SUN Interbrew Plc

Annual Report and
Consolidated Financial Statements
for the year ended 31 December 2016

SUN INTERBREW PLC

CONTENTS

SUN INTERBREW PLC

BOARD OF DIRECTORS AND OTHER OFFICERS

Nand Lal Khemka - Director (Chairman of the Board)
Denis Khrenov – Director and Chief Executive Officer ("CEO")
Alexander Balakhnov - Director and Chief Legal Officer and member of the Audit Committee and Nominations and Remuneration Committee ("CLO")
Olesia Sheppard - Director and Chief Financial Officer ("CFO")
Shiv Vikram Khemka - Director
Uday Harsh Khemka – Director
Timur Miretskyy - Director (resigned on 24 February 2017)
Anatolii Drozda –Director (appointed on 24 February 2017)
Dmytro Shpakov - Director
Inter Jura CY (Directors) Limited – Director and member of the Audit Committee and Nomination and Remuneration Committee
Inter Jura CY (Management) Limited - Director

Company Secretary

Inter Jura CY (Services) Limited
1 Lampousa Street
CY-1095 Nicosia
Cyprus

Registered office

1 Lampousa Street
CY-1095 Nicosia
Cyprus

Registration number: HE277915

DECLARATION OF DIRECTORS AND OTHER RESPONSIBLE OFFICERS OF THE COMPANY FOR THE PREPARATION OF THE CONSOLIDATION FINANCIAL STATEMENTS

In accordance with Section 9 sub-sections 3 (c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Markets) Law of 2007, as amended (the "Law") we, the members of the Board of Directors and the other responsible persons for the consolidated financial statements of SUN Interbrew Plc (the "Company") for the year ended 31 December 2016, confirm that, to the best of our knowledge:

(a) the annual consolidated financial statements which are presented on pages 18 to 67:

(i) have been prepared in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and in accordance with the provisions of Section 9, sub-section (4) of the Law, and

(ii) give a true and fair view of the assets and liabilities, the financial position and the profit or loss of SUN Interbrew Plc and the businesses that are included in the consolidated accounts as a total and

(b) the Board of Directors' report provides a fair view of the developments and the performance of the business as well as the financial position of the Company and the undertakings included in the consolidated accounts as a total, together with a description of the main risks and uncertainties that are facing.

Members of the Board of Directors

Name and surname	Signature
Nand Lal Khemka – Chairman	
Denis Khrenov – Director and Chief Executive Officer	
Shiv Vikram Khemka – Director	
Uday Harsh Khemka – Director	
Anatolii Drozda –Director	
Alexander Balakhnov – Director and Chief Legal Officer	
Dmytro Shpakov – Director	
Olesia Sheppard – Director and Chief Financial Officer	
Inter Jura CY (Directors) Limited – Director	
Inter Jura CY (Management) Limited – Director	

1 The Board of Directors presents its report together with the audited consolidated financial statements of SUN Interbrew Plc (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

Principal activities

2 The principal activities of the Group, which are unchanged from the last year, are manufacturing, marketing and distribution of beer and soft drinks.

Review of developments, position and performance of the Group's business

3 The loss of the Group for the year ended 31 December 2016 was EUR 23,384 thousand (2015: EUR 110,179 thousand). The primary part of the loss is due to net revenue reduction of EUR 13,852 thousand driven mainly by the overall industry decline and by market share decline due to price increases ahead of competitors, and interest expense on loans in the amount of EUR 18,650 thousand (2015: EUR 39,158 thousand); the negative impact was partially offset by forex resulting from operating activities gains of EUR 3,989 thousand (2015: EUR 11,332 thousand loss). In 2015 the management recognised an impairment loss on its Ukraine operating segment of EUR 30,409 thousand, while no impairment was recognized in 2016.

The Other Comprehensive Income for the year ended 31 December 2016 was EUR 6,717 thousand (2015: EUR 18,791 loss). Overall positive impact was resulted from the strength of the Russian Ruble. Foreign currency translation income in 2016 amounted to EUR 6,860 thousand (2015: EUR 18,743 thousand loss).

On 31 December 2016 the total assets of the Group were EUR 558,472 thousand (2015: EUR 453,175 thousand) and the net assets were EUR 26,897 thousand (2015: net assets EUR 43,564 thousand). The financial position, development and performance of the Group as presented in these consolidated financial statements are as expected given the market conditions in Ukraine and Russia (note 1). The Group's total sales volume of beer amounted to 13,725 hl in 2016 compared to 14,777 hl in 2015. The total average number of employees of the Group was 4,251 in 2016 compared to 4,811 in 2015.

The Group analyses its performance using EBITDA, which is a non-IFRS performance measure. EBITDA is defined as Results from operating activities plus depreciation and amortization and plus impairment losses on property, plant and equipment and intangible assets.

While the amounts included in EBITDA have been derived from the Group's consolidated financial statements, EBITDA is not a financial measure calculated in accordance with IFRS.

The Group presents EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance.

Calculation of EBITDA for the years ended 31 December 2016 and 2015 is provided in the table below:

'000 Euro	**2016**	**2015**
Results from operating activities	**(6,330)**	**(78,984)**
Depreciation and amortization	54,077	57,749
Impairment loss	799	31,510
EBITDA	**48,546**	**10,275**

The increase in EBITDA in 2016 comparing to 2015 is mostly attributable to the improvement of the gross profit, reduction of general and administrative expenses and positive impact from other operating gains, mostly relating to effect of forex gain resulting from operating activities.

Principal risks and uncertainties

4 The principal risks and uncertainties faced by the Group are disclosed in Notes 1, 2, 24 and 27 of the consolidated financial statements.

Future developments of the Group

5 The Board of Directors does not expect any significant changes or developments in the operations, financial position and performance of the Group in the foreseeable future aside from those disclosed in the section below.

The management of the Group has undertaken in 2016 and has planned for 2017 the following initiatives for the purpose of enhancing the profitability of the Group's operations and financial position:

- In 2016 the management has grown Net Revenue/hl by 16.5% through the following initiatives:
  - Significant price increases in 2016 in both countries (19% in Russia & 32% in Ukraine) in order to improve profitability
  - Continuous premiumization of the products sold in both countries, growth of Premium brands such as Bud, Hoegaarden and imported product
- In 2017 the management plans to continue growing Net Revenue/hl (+8.3%) through ongoing premiumization driven by Premium brands (incl. imported), as well as further development of draught beer, providing continuous Net Revenue growth.
- The management continues to work on optimization of fixed expenses (General and Administrative) in order to improve bottom-line (in 2016 the General and Administrative expenses decline was - approximately 20% compared to the previous year)
- The management continues to work with government authorities on their support to the business activities of the Group.

Considering growing gross profit, declining fixed expenses & stabilizing macro environment in both Russia and Ukraine, the management has a reasonable expectation of achieving profitability and meeting its current obligations and for this reason believes it is appropriate to continue adopting the going concern basis in preparing the annual report and accounts.

Results

6 The Group's results for the year are set out on page 18 of the consolidated financial statements. The loss for the year is carried forward.

Dividends

7 The Board of Directors does not recommend the payment of dividend on the basis of the 2016 results. The Board of Directors may at a later stage consider the payment of interim dividends out of retained earnings, in accordance with the relevant provisions of the Companies Laws and the Articles of Association of the Company.

Share capital

8 The authorised share capital which amounts to GBP 1,552,786 is divided into 125,278,614 class A shares of GBP 0.01 each and 30,000,000 class B shares of GBP 0.01 each.

9 The current number of issued shares is 116,628,930 including A class shares (non-voting) of 88,832,710 and B class shares (voting) of 27,796,220. The titles issued by the Company and their ISIN number are as follows:

	ISIN
144A Class A GDR	US86677C1045
Regulation S EURO Class A GDR	US86677C4015
Regulation S Class A GDR	US86677C3025
144A Class B GDR	US86677C2035
Regulation S Class B GDR	US86677C7083
Class A share	GB0057139940
Class B share	GB0049659120

10 The shares/GDRs are listed on the Luxembourg Stock Exchange, and the GDRs are admitted to trading on the over-the-counter markets ("Freiverkehr") of the Berlin Stock Exchange, Stuttgart Stock Exchange and Frankfurt Stock Exchange.

11 As of 31 December 2016 the Group, which is beneficially owned by Anheuser-Busch InBev, had the following shareholders' structure.

