OAO Baltika Breweries and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2011

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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 2011, 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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.

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

17 February 2012

’000 RUB	Note	31 December 2011	31 December 2010
Assets			
Property, plant and equipment	13	38,370,282	39,078,860
Intangible assets	14	14,454,865	14,255,934
Investments in equity accounted investees		252,029	215,186
Other investments	16	87,251	87,251
Non-current assets		53,164,427	53,637,231
Inventories	18	4,670,742	5,781,434
Other investments	16	10,821,673	3,895,312
Current tax assets		56,833	98,573
Trade and other receivables	19	14,597,540	6,660,671
Cash and cash equivalents	20	311,770	566,986
Current assets		30,458,558	17,002,976
Total assets		83,622,985	70,640,207
Equity			
Preference shares		84,978	84,978
Ordinary shares		736,129	736,129
Share capital		821,107	821,107
Share premium		-	4,171,716
Reserve for own shares		(39,890)	-
Translation reserve		1,021,768	753,745
Retained earnings		60,101,694	49,281,269
Total equity	21	61,904,679	55,027,837
Liabilities			
Deferred tax liabilities	17	2,350,827	1,943,118
Non-current liabilities		2,350,827	1,943,118
Trade and other payables	23	18,704,002	13,258,512
Deferred income		94,136	284,895
Current tax liabilities		569,341	125,845
Current liabilities		19,367,479	13,669,252
Total liabilities		21,718,306	15,612,370
Total equity and liabilities		83,622,985	70,640,207

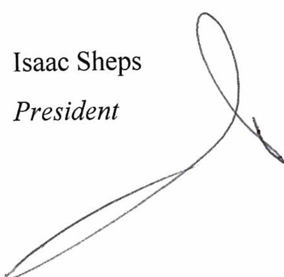
The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements, set out on pages 11 to 52.

'000 RUB	Note	2011	2010
Continuing operations			
Revenue		89,795,229	79,306,979
Cost of sales		(42,115,606)	(34,161,877)
Gross profit		47,679,623	45,145,102
Other income	7	163,622	75,551
Distribution expenses		(23,752,001)	(18,551,647)
Administrative expenses	8	(2,439,445)	(2,429,000)
Other expenses	9	(10,709)	(551,231)
Results from operating activities		21,641,090	23,688,775
Finance income	11	1,319,017	1,269,192
Finance costs	11	(788,173)	(712,991)
Net finance costs		530,844	556,201
Share of profit/(loss) of equity accounted investees (net of income tax)		29,193	(57,629)
Profit before income tax		22,201,127	24,187,347
Income tax expense	12	(4,487,947)	(5,016,165)
Profit from continuing operations		17,713,180	19,171,182
Other comprehensive income			
Foreign currency translation differences for foreign operations		268,023	62,340
Total comprehensive income for the year		17,981,203	19,233,522
Earnings per share			
Basic and diluted earnings per share (RUB)	22	119.73	112.55

These consolidated financial statements were approved by Management on 17 February 2012 and were signed on its behalf by:

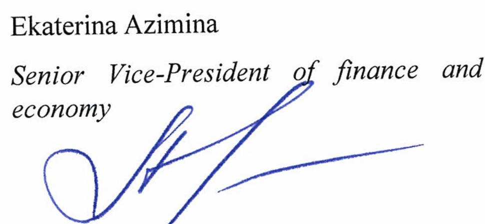
Isaac Sheps

President



Ekaterina Azimina

Senior 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**	**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	Preference shares	Ordinary shares	Share premium	Reserve for own shares	Translation reserve	Retained earnings	Total
Balance at 1 January 2011	84,978	736,129	4,171,716	-	753,745	49,281,269	55,027,837
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	17,713,180	17,713,180
Other comprehensive income				-			
Foreign currency translation differences	-	-	-	-	268,023	-	268,023
Total other comprehensive income	-	-	-	-	268,023	-	268,023
Total comprehensive income for the year	-	-	-	-	268,023	17,713,180	17,981,203
Transactions with owners, recorded directly in equity							
Own shares acquired	-	-	(4,171,716)	(39,890)	-	(6,892,755)	(11,104,361)
Total transactions with owners	-	-	(4,171,716)	(39,890)	-	(6,892,755)	(11,104,361)
Balance at 31 December 2011	84,978	736,129	-	(39,890)	1,021,768	60,101,694	61,904,679

