZN (20% strengthening)	-	(7,959)

A weakening of the RUB against the above currencies at 31 December would have had an equal, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be subject to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUB	**Carrying amount**	
Fixed rate instruments	**2010**	**2009**
Financial assets	4,101,153	10,503,633
	4,101,153	10,503,633
Variable rate instruments		
Financial liabilities	-	(181,572)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss by the amounts shown below. There would have been no impact directly on equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss	
2010	**100 bp**	**100 bp**
’000 RUB	**increase**	**decrease**
Variable rate instruments	-	-
Cash flow sensitivity	-	-
2009		
’000 RUB		
Variable rate instruments	(1,816)	1,816
Cash flow sensitivity	(1,816)	1,816

(iii) Other market risk

Material investments are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

The primary goal of the Group’s investment strategy is to maximise investment returns.

The Group does not enter into commodity contracts other than to meet the Group’s expected usage and sale requirements; such contracts are not settled net.

(e) Accounting classifications and fair values

(i) Fair values

The basis for determining fair value is disclosed in note 4. The fair value of unquoted equity instruments is discussed in note 15. In other cases management believes that the fair value of the Group’s financial assets and liabilities approximates their carrying amounts.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2010	2009
Short-term bank deposits in RUR	1.90% - 11.00%	3.30% - 13.15%
Short-term bank deposits in USD	3.50% - 5.90%	0.50% - 5.90%
Short-term bank deposits in EUR	3.50% - 3.90%	1.30% - 3.90%
Short-term bank deposits in AZN	6.50%	-
Originated loans to related parties	3.67%	6.60%
Loans and borrowings	LIBOR 6m + 0.75%	LIBOR 6m + 0.75%

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the level of dividends to ordinary shareholders.

The Group's debt to capital ratio at the end of the year was as follows:

'000 RUB	**2010**	**2009**
Total liabilities	15,612,370	15,957,254
Less: cash and cash equivalents	(566,986)	(1,740,702)
Net debt	15,045,384	14,216,552
Total equity	55,027,837	63,681,313
Debt to capital ratio at 31 December	0.27	0.22

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

'000 RUB	**2010**	**2009**
Less than one year	180,599	222,589
Between one and five years	53,126	59,137
More than five years	109,193	239,070
	342,918	520,796

The Group leases a number of land plots and buildings under operating leases. Lessors for these leases are state authorities and third parties. The leases of land plots typically run for 6-49 years. Leases of buildings typically run for 11 months with an option to renew the lease after that date. The Group has no contingent rent arrangements or subleases.

During the year ended 31 December 2010 an amount of RUB 268,848 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: RUB 287,110 thousand).

26 Capital commitments

As at 31 December 2010 the Group had the following commitments relating to property, plant and equipment (31 December 2009: RUB 298,073 thousand):

Project	**2010 ’000 RUB**
Baltika-St. Petersburg plant	148,390
Baltika-Rostov plant	31,080
Baltika-Novosibirsk plant	26,018
Baltika-Khabarovsk plant	21,801
Baltika-Yaroslavl plant	17,900
Baltika-Pikra plant	12,553
Baltika-Samara plant	6,488
Baltika-Chelyabinsk plant	3,522
Baltika-Baku plant	2,808
Baltika-Tula plant	1,249
Baltika-Voronezh plant	483
	272,292

27 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position

(b) Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

28 Related party transactions

(a) Control relationships

The Company’s parent company is Baltic Beverages Holding AB (refer note 1(b)). The Company’s ultimate parent company is Carlsberg A/S and the Company’s ultimate controlling party is the Carlsberg Foundation. Carlsberg A/S produces consolidated financial statements that are available for public use.

(b) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 9):

’000 RUB	**2010**	**2009**
Salaries and bonuses	398,169	427,026
Compulsory social security contributions	5,503	12,719
Contributions to defined contribution plan	11,003	9,989
Termination benefits	26,427	-
	441,102	449,734

(c) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Sale of goods:				
Fellow subsidiaries	431,237	49,912	134,164	21,813
Royalties received				
Fellow subsidiaries	570,978	62,767	34,542	-
Interest received:				
Carlsberg Breweries A/S	2,690	591	50	591
Parent company	2,229	597	-	597
Services provided:				
Fellow subsidiaries	16,958	-		-
Equity accounted investee	57,059	24,361	28,594	9,214
Other income				
Parent company	-	79,237	-	-
	1,081,151	217,465	197,350	32,215

(ii) Expenses

’000 RUB	**Transaction value 2010**	**Transaction value 2009**	**Outstanding balance 2010**	**Outstanding balance 2009**
Purchase of goods:				
Equity accounted investee	231,072	571,736	38,487	42,902
Carlsberg Breweries A/S	11,379	13,971	-	33,062
Fellow subsidiaries	57,979	18,380	3,300	7,012
Services received:				
Carlsberg Breweries A/S	96,188	39,430	30,351	-
Fellow subsidiaries	11,610	178	1,805	-
Royalties paid:				
Carlsberg Breweries A/S	417,385	630,571	35,209	291,756
Fellow subsidiaries	19,484	18,803	5,987	3,626
Finance costs:				
Carlsberg Breweries A/S	-	101,556	-	-
Other expenses:				
Carlsberg Breweries A/S	106,812	150,766	317,336	162,688
	951,909	1,545,391	432,475	541,046

During the year ended 31 December 2010 the Group’s purchases of malt from Soufflet, an associate of the Group, amounted to RUB 231,072 thousand (excluding VAT) or 6.9% of the total value of malt purchases and own production and 30,008 tons or 9.1% of the total volume of malt purchases and own production. During the year ended 31 December 2009 the Group’s purchases of malt from Soufflet amounted to RUB 571,736 thousand (excluding VAT) or 17.1% of the total value of malt purchases and own production and 41,926 tons or 12.6% of the total volume of malt purchases and own production.

All outstanding balances with related parties are to be settled in cash within two months of the reporting date. None of the balances are secured.

(iii) Loans

’000 RUB	**Amount loaned 2010**	**Amount loaned 2009**	**Outstanding balance 2010**	**Outstanding balance 2009**
Loans given:				
Carlsberg Breweries A/S	1,100,523	1,089,951	500,050	1,089,951
Parent company	348,697	1,100,597	-	1,100,597
	1,449,220	2,190,548	500,050	2,190,548

The outstanding loan to Carlsberg Breweries A/S bear interest at 3.67% per annum and is due in January 2011.

29 Subsidiaries

Name	Nature of business	Country of incorpora-tion	Ownership/ voting 2010	Ownership/ voting 2009
OOO Baltika-Ukraine	Distribution of Baltika beer	Ukraine	100%	100%
Baltika S.R.L.	Distribution of Baltika beer	Moldova	100%	100%
Baltika-Almaty LLP	Distribution of Baltika beer	Kazakhstan	-	100%
OOO Baltika	Distribution of Baltika beer	Kirgizia	100%	100%
OOO Baltika-Bel	Distribution of Baltika beer	Belorussia	100%	100%
OOO Terminal Podolsk	Warehouse	Russia	100%	100%
OOO Universalopttorg	Warehouse	Russia	-	100%
Baltika Deutschland GmbH	Distribution of Baltika beer	Germany	100%	100%
Baltika-Baku LLC	Beer Production	Azerbaijan	100%	100%
Baku Pivo JSC	Beer Production	Azerbaijan	91%	91%