#	Name	A	B	Total	%
1	Anheuser-Busch InBev N.V.	1	-	1	0.0000
2	InBev Belgium N.V.	1	-	1	0.0000
3	Brandbrew S.A.	1	-	1	0.0000
4	Interbrew International B.V.	-	1	1	0.0000
5	Worldoor Limited	73,014,377	12,285,318	85,299,695	73.1377
6	Hancock Venture Partners Inc.	30,545	30,545	61,090	0.0524
7	Bank of New York (Nominees) Limited - London	745,384	-	745,384	0.6391
8	Bank of New York (Nominees) Limited - New York	15,042,401	15,480,356	30,522,757	26.1708
		88,832,710	27,796,220	116,628,930	100.0000

The above shareholding remained unchanged as of five days before the date of approval of these consolidated financial statements.

The shareholders' structure as of 31 December 2015 was as follows:

#	Name	A	B	Total	%
1	Interbrew International B.V.	-	1	1	0.0000
2	Worldoor Limited	73,014,380	12,285,318	85,299,698	73.1377
3	Hancock Venture Partners Inc.	30,545	30,545	61,090	0.0524
4	Bank of New York (Nominees) Limited - London	745,384	-	745,384	0.6391
5	Bank of New York (Nominees) Limited - New York	15,042,401	15,480,356	30,522,757	26.1708
		88,832,710	27,796,220	116,628,930	100.0000

Share capital (continued)

12 It is noted that for a valid transfer of shares to take place, the name of the transferee must be entered in the register of members in respect thereof.

13 The Class A shares of the Company have no right of conversion or redemption. The special rights, restrictions and provisions applicable to the Class A shares are as follows:

- The dividends on the Class A shares in any year shall be paid in an amount not less than and in equal priority to the dividend payable to the holders of Class B shares.
- On winding up of the Company, the surplus assets available for distribution shall be distributed proportionately amongst the holders of the Class A shares and the holders of Class B shares according to the amounts of their respective holdings of such shares in the Company.
- The holders of the Class A shares have a right to receive notice of and to attend any shareholder meeting of the Company, but do not have a right to vote at shareholders' meetings, other than at class meetings of the holders of Class A shares, which are necessary in respect of certain matters affecting the rights of the holders of Class A shares.

14 The Class B shares of the Company have no restrictions on voting rights.

Board of Directors

15 The members of the Board of Directors at 31 December 2016 and at the date of this report are shown on page 1. It was resolved to acknowledge the resignation of Mr Timur Miretskyy and to approve the appointment of Mr Anatolii Drozda to the post of Director of the Company effective as of 24th of February 2017. All the other Directors were members of the Board throughout the year. There were no other significant changes in the composition, distribution of responsibilities or compensation of the Board of Directors apart from the information disclosed in Note 28.

16 There has been no requirement in the Company's Articles of Association for retirement of Directors by rotation, all the Directors remain in office.

Directors' interests in the Company's share capital

17 Directors have no material direct or indirect shareholding in the Company's share capital or share options (including their spouse, children and companies in which they hold directly or indirectly at least 20% of the shares with voting rights in a general meeting) both at the end of the financial year and 5 days before the date the consolidated financial statements are approved by the board of Directors.

Branches

18 The Group did not operate through any branches during the year.

Events after the subsequent to the reporting date

19 Other than as disclosed in Note 30 to the consolidated financial statements, there were no material subsequent to the reporting date events, which have a bearing on the understanding of the consolidated financial statements.

Independent Auditors

20 During the year the Board of Directors resolved the change of independent auditors of the Group PricewaterhouseCoopers Limited to Deloitte Limited. The decision to change the independent auditors was taken across the whole group of Anheuser-Busch Inbev, which is the Company's ultimate parent company and ultimate controlling party.

The independent auditors, Deloitte Limited, have expressed their willingness to continue in office and a resolution authorizing the Board of Directors to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

Statement on Corporate governance pursuant to Section 151 (2) of the Cyprus Companies Law, Cap.113. regarding the contents of the Annual Financial Report (the "Companies Law") and of the Law providing for Transparency Requirements (Securities Admitted to Trading on a Regulated Market) of 2007 as amended (the "Transparency Law").

Paragraphs 2a (i) – (iii) of Section 151 (2) of the Companies Law

21 The Company is voluntarily subject to the provisions of the Corporate Governance Charter, adopted by the Board of Directors at the meeting of the Board of Directors held on 12 August 2012, which is available to the public on the Company's website: www.suninterbrew.com. The Company's corporate governance charter has been adopted, but has not yet been implemented.

22 The Company is not required to comply with the provisions of the corporate governance code of the Luxembourg Stock Exchange, although, the Corporate Governance Charter it applies, is generally based on the "Ten Principles of Corporate Governance" of the Luxembourg Stock Exchange. The Company has voluntarily applied corporate governance practices, mentioned in the Corporate Governance Charter. The Articles of Association of the Company further provide for the powers, duties and procedures of the Directors, and are also available on the Company's website, as cited above.

Paragraphs 2a (iv) of Section 151 (2) of the Companies Law

23 The periodic information referred to in Part II of the Transparency Law, comprises of the annual financial report, and the half-yearly financial report. Issuers whose titles are admitted to trading on a regulated market are obliged to prepare and disclose such information in accordance with the provisions and the time schedules stipulated in Part II of the Transparency Law. Moreover, and as stipulated in Part II of the Transparency Law, the financial reports and of the Group are prepared based on the applicable International Accounting Standards, the Transparency Law, as well as the provisions of the Companies Law, Cap. 113 in order to provide a true and fair picture of the financial affairs of the Company and the Group, respectively.

24 The Secretary, the professional advisers of the Company along with the Board of Directors, through the use of adequate control procedures and risk management, ensure the lawful drafting, preparation, compilation and publication of the required periodic information.

The Compliance Officers of the Company in relation to the obligations of the Transparency Law, ensure the timely publication of the necessary periodic information, and that this information includes the information required by the Transparency Law. This information is disclosed in accordance with the manner and time schedules set out in the Transparency Law. Finally, it should be noted that, pursuant to the Law, the Annual Financial Reports of the Group and the Company are audited by the External Auditors of the Company, Deloitte Limited, in accordance with the provisions of the Companies Law and the applicable International Accounting Standards.

Paragraphs 2a (v) of Section 151 (2) of the Companies Law

25 See paragraphs 8 to 14 above under "Share Capital", regarding significant shareholders and special rights attributed to classes of shares.

26 According to Regulation 76 of the Articles of Association of the Company, the minimum number of directors shall be two and the maximum number shall be fifteen. Directors are appointed either by the general meeting of shareholders or by the board of directors. Pursuant to Articles 98 – 101 of the Articles of Association of the Company, the Company at a general meeting may appoint any person to be a director and to determine the period for which such person is to hold office. Further, the Company may, by ordinary resolution of which special notice has been given in accordance with Section 136 of the Cypriot Companies Law, remove any director before the expiration of his period of office.

27 In accordance with the provisions of the Cypriot Companies Law, the Company may, by special resolution, amend its Articles of Association. A special resolution may be approved by a majority of not less than three quarters of the shareholders present which are entitled to vote at a general meeting, for which a suitable notification of at least twenty one days has been given, determining the intention to propose the resolution as a special resolution.

Statement on Corporate governance pursuant to Section 151 (2) of the Cyprus Companies Law, Cap.113. regarding the contents of the Annual Financial Report (the "Companies Law") and of the Law providing for Transparency Requirements (Securities Admitted to Trading on a Regulated Market) of 2007 as amended (the "Transparency Law").

Paragraphs 2a (vi) of Section 151 (2) of the Companies Law

Competences of the Board

28 The powers and duties of the Directors are stated in Regulations 83 – 96 of the Articles of Association of the Company and the Corporate Governance Charter.

29 According to the above, the Board is vested with the broadest powers to perform all acts necessary or useful for accomplishing the Company's purposes. All powers not expressly reserved by Companies law to the general meeting of shareholders fall in the competencies of the Board.

30 The Board provides effective support for and control of the activities of the executive management of the Company.

31 The Board of Directors, subject to approval by the Company's shareholders, can cause the issue or buy-back of Company's shares. The issue of any new shares is further subject to the provisions of the Company's Articles of Association, the prevailing Companies law and the principle of fair treatment to all existing shareholders.