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	2011	2010
Cash flows from operating activities			
Profit for the year		17,713,180	19,171,182
Adjustments for:			
Depreciation	13	4,710,445	4,777,578
Amortisation	14	299,721	227,831
Impairment losses on property, plant and equipment	9, 13	-	550,248
Gain on disposal of property, plant and equipment and intangible assets	7	(162,116)	(72,902)
Share of (profit)/loss of equity accounted investees (net of income tax)	15	(29,193)	57,629
Loss/(gain) on disposal of subsidiary	9, 7	10,709	(2,568)
Interest expense	11	2,380	1,025
Interest income	11	(350,894)	(543,396)
Income tax expense	12	4,487,947	5,016,165
Cash from operating activities before changes in working capital and provisions		26,682,179	29,182,792
Change in inventories		1,216,382	(1,308,974)
Change in trade and other receivables		(7,936,869)	1,401,422
Change in trade and other payables		5,539,963	(158,470)
Cash flows from operations before income taxes and interest paid		25,501,655	29,116,770
Income taxes paid		(3,604,490)	(5,287,253)
Interest paid		(2,380)	(1,110)
Net cash from operating activities		21,894,785	23,828,407

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**	**2011**	**2010**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		465,136	217,205
Disposal of subsidiary, net of cash disposed of		6,621	4,160
Interest received		266,942	521,229
Acquisition of property, plant and equipment and intangible assets		(4,770,196)	(3,045,724)
(Origination of)/repayment of loans to/(from) related parties		(6,000,000)	1,689,360
Acquisition of investments		(842,409)	-
Proceeds from disposal of investments		-	3,488,794
Net cash (used in)/from investing activities		(10,873,906)	2,875,024
Cash flows from financing activities			
Repayment of borrowings		-	(181,487)
Purchase of treasury shares		(11,104,361)	-
Dividends paid		(177,460)	(27,695,522)
Net cash used in financing activities		(11,281,821)	(27,877,009)
Net decrease in cash and cash equivalents		(260,942)	(1,173,578)
Cash and cash equivalents at 1 January		566,986	1,740,702
Effect of exchange rate fluctuations on cash and cash equivalents		5,726	(138)
Cash and cash equivalents at 31 December	20	311,770	566,986

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 five 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 2011 and 2010 Baltic Beverages Holding AB was the Company's immediate parent company.

As at 31 December 2011 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 five subsidiaries: OOO Baltika, OOO Baltika-Bel, Baltika Deutschland GmbH, LLC Baltika-Baku and OJSC Baku-Pivo.

During 2011 two 100% subsidiaries of the Group – OOO Terminal Podolsk and OOO Baltika-Ukraine were liquidated. In April 2011 the Group sold its 100% owned subsidiary Baltika S.R.L. (Moldova) to Slavutich Brewery, a Carlsberg Group subsidiary in Ukraine.

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 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 and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

(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 14 - Intangible assets
- Note 18 – Inventories
- Note 19 – Trade and other receivables

In the opinion of management, there are no assumptions or estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

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.

(a) Basis of consolidation

(i) Business combinations

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.

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 pre-existing equity interest in the acquire; 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.

Transaction costs, 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 in the fair value of the contingent consideration are recognised in profit or loss.

(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 profit or loss and other comprehensive income 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 date of transition of the Group to IFRSs, such differences have been recognised in other comprehensive income, and presented 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 so 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, 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 (see note 3(i)(i)).

Loans and receivables comprise the following classes of assets: loans and receivables as presented in notes 16 and 19, and cash and cash equivalents as presented in note 20.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

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 financial liabilities 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.

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 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, net of any tax effects, 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. 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.