Functioning of the Board

32 The Board meets upon call by the Chairman. A meeting of the Board must be convened if any director so requires.

33 Any director may act at any meeting of the Board by appointing any person (other than a person disqualified by Companies law from being a director of a company) as an alternate director to attend and vote in its place. A quorum of the Board may be fixed by the directors, and unless so fixed at any other number, shall be four. Decisions are taken by the affirmative votes of a majority of the votes cast.

Conflicts of Interest

34 The rules governing the handling of conflict of interests are set out in the Articles of Association.

Chairmanship

35 The Board chooses from among its members a Chairman and/or deputy chairman and/or vice-chairman. The Board also chooses a secretary who need not be a director who will be responsible for keeping the minutes of the meetings of the Board and of the shareholders.

36 The Chairman, or in his absence the deputy chairman, or in his absence, the vice-chairman, presides at all meetings of shareholders and of the Board, but in his absence the Board will appoint another director as chairman pro tempore by vote of the majority of directors present at such meeting.

Existence and nature of the internal control and risk management system

37 The Board has overall responsibility for the Company's internal control systems and for monitoring their effectiveness. The Company's senior management (including, among others the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and Chief Legal Officer ("CLO")) are responsible for the implementation and maintenance of the internal control systems which are subject to periodic review. The Board monitors the ongoing process by which critical risks to the business are identified, evaluated and managed. Management is responsible for reviewing and monitoring the financial risks to the Company and for considering the risks in the Company's businesses. Similarly, management also monitors risks associated with information technology, human resource management and regulatory compliance.

Evaluation of the Board

38 The Board regularly carries out an evaluation of its performance and its relationship with the Senior Management of the Company.

Statement on Corporate governance pursuant to Section 151 (2) of the Cyprus Companies Law, Cap.113. regarding the contents of the Annual Financial Report (the "Companies Law") and of the Law providing for Transparency Requirements (Securities Admitted to Trading on a Regulated Market) of 2007 as amended (the "Transparency Law").

Senior Management

39 The Board of Directors has delegated the daily management of the Company to the Chief Executive Officer ("CEO"), who is assisted by a Chief Financial Officer ("CFO") and a Chief Legal Officer ("CLO").

Remuneration policy for Board Members and Senior Managers

40 The total amount of remuneration granted directly or indirectly by the Company to the members of its Board and to the CEO, CFO and CLO is fully described in the Note 28a(i) to the consolidated financial statements of the Company.

41 Compensation of Senior Management is determined by the Board after consultation of the Remuneration Committee. The members of the Board receive Board fees. The Directors' fees are determined by the Annual General Meeting of shareholders upon a recommendation from the Nomination and Remuneration Committee.

42 Variable and non-variable components of the remuneration and links between remuneration and performance are reviewed by the Nomination and Remuneration Committee. The variable element of remuneration for the Senior Management is determined by the Board of Directors. Performance plans are based on success criteria which are agreed by the Board of Directors. The plans are reviewed during the year; the remuneration is based on the achievement of these performance criteria. The remuneration of the Board of Directors and key management is described in Note 28 of the consolidated financial statements.

Contracts with Directors and related parties

43 Other than the transactions and the balances with related parties referred to in Note 28 of the consolidated financial statements, there were no other significant contracts with the Group, or its subsidiaries at 31 December 2016 in which the Directors or their related persons had a material interest. Related parties include the spouse, minor children and companies in which Directors hold directly or indirectly at least 20% of the voting rights in a general meeting.

Delegation of Director's powers to committees

44 The directors have the power to delegate any of their powers to committees consisting of such directors or other persons as they think fit.

45 In order to carry out its work more effectively the Board has appointed a nominations and remuneration committee (the "Nominations and Remuneration Committee") and an audit committee (the "Audit Committee").

46 These committees handle business within their respective areas and present recommendations and reports on which the Board may base its decisions and actions. All members of the Board have the same responsibility for all decisions taken irrespective of whether the issue in question has been reviewed by such a committee or not.

47 The composition of and operation of the Board of Directors, was stated in pg. 1 of this Report, and above in paragraphs 28 to 46.

48 The composition, operation and internal regulation of the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors are stated below.

Statement on Corporate governance pursuant to Section 151 (2) of the Cyprus Companies Law, Cap.113. regarding the contents of the Annual Financial Report (the "Companies Law") and of the Law providing for Transparency Requirements (Securities Admitted to Trading on a Regulated Market) of 2007 as amended (the "Transparency Law").

General rules regarding both committees

49 A quorum shall be three committee members present or represented by alternate committee members. All decisions by the committees require a simple majority of votes. In case of ballot the Chairman of the committee has a casting vote.

50 Each committee regularly evaluates its own composition, organization and effectiveness as a collective body and makes recommendations to the Board for any necessary adjustments in its internal regulations and, where necessary, take appropriate steps to improve its performance.

51 The committees of the Board should perform their tasks within the framework of the regulations that they have been given and ensure that they report regularly on their activity and on the results of their work to the Board.

52 Each committee of the Board may seek expert assistance in obtaining the necessary information for the proper fulfillment of their duties. The Company should provide each committee with the financial resources it needs for this purpose.

Regulations for the Nominations and Remuneration Committee

(i) Role

53 The Responsibility of the Nominations and Remuneration Committee includes issues regarding appointment and remuneration of directors and appointment and salaries, pension plans, bonus programs and other employments terms of the CEO, CFO, CLO and other senior management. The Nominations and Remuneration Committee shall in particular:

- submit proposals to the Board regarding the appointment and remuneration of directors and Senior Management and ensure that its proposals are in accordance with the remuneration policy adopted by the Company;
- discuss with the CEO the performance of the other members of Senior Management at least once a year based on evaluation criteria clearly defined. The CEO should not be present at the discussion of his own evaluation;
- ensure that the remuneration of non-executive directors is proportional to their responsibilities and the time devoted to their functions;
- assisting the Board in the selection of directors. It considers all proposals submitted by the shareholders, the Board or the Senior Management recommending suitable candidates to the Board and assisting the Board in making, for every position to be filled an evaluation of the existing and required skills, knowledge and experience required for the position. On the basis of this evaluation the Nomination and Remuneration Committee will assist the Board in drawing up a description of the role together with the skills, knowledge and experience required.

(ii) Composition

54 The Nominations and Remuneration Committee is composed exclusively of four directors of which 1 is independent. The Chairman of the Board or another non-executive director chairs the Nominations and Remuneration Committee.

(iii) Working rules

55 The Nominations and Remuneration Committee should meet as often as it considers necessary, but at least once a year. After each meeting of the Nominations and Remuneration Committee, its chairman should make a report to the Board. The chairman of the Nominations and Remuneration Committee ensures that minutes of meetings are prepared.

Statement on Corporate governance pursuant to Section 151 (2) of the Cyprus Companies Law, Cap.113. regarding the contents of the Annual Financial Report (the "Companies Law") and of the Law providing for Transparency Requirements (Securities Admitted to Trading on a Regulated Market) of 2007 as amended (the "Transparency Law").

Regulations for the Audit Committee

(i) Role

56 The Audit Committee assists the Board in the selection of the independent auditor to be proposed for appointment to the shareholders vote. The Audit Committee assumes also the function of prime entry point of the auditor to the Company on any audit aspects of the financials and of the internal control and risk evaluation procedures. The Audit Committee assists the Board on specific risks analysis and descriptions as well as on risk control systems to be implemented.

(ii) Composition

57 The Audit Committee is composed exclusively of four directors of which one is independent. The Chairman of the Board or another non-executive director chairs the Audit Committee.

(iii) Working rules

58 The Audit Committee should meet as often as it considers necessary. After each meeting of the Audit Committee, its chairman should report to the Board of the Company. The chairman of the Audit Committee ensures that minutes of meetings are prepared.