Any 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

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. 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 of significant items of property, plant and equipment 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 that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

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 production 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 loans and 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 are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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

(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 customer, 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. Sales are made via distributors and directly to retailers. For sales made via distributors, transfer occurs either upon dispatch of products to the distributor or upon dispatch of products by the distributor in accordance with the terms of the distributor agreement For other sales, transfer occurs upon receipt of 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) 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.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

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.

4 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 2011, 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.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. 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 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance. 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.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from the date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 12 *Disclosure of Interest in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- 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 for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

5 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 and debt 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.

6 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 2011 is as follows:

'000 RUB	**2011**	**2010**
Revenue	89,795,229	79,306,979
EBITDA (including share of profit/(loss) of equity accounted investees (net of income tax) RUB 29,193 thousand (2010: RUB (57,629) thousand))	26,680,449	29,186,803

’000 RUB	**2011**	**2010**
Segment assets	83,622,985	70,640,207
Investments in equity-accounted investees	252,029	215,186
Capital expenditures	4,344,467	2,604,981
Segment liabilities	21,718,306	15,612,370

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

’000 RUB	**2011**	**2010**
EBITDA (including share of profit/(loss) of equity-accounted investees (net of income tax))	26,680,449	29,186,803
Depreciation and amortisation and impairment losses on property, plant and equipment	(5,010,166)	(5,555,657)
Finance income	1,319,017	1,269,192
Finance costs	(788,173)	(712,991)
Profit before income tax	22,201,127	24,187,347
Income tax	(4,487,947)	(5,016,165)
Profit for the year	17,713,180	19,171,182

Approximately 17.8% (2010: 17.9%) 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.

7 Other income

’000 RUB	**2011**	**2010**
Gain on disposal of property, plant and equipment and intangible assets	162,116	72,902
Gain on disposal of subsidiary	-	2,568
Other income	1,506	81
	163,622	75,551

8 Administrative expenses

’000 RUB	2011	2010
Wages and salaries	757,405	819,518
Depreciation and amortisation	579,959	533,724
Information technology and communications	161,942	145,829
Compulsory social security contributions	120,458	112,690
Other payroll expenses	78,262	74,450
Facilities	95,163	90,399
Charity	23,482	20,920
Contributions to defined contribution plan	9,055	11,003
Other administrative expenses	613,719	620,467
	2,439,445	2,429,000

9 Other expenses

’000 RUB	2011	2010
Loss on disposal of subsidiary	(10,709)	-
Impairment losses on property, plant and equipment	-	(550,248)
Other expenses	-	(983)
	(10,709)	(551,231)

10 Personnel costs

’000 RUB	2011	2010
Wages and salaries	5,983,416	5,800,568
Compulsory social security contributions	1,516,613	1,030,152
Other payroll expenses	452,788	473,818
Contributions to defined contribution plan	9,055	11,003
	7,961,872	7,315,541

11 Finance income and finance costs

'000 RUB	2011	2010
Recognised in profit or loss		
Foreign exchange gains	968,123	725,796
Interest income on bank deposits	206,005	406,766
Interest income on loans and receivables	144,889	136,630
Finance income	1,319,017	1,269,192
Foreign exchange losses	(785,793)	(711,966)
Interest expense on financial liabilities measured at amortised cost	(2,380)	(1,025)
Finance costs	(788,173)	(712,991)
Net finance income recognised in profit or loss	530,844	556,201
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	350,894	543,396
Total interest expense on financial liabilities	(2,380)	(1,025)
Recognised in other comprehensive income		
Foreign currency translation differences for foreign operations	268,023	62,340
Finance income recognised in other comprehensive income, net of tax	268,023	62,340

12 Income tax expense

'000 RUB	**2011**	**2010**
Current tax expense		
Current year	4,089,726	4,705,847
Deferred tax expense		
Origination and reversal of temporary differences	398,221	310,318
Total income tax expense	4,487,947	5,016,165

The Group's applicable tax rate is the corporate income tax rate of 20% for Russian companies (2010: 20%).

Reconciliation of effective tax rate:

	2011		**2010**	
	'000 RUB	**%**	**'000 RUB**	**%**
Profit before income tax	22,201,127	100	24,187,347	100
Income tax at applicable tax rate	4,440,225	20.0	4,837,469	20.0
Overprovided in previous periods	(134,948)	(0.6)	-	-
Non-deductible expenses	455,698	2.0	361,430	1.5
Effects of tax concessions	(182,596)	(0.8)	(259,946)	(1.1)
Other	(90,432)	(0.4)	77,212	0.3
	4,487,947	20.2	5,016,165	20.7

13 Property, plant and equipment

'000 RUB	Land and buildings	Machinery and equipment	Kegs	Construction in progress	Total
Cost/Deemed cost					
Balance at 1 January 2010	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
Balance at 31 December 2010	15,311,035	48,480,675	2,221,286	1,459,860	67,472,856
Additions	393,959	3,006,545	314,919	629,044	4,344,467
Disposals	(364,075)	(445,146)	(26,074)	-	(835,295)
Transfers	241,443	635,052	1,051	(883,462)	(5,916)
Effect of movements in exchange rates	22,848	68,833	2,121	2,415	96,217
Balance at 31 December 2011	15,605,210	51,745,959	2,513,303	1,207,857	71,072,329
Depreciation and impairment losses					
Balance at 1 January 2010	(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)
Effect of movements in exchange rates	(418)	(2,111)	(29)	-	(2,558)
Balance at 31 December 2010	(2,548,240)	(24,672,857)	(1,172,899)	-	(28,393,996)
Depreciation for the year	(475,714)	(4,113,112)	(227,309)	-	(4,816,135)
Disposals	113,734	392,615	25,975	-	532,324
Effect of movements in exchange rates	(2,800)	(21,179)	(261)	-	(24,240)
Balance at 31 December 2011	(2,913,020)	(28,414,533)	(1,374,494)	-	(32,702,047)
Carrying amounts					
At 1 January 2010	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
At 31 December 2011	12,692,190	23,331,426	1,138,809	1,207,857	38,370,282

Depreciation expense of RUB 2,755,074 thousand has been included in cost of goods sold (2010: RUB 2,750,918 thousand), RUB 1,604,631 thousand in distribution expenses (2010: RUB 1,677,216 thousand), RUB 350,740 thousand in administrative expense (2010: RUB 349,444 thousand) and RUB 105,690 thousand in cost of inventories as at 31 December 2011 (2010: RUB 176,407 thousand).

Impairment loss

In 2010 the Group has decided to cease production of beer at one of its production plants. The Group tested plant's 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 the same or similar assets).

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

14 Intangible assets

'000 RUB	Goodwill	Trademarks	Software and licences	Total
Cost				
Balance at 1 January 2010	13,660,656	57,779	922,339	14,640,774
Additions	-	-	426,934	426,934
Effect of movements in exchange rates	53,692	1,513	196	55,401
Balance at 31 December 2010	13,714,348	59,292	1,349,469	15,123,109
Additions	-	-	330,833	330,833
Disposals	-	-	(61)	(61)
Transfers	-	-	5,916	5,916
Effect of movements in exchange rates	158,543	4,469	1,165	164,177
Balance at 31 December 2011	13,872,891	63,761	1,687,322	15,623,974
Amortisation				
Balance at 1 January 2010	-	(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)
Balance at 31 December 2010	-	(13,349)	(853,826)	(867,175)
Amortisation for the year	-	(5,792)	(293,929)	(299,721)
Disposals	-	-	12	12
Effect of movements in exchange rates	-	(1,592)	(633)	(2,225)
Balance at 31 December 2011	-	(20,733)	(1,148,376)	(1,169,109)
Carrying amounts				
At 1 January 2010	13,660,656	50,549	290,595	14,001,800
At 31 December 2010	13,714,348	45,943	495,643	14,255,934
At 31 December 2011	13,872,891	43,028	538,946	14,454,865

Amortisation expense of RUB 35,486 thousand has been included in cost of goods sold (2010: RUB 16,232 thousand), RUB 35,016 thousand in distribution expenses (2010:

RUB 27,319 thousand) and RUB 229,219 thousand in administrative expense (2010: RUB 184,280 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 2011 was determined similarly as in 2010.