By Order of the Board

Denis Khrenov
Chief Executive Officer
26 April 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of SUN Interbrew Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of SUN Interbrew Plc (the "Company") and its subsidiaries (the "Group"), which are presented in pages 18 to 67 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the incremental requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 1 to the consolidated financial statements which indicates that the operations of the Group, and those of its significant subsidiaries in Ukraine, have been affected and may continue to the be affected for the foreseeable future, by the continuing uncertainties in Ukraine. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment assessment of investments in subsidiaries At 31 December 2016 the Group had intangible assets with indefinite useful lives (including goodwill) of EUR 62,733 thousand allocated to Cash Generating Unit ("CGU") "Russia". Impairment charges on intangible assets with indefinite useful lives have been recognised in prior periods, and with continued challenging economic conditions in the Russian Federation, there is a risk that these intangible assets may be impaired. Procedures over management's annual impairment test were significant to our audit because the assessment process is complex and the test relies on estimates and assumptions. The details on the accounting for intangibles and disclosure required under IAS 36, Impairment of assets, are included in note 14 to the accompanying consolidated financial statements.	Audit work performed on management's impairment analysis with the assistance of our internal valuation specialists included: • determining whether the input data used in the impairment model are in line with the approved budgets and forecasts; • assessing the reasonableness of the assumptions which are used in the management's forecasts with reference to recent performance, market conditions and historical trend analysis; • testing the integrity and the accuracy of the underlying model to assess whether the processes are applied to the correct input data; • assessing the reasonableness of the discount rates applied in the impairment model; and • assessing the appropriateness of the sensitivities applied by management to the impairment testing model and whether the scenarios reflect reasonably possible changes in key assumptions. We also assessed adequacy of the disclosures made by the Group in its consolidated financial statements in relation to goodwill and other intangibles with indefinite useful lives and their annual impairment test.
Going concern The Group has a recent history of substantial operating losses and its current liabilities exceeded its current assets by EUR 223,323 thousand at 31 December 2016 (by EUR 236,394 thousand at 31 December 2015). This raises a concern as to whether a material uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern. Given going concern requires a significant degree of judgment on behalf of management this has been identified as a key audit matter in our audit. Refer to note 31 in the accompanying consolidated financial statements for the going concern basis disclosures made by the Group.	Our audit procedures included evaluation of the management's going concern assessment as well the Group's liquidity position and availability of additional sources of finance for the period of assessment and included, among others, the following: • reviewing the Group's four-year approved budget and challenging the management's plan to return to operational profitability; • reviewing the support letter provided by the Group's ultimate parent, Anheuser Busch InBev, to ensure existence of commitment for financial support to be provided to the Group in the foreseeable future on an as-needed basis; • assessing ability of the Group's ultimate parent to provide financial support to the Group in the foreseeable future; • evaluating adequacy of the disclosures provided in the consolidated financial statements in relation to going concern assessment.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recoverability of recognised deferred tax assets At 31 December 2016 the Group had deferred tax assets amounting to EUR 65,755 thousand, including EUR 44,670 thousand recognised on tax losses carried forward. We determined that recoverability of deferred tax assets is a key audit matter because of significance of the amount and the level of judgement that is involved in forecasting future taxable profits that will be available to the Group in order to recover the recognised deferred tax assets. The income tax related accounting policies and the relevant information of deferred tax assets are specified in notes 3 and 15 to the accompanying consolidated financial statements.	We ensured, that deferred tax assets and, specifically, the deferred tax assets relating to tax losses carried forward are recognized by the Group to the extent that it is probable that future taxable income will be available against which unused tax losses can be utilised. We evaluated the Group's assumptions and estimates in relation to the likelihood of generating sufficient future taxable income to recover recorded deferred tax assets based on the existing budgets and business plans. In doing that we have considered the results of our analysis performed when evaluating the Group's going concern and impairment assessments. We checked whether the Group's budgeting and forecasting process is reliable by comparing the prior year forecasts with actual results.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit 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 Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view; and

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the consolidated management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Comparative Figures

The financial statements of the Company for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 27 April 2016.

The engagement partner on the audit resulting in this independent auditor's report is Athos Chrysanthou.

Athos Chrysanthou
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors

Nicosia, 26 April 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

'000 Euro	**Note**	**31 December 2016**	**31 December 2015**
Assets			
Non-current assets			
Property, plant and equipment	12	182,492	171,876
Intangible assets	14	67,030	54,139
Available for sale financial assets		111	89
Non-current income tax assets	15.1	1,768	1,984
Deferred income tax assets	15	65,755	51,978
Total non-current assets		**317,156**	**280,066**
Current assets			
Inventories	16	58,429	46,675
Loan granted to related party	28	778	-
Current income tax assets		593	1,044
Trade and other receivables	17	63,300	38,976
Prepayments		5,290	4,898
Cash and cash equivalents	18	103,587	71,885
Assets classified as held for sale	13	9,339	9,631
Total current assets		**241,316**	**173,109**
Total assets		**558,472**	**453,175**
Capital and reserves and liabilities			
Capital and reserves	19		
Share capital		1,809	1,809
Share premium		459,105	459,105
Accumulated losses		(169,827)	(147,688)
Translation reserve		(264,106)	(270,968)
Total capital and reserves attributable to the owners of the Company		**26,981**	**42,258**
Non-controlling interests		(84)	1,306
Total capital and reserves		**26,897**	**43,564**
Non-current liabilities			
Long-term loans and borrowings	21	66,540	-
Employee benefits	22	158	108
Finance lease liabilities		238	-
Total non-current liabilities		**66,936**	**108**
Current liabilities			
Loans and borrowings	21	192,102	165,935
Trade and other payables	23	272,537	243,363
Current income tax liabilities		-	205
Total current liabilities		**464,639**	**409,503**
Total liabilities		**531,575**	**409,611**
Total equity and liabilities		**558,472**	**453,175**

These consolidated financial statements were approved by the Board of Directors 26 April 2017 and were signed on its behalf by:

Denis Khrenov – Director and Chief Executive Officer ________________________

Olesia Sheppard – Director and Chief Financial Officer ________________________

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 22 to 67.

SUN INTERBREW PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

'000 Euro	**Note**	**2016**	**2015**
Revenue	6	596,235	610,087
Cost of sales		(352,464)	(377,232)
Gross profit		**243,771**	**232,855**
Selling, marketing and distribution expenses[1]		(219,222)	(220,245)
General and administrative expenses	7	(40,968)	(51,314)
Other operating income/(expenses), net	8	10,089	(9,871)
Impairment losses		-	(30,409)
Results from operating activities		**(6,330)**	**(78,984)**
Finance income	10	2,134	553
Finance costs	10	(21,624)	(42,847)
Net finance costs		**(19,490)**	**(42,294)**
Loss before income tax		**(25,820)**	**(121,278)**
Income tax benefit	11	2,436	11,099
Loss for the year		**(23,384)**	**(110,179)**
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent period			
Defined benefit plan actuarial losses	22	(143)	(48)
Items that will be reclassified to profit or loss in subsequent period			
Foreign currency translation difference		6,860	(18,743)
Other comprehensive income/(loss) for the year		**6,717**	**(18,791)**
Total comprehensive loss for the year		**(16,667)**	**(128,970)**
Loss for the year attributable to:			
Owners of the Company		(21,996)	(102,828)
Non-controlling interests		(1,388)	(7,351)
Loss for the year		**(23,384)**	**(110,179)**
Total comprehensive loss attributable to:			
Owners of the Company		(15,277)	(121,622)
Non-controlling interests		(1,390)	(7,348)
Total comprehensive loss for the year		**(16,667)**	**(128,970)**
Loss per share			
Basic and diluted loss per share (EUR)	20	**(0,19)**	**(0,88)**

Items in other comprehensive income above are disclosed net of tax. There is no significant tax relating to each component of other comprehensive income.

[1] Selling, marketing and distribution expenses:
- Logistics costs – 71,088
- Marketing costs – 24,276
- Commercial costs – 108,419
- Depreciation PPE – 14,976
- Impairment PPE -463

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 22 to 67.