(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 11.6% (2010: 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 18.19% at a market interest rate of 6.78%. The pre-tax discount rate is 16.87% (2010: 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 (2010: 2% - 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:

- Revenue is projected to grow at a rate of 4% to 11% per year in the five year plan from 2012 to 2016 due to growth of the Group’s market share driven by enhanced sales promotion activities of the Group and the effects of inflation.
- Raw material costs are not expected to increase significantly in 2012 despite an increase in the price of raw materials caused by the poor harvest in 2011. In the next two years raw material costs are expected to increase on average at a rate below the rate of inflation followed by an increase in 2015 due to the effect of a poor harvest the preceding year that is anticipated based on the standard crop yield curve for basic raw materials. In the subsequent year, raw material costs are expected to grow in line with inflation forecast by official authorities.
- Other costs are expected to increase at a rate of 7% to 9% per year in the five year plan from 2012 to 2016.

(c) Sensitivity to changes in assumptions

Although no impairment loss was recognised in respect of goodwill, the determination of 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 163,113,000 thousand (compared to a carrying amount of RUB 52,825,147 thousand), Management has assumed that production volume will gradually increase and by 2016 will be 9% greater than volumes projected for 2012.

If actual production volume is below estimated production volume by 37% in 2012 and subsequent years, the value in use will approximate the carrying amounts of the plants and goodwill.

15 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 2011 and 2010 the Group received no dividends from its equity-accounted investee.

The Group’s share of profit in its equity accounted investee for the year ended 31 December 2011 was RUB 29,193 thousand (2010: loss RUB 57,629 thousand). The Group’s share of post-acquisition total recognised gains and losses in associates as at 31 December 2011 was RUB 191,099 thousand (31 December 2010: RUB 154,258 thousand).

16 Other investments

’000 RUB	**2011**	**2010**
Non-current		
Available-for-sale investments:		
Measured at cost	87,251	87,251
Current		
Loans and receivables:		
Deposits	4,215,377	3,395,262
Originated loans to related parties	6,606,296	500,050
	10,821,673	3,895,312

Available-for-sale investments stated at cost comprise unquoted equity securities in the banking industry. 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.

17 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**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Property, plant and equipment	-	-	(3,128,572)	(2,632,587)	(3,128,572)	(2,632,587)
Intangible assets	4,852	17,230	(20,549)	(9,188)	(15,697)	8,042
Investments	-	-	(13,755)	(10,440)	(13,755)	(10,440)
Inventories	131,815	44,652	(55,161)	(70,338)	76,654	(25,686)
Trade and other receivables	365,794	209,558	-	-	365,794	209,558
Trade and other payables	364,749	507,995	-	-	364,749	507,995
Net tax assets/(liabilities)	867,210	779,435	(3,218,037)	(2,722,553)	(2,350,827)	(1,943,118)

During the year ended 31 December 2011 RUB 398,221 thousand (2010: RUB 310,318 thousand) of the movement in the net deferred tax liability was recognized in the statement of comprehensive income and RUB 9,488 thousand (2010: RUB 1,128 thousand), relating to foreign exchange differences, was recognized directly in other comprehensive income.

18 Inventories

’000 RUB	**2011**	**2010**
Raw materials and consumables	3,537,227	4,215,009
Work in progress	355,788	449,659
Finished goods and goods for resale	777,727	1,116,766
	4,670,742	5,781,434
Write-down of inventories in the current year	173,935	127,316

In 2011 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to RUB 32,303,580 thousand (2010: RUB 24,926,176 thousand).

19 Trade and other receivables

'000 RUB	**2011**	**2010**
Trade receivables	12,420,057	3,241,860
Advances to suppliers	812,242	2,228,165
VAT receivable	222,884	134,331
Other receivables	1,142,357	1,056,315
Trade and other receivables included in loans and receivables category	14,597,540	6,660,671

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

20 Cash and cash equivalents

'000 RUB	**2011**	**2010**
Bank balances	198,632	361,145
Deposits	113,138	205,841
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	311,770	566,986

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

21 Capital and reserves

(a) Share capital and share premium

Number of shares unless otherwise stated	**Ordinary shares 2011**	**Ordinary shares 2010**	**Preference shares 2011**	**Preference shares 2010**
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.

On 27 April 2011 the Group launched a share buy-back program that provided an opportunity for shareholders to exit their investment with a premium to the market price and without significant transaction costs. The Group repurchased 7,319,202 ordinary and 543,241 preference shares through this buyback programme for RUB 10,996,726 thousand.

On 1 September 2011, an extraordinary shareholders meeting approved the conversion of Group's preference shares into ordinary shares. Shareholders that did not agree with the conversion had the right to sell their shares back to the Group. As a result, the Group repurchased 91,628 preference shares for RUB 107,635 thousand.

The cancellation of shares bought as a result of these two initiatives is scheduled for 2012.

(b) Reserve for own shares

The reserve for the Group's own shares comprises the cost of the Company's shares held by the Group. At the reporting date the Company held 7,319,202 of its own ordinary shares and 634,869 of its own preference shares.

(c) 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 2011, the Company had retained earnings, including profit for the current year adjusted for effect of shares to be cancelled, of approximately RUB 30,912,786 thousand (31 December 2010: RUB 24,166,377 thousand).

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

	RUB per share	'000 RUB
Year ended 31 December 2010		
Preference shares		
Final dividend for 2009	128	1,577,801
Ordinary shares		
Final dividend 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

No other dividends for 2010 were declared by the Group.

(d) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statement of foreign operations.

22 Earnings per share

The calculation of earnings per share for the year ended 31 December 2011 was based on the profit for the year attributable to ordinary shareholders of RUB 17,713,180 thousand (2010: RUB 17,075,665 thousand), and the weighted average number of ordinary shares outstanding during the year of 147,940,474 (2010: 151,714,594), calculated as shown below. The Company has no dilutive potential ordinary shares.

Weighted average number of ordinary shares

Number of shares	**2011**	**2010**
Issued shares at 1 January	151,714,594	151,714,594
Effect of own shares repurchased	(3,774,120)	-
Weighted average number of shares for the for the year ended 31 December	147,940,474	151,714,594

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

Profit attributable to ordinary shareholders

	2011	**2010**
	’000 RUB	**’000 RUB**
Profit for the year attributable to shareholders of the Company	17,713,180	19,171,182
Preference dividends declared during the year	-	(2,095,517)
Profit attributable to ordinary shares	17,713,180	17,075,665

23 Trade and other payables

	2011 '000 RUB	2010 '000 RUB
Trade payables	8,896,589	6,387,505
Taxes payable	7,120,447	3,787,166
Accrued salaries, wages and benefits	1,141,581	1,449,655
Dividends payable	128,671	306,131
Payables to equity-accounted investee	343,162	38,487
Other payables	1,073,552	1,289,568
	18,704,002	13,258,512

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) 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 as follows:

'000 RUB	**Carrying amount**	
	2011	**2010**
Trade and other receivables	13,562,414	4,298,175
Available-for-sale financial assets	87,251	87,251
Loans and receivables	10,821,673	3,895,312
Cash and cash equivalents	311,770	566,986
	24,783,108	8,847,724

(ii) 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 17.8% (2010: 17.9%) 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 85% of the Group's customers have been transacting with the Group for more than three years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a distributor or a retail customer, geographic location, maturity, and existence of any previous financial difficulties. Trade receivables relate mainly to the Group's distributors. 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.