SUN INTERBREW PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

	Attributable to equity holders of the Company						
'000 Euro	**Share capital**	**Share premium**	**Accumulated losses**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2015	**1,809**	**459,105**	**(44,811)**	**(252,223)**	**163,880**	**8,654**	**172,534**
Comprehensive (loss)/income for the year							
Loss for the year	-	-	(102,828)	-	**(102,828)**	(7,351)	**(110,179)**
Defined benefit plan actuarial income	-	-	(49)	-	**(49)**	-	**(49)**
Foreign currency translation difference	-	-		(18,745)	**(18,745)**	3	**(18,742)**
Total comprehensive loss for the year	**-**	**-**	**(102,877)**	**(18,745)**	**(121,622)**	**(7,348)**	**(128,970)**
Balance at 31 December 2015	**1,809**	**459,105**	**(147,688)**	**(270,968)**	**42,258**	**1,306**	**43,564**

	Attributable to equity holders of the Company						
'000 Euro	**Share capital**	**Share premium**	**Retained earnings**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	**1,809**	**459,105**	**(147,688)**	**(270,968)**	**42,258**	**1,306**	**43,564**
Comprehensive (loss)/income for the year							
Loss for the year	-	-	(21,996)	-	**(21,996)**	(1,388)	**(23,384)**
Defined benefit plan actuarial loss	-	-	(143)	-	**(143)**	-	**(143)**
Foreign currency translation difference	-	-		6,862	**6,862**	(2)	**6,860**
Total comprehensive loss for the year	**-**	**-**	**(22,139)**	**6,862**	**(15,277)**	**(1,390)**	**(16,667)**
Balance at 31 December 2016	**1,809**	**459,105**	**(169,827)**	**(264,106)**	**26,981**	**(84)**	**26,897**

(1) Share premium is not available for distribution in the form of dividend.
(2) Share premium includes an amount of EUR 99,615 thousand which relates to issuance of shares of subsidiaries during a reorganization of the Group before the redomiciliation of the Company to Cyprus.

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 22 to 67.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

‘000 Euro	**Note**	**2016**	**2015**
Cash flows from operating activities			
Loss for the year		**(23,384)**	**(110,179)**
Adjustments for:			
Depreciation and amortization	12, 14	54,077	57,666
Impairment losses on property, plant and equipment	12	-	20,131
Recurring Impairment losses on property, plant and equipment	12	548	1,086
Impairment losses on intangible assets	14	251	246
Impairment losses on goodwill	14	-	10,047
Loss on disposal of property, plant and equipment	8	493	398
Interest expense, net of interest income		17,016	38,605
Forex resulting from operating activities	8	(3,989)	11,332
Unrealized foreign exchange loss	10	2,150	3,591
Income tax benefit	11	(2,436)	(11,099)
Other non-cash items		654	149
Cash from operating activities before changes in working capital and provisions		**45,380**	**21,973**
Change in inventories		(2,021)	(7,355)
Change in prepayments for current assets		(393)	379
Change in trade and other receivables		(23,060)	(2,461)
Change in trade and other payables		3,108	66,439
Change in provisions and employee benefits		(145)	(1,147)
Cash flows from operations before income tax and interest paid		**22,869**	**77,828**
Income tax paid		(361)	(1,460)
Interest paid		(17,654)	(39,840)
Net cash generated by operating activities		**4,854**	**36,528**
Cash flow from investing activities			
Loans granted		(829)	-
Loans repaid		61	124,757
Interest received		2,811	559
Proceeds from sale of property, plant and equipment	12	3,915	4,179
Proceeds from sale of assets held for sale	13	451	6,902
Disposal of subsidiary		-	12,399
Acquisition of property, plant and equipment	12	(43,172)	(63,905)
Acquisition of intangible assets	14	(1,658)	(1,565)
Net cash used in)/generated by investing activities		**(37,921)**	**83,326**
Cash flow from financing activities			
Proceeds from borrowings		195,040	118,406
Repayment of borrowings		(128,602)	(308,700)
Cash financing cost other than interests		(5,916)	(1,018)
Net cash generated by / (used in) financing activities		**60,522**	**(191,312)**
Net increase/(decrease) in cash and cash equivalents		**26,955**	**(71,458)**
Cash and cash equivalents and bank overdrafts at the beginning of the year		62,254	148,901
Effect of exchange rate fluctuations on cash and cash equivalents		7,104	(15,189)
Cash and cash equivalents and bank overdrafts at the end of the year	18	**96,313**	**62,254**

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 22 to 67.

1. BACKGROUND

(a) Organisation and operations

SUN Interbrew Plc (the "Company") was redomiciled in Cyprus in December 2010, as a public limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The Company's registered office is 1 Lampousa Street, 1095 Nicosia, Cyprus. Before December 2010, the Company was registered under the name "SUN Interbrew Limited'' and was incorporated in Jersey, the Channel Islands.

As at 31 December 2016 and 2015 99.97% of the Company's preference shares (Class A) and 99.89% of the ordinary shares (Class B) were effectively owned by Anheuser-Busch InBev, which is the Company's ultimate parent company and ultimate controlling party (the "Parent"). The Company's immediate parent company is Worldoor Limited (the "Immediate Parent"), a company registered in Cyprus. The Company is listed on the Luxembourg Stock Exchange and has also a global depositary receipts program that is listed on the Luxembourg Stock Exchange and admitted to trading on the over-the-counter markets of the Berlin Stock Exchange, Stuttgart Stock Exchange and Frankfurt Stock Exchange.

The Company through a number of holding companies incorporated in Cyprus and Netherlands has controlling interests in the legal entities registered in Russia and Ukraine, which own 5 breweries and 2 malt plants in the Russian Federation and 3 breweries in Ukraine (referred to collectively as the "Group"). The significant subsidiaries within the Group are listed in Note 29.

The Group manufactures, markets and distributes beers. The Group's operations are primary located in the Russian Federation and secondarily in Ukraine. The majority of the Group's funding comes from cash generated from its normal operating activities. In addition, when necessary, the Group seeks additional sources of support from within the group of companies headed by Anheuser-Busch InBev (the "Shareholder Group"). As a result, the Group is economically dependent upon the Shareholder Group. In addition, the activities of the Group are closely linked with the requirements of the Shareholder Group. Related party transactions are disclosed in Note 28.

(b) Business environment

Russian business environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Ukrainian business and political environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of

1. BACKGROUND (CONTINUED)

(b) Business environment (continued)

GDP, illiquidity and volatility of financial markets. In January 2016, the agreement on the free trade area between Ukraine and the EU came into force. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In 2016, average inflation amounted to 13.2% comparing to 48.7% in 2015. Despite the fact that the cumulative inflation in Ukraine for the three latest years slightly exceeded 100%, the management believes that the Ukrainian economy is not hyperinflationary due to slowing down of inflation during 2016 and lack of qualitative characteristics of the hyperinflationary economic environment.

The economic situation began to stabilize in 2016, which resulted in GDP growth around 1% and stabilization of Ukrainian Hryvnia. This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decrease of the required share of foreign currency proceeds sale to 65% and permission of dividends remittance. However, certain other restrictions were prolonged. Significant external financing is required to support the economy. During 2015 and 2016, Ukraine received the first tranches of extended fund facilities (EFF) agreed with the IMF. Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

The Ukrainian part of the Group business accounts for approximately 24,6 % of total Group revenues and 25,1 % of total Group assets. The Group has some property, plant and equipment located in the certain parts of Luhansk and Donetsk regions where the conflict with separatists continued during 2016. Total carrying value of such assets amounted to EUR 447 thousand as of 31 December 2016. Due to loss of control over the most part of these assets the Group recognised impairment of EUR 193 thousand in their respect during 2016. Apart from the mentioned impact the Group continues its business at Ukraine in usual way. However currently it is difficult to predict how further development of business and political environment in Ukraine could impact business of the Group in future.

After reaching the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved.

Further disbursements of IMF tranches depend on the implementation of Ukrainian government reforms, and other economic, legal and political factors.

The final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Company's business.

- The Group has an essential business in Ukraine which constitutes about 24,7% of revenue and 13,9% of the general assets of Group;
- the Group has fixed assets in the Luhansk and Donetsk regions with approximately EUR 447 thousand carrying amount as of December 31, 2016 on which the management recognized EUR 193 thousand impairment charge;
- Apart from the impact mentioned above the Group continues its business at Ukraine in usual way. However currently it is difficult to predict how further development of business and political environment in Ukraine could affect business of the Group in future.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), the requirements of the Cyprus Companies Law, Cap.113. and the Transparency law.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except as otherwise stated.

(c) Functional and presentation currency

The Company's functional currency is the Euro. Items included in the Group's financial statements are measured using the currency of the primary economic environment in which each entity operates. The functional currencies of the Russian and Ukrainian subsidiaries are the Russian Rouble and the Ukrainian Hryvnia, respectively. Management has selected to use the Euro as the presentation currency for the consolidated financial statements. All financial information is presented in thousands of Euro unless stated otherwise and has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS 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 24 – Financial instruments and risk management
- Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:
- Note 1 – Business environment in Russia and Ukraine
- Note 12 – Impairment of property plant and equipment
- Note 13 – Non-current assets classified as held for sale; valuation and classification
- Note 14 – Goodwill impairment testing assumptions
- Note 15 – Deferred tax assets recoverability
- Note 27 – Contingencies.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all of the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or a "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) Transactions with non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in loss of control are accounted for as transactions with owners in their capacity as owners and, therefore, no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net identifiable assets of the subsidiary.