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

’000 RUB	**Carrying amount**	
	2011	**2010**
Distributors	10,531,130	1,798,666
Retail customers	2,024,122	1,529,902
	12,555,252	3,328,568
Accumulated impairment losses on receivables	(135,195)	(86,708)
	12,420,057	3,241,860

The Group's most significant customer, a domestic distributor, accounts for RUB 1,407,740 thousand of the trade receivables carrying amount at 31 December 2011 (2010: RUB 960,911 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:

’000 RUB	**Gross**	**Impairment**	**Gross**	**Impairment**
	2011	**2011**	**2010**	**2010**
Current	11,950,960	-	2,965,484	-
Past due 0 – 90 days	479,426	10,329	277,686	1,310
Past due more than 90 days	124,866	124,866	85,398	85,398
	12,555,252	135,195	3,328,568	86,708

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

’000 RUB	**Collective impairment**	
	2011	**2010**
Balance at beginning of the year	86,708	81,394
Increase during the year	55,697	10,788
Amounts written off against trade receivables	(7,210)	(5,474)
Balance at end of the year	135,195	86,708

Based on historic default rates the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due and past due by up to 90 days; 96% 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 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.

(iii) Cash and cash equivalents

The Group held cash and cash equivalents of RUB 311,770 thousand at 31 December 2011 (2010: RUB 566,986 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks which are included in the top 50 largest banks in Russian Federation according to the size of total assets. The status of the banks is reconsidered every 6 months.

(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.

The Group aims to maintain the level of cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the succeeding 32 days.

The Group also monitors its liquidity position by means of various ratios. At 31 December 2011, the expected cash flows from trade receivables maturing within two months were RUB 8,558,150 thousand (2010: RUB 3,157,068 thousand). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit.

- USD 199,067 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 109,504 thousand multi-currency unsecured credit/overdraft facility. Interest would be determined as each tranche is drawn down.

The Group has contractual commitments to purchase property, plant and equipment (see note 26).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of the netting agreements.

31 December 2011 ’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	18,704,002	18,704,002	18,704,002	-	-	-	-
	18,704,002	18,704,002	18,704,002	-	-	-	-

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	-	-	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(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 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 2011**	**USD-denominated 2011**	**AZN-denominated 2011**	**EUR-denominated 2010**	**USD-denominated 2010**	**AZN-denominated 2010**
Current assets						
Cash and cash equivalents	5,332	50,220	61,338	3,579	12,734	64,891
Loans and receivables	555,820	2,955,877	-	558,944	2,728,235	108,083
Trade receivables	9,990	4,722	52,459	11,100	-	60,907
Current liabilities						
Trade payables	(813,348)	(125,516)	(28,561)	(388,857)	(363,427)	(15,083)
Gross balance sheet exposure	(242,206)	2,885,303	85,326	184,766	2,377,542	218,798
Net exposure	(242,206)	2,885,303	85,326	184,766	2,377,542	218,798

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	
	2011	**2010**	**2011**	**2010**
USD	0.0340	0.0329	0.0311	0.0328
EURO	0.0245	0.0248	0.0240	0.0248
AZN	0.0269	0.0264	0.0244	0.0262

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. There would have been no impact directly on equity. 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 2010.

'000 RUB	**Equity**	**Profit or loss**
2011		
EUR (20% strengthening)	-	48,441
USD (20% strengthening)	-	(577,060)
AZN (20% strengthening)	-	(17,065)
2010		
EUR (20% strengthening)	-	(36,953)
USD (20% strengthening)	-	(475,508)
AZN (20% strengthening)	-	(43,760)

A weakening of the RUB against the above currencies at 31 December would have had the 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	**2011**	**2010**
Financial assets	10,934,811	4,101,153
	10,934,811	4,101,153

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 have an effect in profit or loss or in equity.

(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 5. The fair value of unquoted equity instruments is discussed in note 16. 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:

	2011	2010
Short-term bank deposits in RUR	2.00% - 8.72%	1.90% - 11.00%
Short-term bank deposits in USD	0.23% - 3.25%	3.50% - 5.90%
Short-term bank deposits in EUR	2.4% - 3.25%	3.50% - 3.90%
Short-term bank deposits in AZN	8.44%-11.26%	6.50%
Originated loans to related parties	3.67%-8.70%	3.67%

(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	**2011**	**2010**
Total liabilities	21,718,306	15,612,370
Less: cash and cash equivalents	(311,770)	(566,986)
Net debt	21,406,536	15,045,384
Total equity	61,904,679	55,027,837
Debt to capital ratio at 31 December	0.35	0.27

There were no changes in the Group’s approach to capital management during the year.

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	**2011**	**2010**
Less than one year	89,270	80,599
Between one and five years	44,857	53,126
More than five years	94,098	109,193
	228,225	242,918

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 2011 an amount of RUB 156,739 thousand was recognised as an expense in profit or loss in respect of operating leases (2010: RUB 174,468 thousand).

26 Capital commitments

As at 31 December 2011 the Group had the following commitments relating to property, plant and equipment (31 December 2010: RUB 272,292 thousand):

Project	2011 '000 RUB
Baltika-St. Petersburg plant	1,434,970
Baltika-Novosibirsk plant	11,290
Baltika-Chelyabinsk plant	10,536
Baltika-Tula plant	9,909
Baltika-Khabarovsk plant	7,420
Baltika-Samara plant	5,406
Baltika-Pikra plant	3,871
Baltika-Rostov plant	3,752
Baltika-Voronezh plant	2,402
Baltika-Baku plant	1,514
Baltika-Yaroslavl plant	893
	1,491,963

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

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 immediate 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 10):

'000 RUB	**2011**	**2010**
Salaries and bonuses	575,341	398,169
Compulsory social security contributions	8,028	5,503
Contributions to defined contribution plan	9,055	11,003
Termination benefits	-	26,427
	592,424	441,102

(c) Transactions with other related parties

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

(i) Revenue

'000 RUB	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2011	**2010**	**2011**	**2010**
Sale of goods:				
Fellow subsidiaries	1,024,584	431,237	20,705	134,164
Royalties received				
Fellow subsidiaries	593,115	570,978	436,943	34,542
Interest received:				
Carlsberg Breweries A/S	128,853	2,690	106,296	50
Immediate parent company	-	2,229	-	-
Fellow subsidiaries	6,933	-	3,116	-
Services provided:				
Fellow subsidiaries	20,788	16,958	769	-
Equity-accounted investee	98,568	57,059	39,750	28,594
	1,872,841	1,081,151	607,579	197,350

(ii) Expenses

'000 RUB	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2011	**2010**	**2011**	**2010**
Purchase of goods:				
Equity accounted investee	647,177	231,072	343,162	38,487
Carlsberg Breweries A/S	-	11,379	-	-
Fellow subsidiaries	-	57,979	-	3,300
Services received:				
Carlsberg Breweries A/S	50,375	96,188	214,032	30,351
Fellow subsidiaries	61,095	11,610	78,963	1,805
Royalties paid:				
Carlsberg Breweries A/S	427,275	417,385	144,025	35,209
Fellow subsidiaries	24,393	19,484	7,650	5,987
Other expenses:				
Carlsberg Breweries A/S	148,120	106,812	264,463	317,336
	1,358,435	951,909	1,052,295	432,475

During the year ended 31 December 2011 the Group's purchases of malt from Soufflet, an equity-accounted investee, amounted to RUB 647,177 thousand (excluding VAT) or 11.6% of the total value of malt purchases and own production and 37,360 tons or 10.9% of the total volume of malt purchases and own production. During the year ended 31 December 2010 the Group's purchases of malt from Soufflet 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.

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**	**Amount loaned**	**Outstanding balance**	**Outstanding balance**
	2011	**2010**	**2011**	**2010**
Loans given:				
Carlsberg Breweries A/S	12,728,853	1,100,523	6,606,296	500,050
Parent company	-	348,697	-	-
	12,728,853	1,449,220	6,606,296	500,050

The outstanding loans to Carlsberg Breweries A/S bear interest from 5% to 8.7% per annum and are repayable partly in January 2012 and partly in April 2012.

29 Subsidiaries

Subsidiary	Nature of business	Country of incorporation	Ownership/ voting	Ownership/ voting
			2011	**2010**
OOO Baltika-Ukraine	Distribution of Baltika beer	Ukraine	-	100%
Baltika S.R.L.	Distribution of Baltika beer	Moldova	-	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%
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%