For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) 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.

(b) Business combinations

Subsidiaries held for sale and disposal of investments in subsidiaries

IAS 27 requires that if a subsidiary that had previously been consolidated is now being held for sale, the parent must continue to consolidate such a subsidiary until it is actually disposed of. It is not excluded from consolidation and reported as an asset held for sale under IFRS 5.

The partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, and the gain or loss on the disposal is not recognized in P&L. The partial disposal of an investment in a subsidiary that results in loss triggers re-measurement of the residual holding to fair value. Any difference between the fair value and the carrying amount is a gain or loss on the disposal, recognized in profit or loss. Assets and liabilities sold are deconsolidated from the balance sheet.

(c) Foreign currency

(i) Foreign currency transactions

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is EURO ("EUR"). The functional currency of the subsidiary JSC SunInbev is the national currency of the Russian Federation, Russian Roubles ("RUB"). The functional currency of the subsidiary PJSC Sun InBev Ukraine is the national currency of the Ukraine, Ukrainian Hrivnya ("UAH"). The consolidated financial statements are presented in EURO, which is the Group's presentation currency.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currency (continued)

(ii) Foreign entities

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 loss/income.

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

Foreign currency differences are recognised in other comprehensive income/loss, and presented in the foreign currency translation reserve in equity. However, if the entity 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 entity is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign entity 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 entity 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 entity 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 entity 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 entity and are recognised in other comprehensive income/loss, and presented in the translation reserve in equity.

The results and financial position of all the group entities that have a functional currency different from presentation currency are translated to presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented (i.e. including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
(b) income and expenses for each statement of comprehensive income or separate income statement presented (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions or at the average exchange rate for the period; and
(c) all resulting exchange differences shall be recognized in other comprehensive income/loss.

The information about the rates used to translate the financial information of the subsidiaries is provided in Note 24.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments of trade and other receivables, cash and cash equivalents, loans to related parties, loans and borrowings, and trade and other payables.

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

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

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty. 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. They are included in current assets, except for maturities greater than twelve months after the reporting date. These are classified as non-current assets. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in Note 17, cash and cash equivalents as presented in Note 18 and loans to related parties as presented in Note 28 (b).

Cash and cash equivalents

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

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

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(j)(i)) and foreign currency differences on available-for-sale debt instruments (see Note 24), are recognised in other comprehensive loss/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 reclassified to profit or loss. Available-for-sale financial assets comprise equity securities.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset in which case they are capitalised as part of the cost of that asset.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

(iii) Share capital

Ordinary shares (Class A)

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 (Class B)

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.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

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, net of any directly attributable incremental transaction costs and related income tax effect, is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.
The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other gains/losses – net.

(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 derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

• buildings	20 to 33 years
• plant and equipment	5 to 15 years
• transportation and office equipment	3 to 5 years
• packaging materials	2 to 10 years

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

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (see Note 3(j) (i)).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Non-current assets classified as held for sale

Non-current assets are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Although the Group was not able to complete the sale of the assets within one year due to deteriorating market conditions that were beyond of the Group's control, it continues to actively market the assets at a price that is reasonable, given the change in market circumstances, and therefore the extension of the period required to complete the sale does not preclude the assets from being classified as held for sale.

Non-current assets classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised.

A disposal group is defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred. The group includes goodwill if the group is a cash-generating unit to which goodwill has been allocated or if it is an operation within such a cash-generating unit.

(g) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets (continued)

(ii) Brands and Trademarks

Brands and trademarks which are acquired by the Group are shown at historical cost, have indefinite useful life and are not amortized but tested for impairment annually, because the Group has plans to produce and sell those brands for an indefinite period of time. Expenditure on internally generated brands is recognised in the consolidated statement of comprehensive income as an expense as incurred.

(iii) Software under development

Costs that are directly associated with identifiable and unique computer software products controlled by the Company and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programmes are charged to the profit or loss of the year in which they were incurred.

(iv) 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.

(v) 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 the profit or loss as incurred.

(vi) Amortisation

Amortisation is calculated over the useful economic life of the asset less any 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 for the current and comparative periods are as follows:

- software 3-5 years

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

(h) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method, 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.

(j) 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.

Receivables

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

(i) Non-derivative financial assets (continued)

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(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 post-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.

(k) 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 and Ukraine'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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits (continued)

(ii) Defined benefit plans

One of the Group subsidiaries PJSC SUN InBev Ukraine makes contributions to a defined benefit plan that provides pension benefits for a few of its employees upon retirement. The subsidiary recognises all actuarial gains and losses arising from the plan in other comprehensive income/loss and all expenses related to the plan in personnel expenses in profit or loss.

(iii) 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.

(l) Provisions

Provisions are recognized when (i) the Group has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) a reliable estimate of the amount of the obligation can be made. 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, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Costs relating to the ongoing activities of the company are not provided for. The provision includes the benefit commitments in connection with early retirement and redundancy schemes.

A provision for disputes and litigation is recognized when it is more likely than not that the Group will be required to make future payments as a result of past events, such items may include but are not limited to, several claims, suits and actions both initiated by third parties and initiated by the Group relating to antitrust laws, violations of distribution and license agreements, environmental matters, employment related disputes, claims from tax authorities, and alcohol industry litigation matters.

(m) Revenue

Goods sold

Income is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the income can be measured reliably. In relation to the sale of beverages and packaging, revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding recovery of the consideration due, associated costs or the possible return of goods, and there is no continuing management involvement with the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates, discounts for cash payments and excise taxes.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of beer, transfer usually occurs either when the product is accepted by the customer from the carrier or when the product is shipped to the carrier. Generally for such products the buyer has no right of return except for the situation when the delivered product has an inappropriate quality.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Revenue (continued)

Goods sold (continued)

The Group accounts for the returnable containers as its property, plant and equipment and does not derecognise them as part of a sales transaction. On delivery of beer to customers, the Group collects a deposit for each container delivered and it has an obligation to refund this deposit when the customers return the containers.

(n) Other expenses

Lease payments

Payments made under operating leases are recognised as an expense 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.

(o) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(p) Current and deferred 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 items recognised directly in equity or in other comprehensive income. In this case, tax is also recognised in equity or other comprehensive income, respectively.

Current tax is the expected tax payable or receivable on the taxable income or expense for the year, using tax rates enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income, and any adjustment to tax payable in respect of previous years.

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.
- Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Current and deferred income tax (continued)

In accordance with the tax legislation of the Russian Federation and Ukraine, 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.

(q) Earnings per share

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

(r) 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 Anheuser-Busch InBev's One Europe Zone President (the "Zone President") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The President is considered to be the Chief Operating Decision Maker in accordance with IFRS 8 Operating Segments.

Segment results that are reported to the Zone President 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.

(s) Financial guarantee contracts

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date, if payment under a contract becomes probable, and the amount recognised less cumulative amortization.

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies under common control, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. The income from government grants in included into other operating income/(expense) line of the Consolidated statement of comprehensive income.

(u) New Standards and Interpretations

Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2016. The adoption of these Standards did not have a material effect on the accounting policies of the Group.

Standard/ Interpretation	**Effective for annual periods beginning on or after:**
Amendments to IAS 19: Defined Benefit Plans: Employee Contribution	1 February 2015
Annual Improvements to IFRSs 2010-2012 Cycle	1 February 2015
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 10, IFRS 12, IAS 28: Investment Entities – Applying the Consolidation Exception	1 January 2016

Up to the date of approval of these financial statements the following standards have been published by the International Accounting Standards Board but were not yet effective:

i) Adopted by the European Union

Standard/ Interpretation	**Effective for annual periods beginning on or after:**
IFRS 15 "Revenue from Contract with Customers"	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018

ii) Not yet adopted by the European Union

Standard/ Interpretation	**Effective for annual periods beginning on or after:**
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred Indefinitely
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
Amendments to IAS 7: Disclosure Initiative	1 January 2017
Clarification to IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	1 January 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2017/ 1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS40: Transfers of Investment Property	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) New Standards and Interpretations (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

The Group is in process of assessing the full impact of the below standards and, apart from changes in the presentation of operating leases in the statement of financial position, does not expect material impact in the consolidated financial statements.

- **IFRS 16 "Leases":**
  IFRS 16 specifies how an IFRS reporter entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
- **IFRS 15 "Revenue from Contracts with Customers":**
  IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 includes far more prescriptive guidance to deal with for specific scenarios and requires extensive disclosures in the financial statements.
- **IFRS 9 "Financial Instruments":**
  IFRS 9 (as revised in 2014) will supersede IAS 39 'Financial Instruments: Recognition and Measurement' in its entirety. The completed IFRS 9 contains the requirements for a) classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for 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.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

(a) 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.

(b) Loans to related parties

The fair value of loans to related parties is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(c) 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.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

(d) Assets classified as held for sale

Fair value, which is determined for the purposes of measuring the assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell, is determined either based upon the negotiated selling price or based upon the fair value estimated by a qualified appraiser.

5. OPERATING SEGMENTS

The Group has two reportable segments: breweries operating in the Russian Federation and breweries operating in Ukraine. Segment information is presented by geographical segments, consistent with the IFRS-based information that is available and evaluated regularly by the Zone President who is the Group's chief operating decision-maker. The financial information relating to the Company is included into the Russian Federation operating segment as it is not individually significant to be presented separately within the operating segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Zone President. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the industry.

(i) Information about reportable segments

2016 **'000 EUR**	**Russia**	**Ukraine**	**Total**
Total segment revenue	449,260	147,024	596,284
Inter-segment revenue	(49)	-	(49)
Total Revenue from third parties	449,211	147,024	596,235
Cost of sales	(252,129)	(100,335)	(352,464)
Selling, marketing and distribution expenses	(180,144)	(39,078)	(219,222)
General and administrative expenses	(27,657)	(13,311)	(40,968)
Other operating expenses, net	11,597	(1,508)	10,089
Finance income	2,108	26	2,134
Finance costs	(19,240)	(2,384)	(21,624)
Non-Recurring impairment loss	-	-	-
Reportable segment loss before income tax	**(16,254)**	**(9,566)**	**(25,820)**
Assets			
Reportable segment assets	473,175	76,631	549,806
Assets classified as held for sale	9,339	-	9,339
Inter-segment assets	(266)	(407)	(673)
Total	**482,248**	**76,224**	**558,472**
Liabilities			
Reportable segment liabilities	(482,655)	(76,490)	(559,145)
Inter-segment liabilities	407	266	673
Total	**(482,248)**	**(76,224)**	**(558,472)**

Other segment information **2016** **'000 EUR**	**Russia**	**Ukraine**	**Total**
Interest income	1,385	26	1,411
Interest expense	(16,289)	(2,361)	(18,650)
Capital expenditure	(23,059)	(19,864)	(42,923)
Depreciation and amortization	(36,740)	(17,649)	(54,389)
Impairment on property, plant and equipment and intangible assets	(547)	(252)	(799)
Income tax credit/(expense)	2,626	(190)	2,436

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

5 OPERATING SEGMENTS (CONTINUED)

(i) Information about reportable segments (continued)

2015 '000 EUR	Russia	Ukraine	Total
Total segment revenue	458,223	151,864	610,087
Total Revenue	458,223	151,864	610,087
Cost of sales	(266,880)	(110,352)	(377,232)
Selling, marketing and distribution expenses	(179,986)	(40,258)	(220,244)
General and administrative expenses	(41,963)	(9,351)	(51,314)
Other operating expenses, net	(6,384)	(3,487)	(9,871)
Finance income	506	47	553
Finance costs	(40,728)	(2,120)	(42,848)
Non-Recurring impairment loss	-	(30,409)	(30,409)
Reportable segment loss before income tax	**(77,212)**	**(44,066)**	**(121,278)**
Assets			
Reportable segment assets	347,261	87,880	435,141
Assets classified as held for sale	9,631	-	9,631
Inter-segment assets	(839)	(389)	(1,228)
Total	**356,053**	**87,491**	**443,544**
Liabilities			
Reportable segment liabilities	(327,307)	(73,901)	(401,208)
Inter-segment liabilities	389	839	1,228
Total	**(326,918)**	**(73,062)**	**(399,980)**

Other segment information

2015 '000 EUR	Russia	Ukraine	Total
Interest income	506	47	553
Interest expense	(40,728)	(2,120)	(42,848)
Capital expenditure	(41,671)	(22,234)	(63,905)
Depreciation and amortisation	(39,371)	(18,383)	(57,754)
Impairment on property, plant and equipment and intangible assets	(964)	(30,546)	(31,510)
Income tax credit	9,367	1,732	11,099

The impairment loss recognized during 2015 in amount of EUR 21,216 thousand was caused by overall impairment of Ukraine operating segment.

(ii) Major customers

In 2016, as well as in 2015, there were no customers which represented more than 10% of the Group's total revenue, or any of the segment's revenue. Russia and Ukraine revenue is predominantly generated from customers within each respective country.

6. REVENUE

'000 EUR	2016	2015
Beer	589,297	603,893
Soft drinks	6,938	6,194
	596,235	**610,087**

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

7. GENERAL AND ADMINISTRATIVE EXPENSES

'000 EUR	**2016**	**2015**
Fixed administrative costs	(27,078)	(33,281)
Supply chain overheads	(4,959)	(7,297)
Service fee costs	(4,121)	(5,761)
Depreciation and impairment (other than "non- recurring")	(4,810)	(4,975)
	(40,968)	**(51,314)**

The remuneration of the auditors of the Group for the audit services provided to the Group included to the Service fee costs amount to EUR 223 thousand (2015: EUR 261 thousand). The remuneration for non-audit services included to the Service fee costs amount to EUR 128 thousand (2015: EUR 56 thousand).

8. OTHER OPERATING INCOME / (EXPENSES), NET

'000 EUR	**2016**	**2015**
Other (losses) / gains	1,350	222
Government Grant gains	5,945	2,942
Forex resulting from operating activities gains / (losses)	3,989	(11,332)
Restructuring expenses / payments to employees	(702)	(1,305)
Loss on disposal of property, plant and equipment	(493)	(398)
Other (losses) / gains , net	**10,089**	**(9,871)**

The government grants received by the Group relate to compensation of costs relating to production of malt from the local raw materials, which are provided in some of the regions of the Russian Federation.

9. PERSONNEL COSTS

'000 EUR	**2016**	**2015**
Wages and salaries	46,419	56,073
Compulsory social security contributions and contributions to State pension fund	10,909	12,554
Other employee benefits	5,228	7,529
Additional compensation to employees due to restructuring of business included into other operating expenses	702	1,305
	63,258	**77,461**

The personnel costs include Directors' remuneration in their capacity as directors (Note 28).

The average number of employees for 2016 was 4,251 (2015: 4,811).

10. FINANCE INCOME AND FINANCE COSTS

'000 EUR	**2016**	**2015**
Recognised in profit or loss		
Interest income on bank deposits	2,134	553
Net foreign exchange gain	-	
Finance income	**2,134**	**553**
Interest expense on loans and borrowings	(18,650)	(39,158)
Net foreign exchange loss	(2,150)	(3,591)
Other	(824)	(98)
Finance costs	**(21,624)**	**(42,847)**
Net finance costs recognised in profit or loss	**(19,490)**	**(42,294)**

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11. INCOME TAX EXPENSE

Income taxes are provided for based on taxable income and the varying tax rates applicable in Russia, Ukraine, the Netherlands, Luxembourg and Cyprus. Certain costs and expenses, including some types of employees' compensation, benefits, and interest, which are included as expenses in the consolidated statement of comprehensive income are not deductible when determining taxable income.

The statutory income tax rate applicable to the Russian companies is 20% (2015: 20%). The statutory income tax rate applicable to the Ukrainian companies is 18% (2015: 18%). The Group in Cyprus is subject to corporation tax on taxable profits at the rate of 12.5% (2015: 12.5%). Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 17%. Gains on disposals of qualifying titles (including shares, bonds, debentures, right thereon, etc.) are exempt from Cyprus income tax.

'000 EUR	**2016**	**2015**
Current tax expense		
Current year	969	640
Income tax adjustment relating to previous years	(140)	489
	829	**1,129**
Deferred tax expense (Note 15)		
Origination and reversal of temporary differences	(3,265)	(12,228)
	(3,265)	**(12,228)**
Total income tax benefit	**(2,436)**	**(11,099)**

Reconciliation of effective tax rate:

	2016	**2015**
Loss before income tax	**(25,820)**	**(121,278)**
Tax credit calculated at corporate tax rates (12.5%)	(3,228)	(15,160)
Tax effect of:		
- Expenses non deductible for tax purposes	915	9,925
- Write-off of deferred tax assets	608	4,599
Effect of higher tax rates applicable to the Russian and Ukrainian subsidiaries	(1,808)	(10,143)
Income tax charge / (benefit) relating to previous years	1,077	(320)
Total income tax benefit	**(2,436)**	**(11,099)**

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

12. PROPERTY, PLANT AND EQUIPMENT

'000 EUR	**Land and buildings**	**Plant and equipment**	**Transportation and office equipment**	**Packaging materials**	**Assets under construction**	**Total**
Cost						
Balance at 1 January 2015	**196,140**	**452,724**	**139,525**	**23,502**	**34,627**	**846,518**
Additions	4,867	15,652	7,370	7,705	28,311	63,905
Interest capitalization	-	-	-	-	276	276
Disposals	(6,151)	(19,811)	(10,101)	(4,425)	(317)	(40,805)
Transfers to assets held for sale (Note 13)	-	(763)	-	-	-	(763)
Transfers	2,623	7,893	6,833	(14)	(12,485)	4,850
Effect of movements in exchange rates	(30,494)	(76,871)	(27,023)	(4,770)	(6,394)	(145,552)
Balance at 31 December 2015	**166,985**	**378,824**	**116,604**	**21,998**	**44,018**	**728,429**
Balance at 1 January 2016	**166,985**	**378,824**	**116,604**	**21,998**	**44,018**	**728,429**
Additions	3,216	10,192	9,336	7,963	12,465	43,172
Interest capitalization	-	-	-	-	124	124
Disposals	(1,611)	(9,991)	(9,095)	(3,841)	(80)	(24,618)
Transfers	3,172	18,067	13,004	-	(29,399)	4,844
Effect of movements in exchange rates	32,641	66,104	16,306	967	3,862	119,880
Balance at 31 December 2016	**204,403**	**463,196**	**146,155**	**27,087**	**30,990**	**871,831**
Depreciation and impairment losses						
Balance at 1 January 2015	**(132,715)**	**(358,141)**	**(104,003)**	**(14,125)**	**(7,213)**	**(616,197)**
Depreciation for the year	(9,488)	(26,940)	(15,335)	(4,168)	-	(55,931)
Impairment loss	(8)	(20,108)	(1,034)	-	(67)	(21,217)
Disposals	3,470	15,290	10,019	2,110	-	30,889
Transfers	(801)	(2,974)	(126)	(5)	356	(3,550)
Effect of movements in exchange rates	21,955	62,750	20,162	3,313	1,273	109,453
Balance at 31 December 2015	**(117,587)**	**(330,123)**	**(90,317)**	**(12,875)**	**(5,651)**	**(556,553)**
Balance at 1 January 2016	**(117,587)**	**(330,123)**	**(90,317)**	**(12,875)**	**(5,651)**	**(556,553)**
Depreciation for the year	(8,864)	(23,192)	(14,911)	(5,375)	-	(52,342)
Impairment loss	(12)	(53)	(481)	-	(2)	(548)
Disposals	1,600	7,677	9,061	2,768	-	21,106
Transfers	(735)	(2,551)	(456)	-	2	(3,740)
Effect of movements in exchange rates	(25,528)	(57,499)	(12,728)	(652)	(855)	(97,262)
Balance at 31 December 2016	**(151,126)**	**(405,741)**	**(109,832)**	**(16,134)**	**(6,506)**	**(689,339)**
Carrying amounts						
At 1 January 2015	**63,425**	**94,583**	**35,522**	**9,377**	**27,414**	**230,321**
At 31 December 2015	**49,398**	**48,701**	**26,287**	**9,123**	**38,367**	**171,876**
At 31 December 2016	**53,277**	**57,455**	**36,323**	**10,953**	**24,484**	**182,492**

Depreciation expense of EUR 34,558 thousand (2015: EUR 36,007 thousand) has been charged to cost of sales, EUR 14,976 thousand (2015: EUR 15,021 thousand) to distribution expenses and EUR 2,808 thousand (2015: EUR 4,903 thousand) to administrative expenses.

Impairment loss

The impairment loss recognized during 2016 in amount of EUR 548 thousand relates to impairment of certain individual assets and is caused, along with other reasons, by impairment of individual items of the Ukrainian operating segment, located at Donetsk and Luhansk regions, over which the Ukrainian subsidiary of the Group lost control during 2016. The impairment loss was included into cost of sales, selling, marketing and distribution or general and administrative expenses lines of Consolidated Statement of Comprehensive Income depending of the nature of the respective items of property, plant and equipment. No further impairment was deemed necessary following the completion of management's impairment assessment.

The impairment loss recognized during 2015 in amount of EUR 20,131 thousand was caused by overall impairment of Ukrainian operating segment.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group impairment testing methodology used in 2015 was in accordance with IAS 36, in which value in use approaches is taken into consideration. This includes applying a discounted free cash flow approach. Please see Note 14 for valuation details.

The impairment loss is allocated to reduce the carrying amount of the assets of the Ukraine operating segment in the following order:

- first, reduced the carrying amount of any goodwill allocated to the segment;
- then, reduced the carrying amount of the other assets of the segment on the pro rata basis..

In addition to the impairment charge discussed above, in 2015 the Group recorded an impairment loss of EUR 1,086 thousand related to other transportation, plant and office equipment which was included in the General and administrative expenses.

13. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In 2015 management of the Group approved a formal plan of selling of certain assets in Perm as well as breweries in Novocheboksarsk and Kursk within twelve months from 31 December 2015. Consequently, respective assets were classified as assets held for sale in the consolidated statement of financial position at 31 December 2015. In accordance with the adopted plan, the Group actively solicited and successfully sold Novocheboksarsk and Kursk breweries in 2015. Due to deteriorating market conditions beyond the Group's control, the Group was not able to identify the buyers for the certain assets in Perm in 2015 and 2016. However, the Group continues actively searching for potential buyers and actively marketing the assets at a price that is reasonable in the current economic conditions. Therefore the Group continued classifying the assets as held for sale as of 31 December 2016 due to the extended period required to complete the sale.

At 31 December 2016 and 2015 held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell.

The following represents the carrying value of assets classified as held for sale at 31 December 2015:

'000 EUR	**Perm**	**Other**	**Total**
Buildings	21	-	21
Plant and equipment	9,352	182	9,534
Furniture and vehicles	3	-	3
IT equipment	6	67	73
	9,382	**249**	**9,631**

During 2015 proceeds from sale of assets classified as held for sale amounts to EUR 6,902 thousand.

The following represents the carrying value of assets classified as held for sale at 31 December 2016:

'000 EUR	**Perm**	**Other**	**Total**
Buildings	26	-	26
Plant and equipment	9,194	58	9,252
Furniture and vehicles	4	-	4
IT equipment	8	31	39
Other assets	-	18	18
	9,232	**107**	**9,339**

During 2016 proceeds from sale of assets classified as held for sale amounts to EUR 451 thousand.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

14. INTANGIBLE ASSETS

'000 EUR	Goodwill	Software	Software under develop-ment	Other intangibles	Brands and trade-marks	Total
Cost						
Balance at 1 January 2015	**60,379**	**23,713**	**2,813**	**347**	**11,899**	**99,151**
Additions	-	110	1,455	-	-	1,565
Disposals	-	(389)	-	-	-	(389)
Transfers	-	1,960	(2,485)	-	-	(525)
Effect of movement in exchange rates	(10,302)	(4,630)	(248)	(97)	(1,695)	(16,972)
Balance at 31 December 2015	**50,077**	**20,764**	**1,535**	**250**	**10,204**	**82,830**
Balance at 1 January 2016	**50,077**	**20,764**	**1,535**	**250**	**10,204**	**82,830**
Additions	-	5	1,592	61	-	1,658
Disposals	-	(834)	-	(133)	-	(967)
Transfers	-	209	(1,484)	895	-	(380)
Effect of movement in exchange rates	9,965	4,597	225	132	2,630	17,549
Balance at 31 December 2016	**60,042**	**24,741**	**1,868**	**1,205**	**12,834**	**100,690**

'000 EUR	Goodwill	Software	Software under develop-ment	Other intangibles	Brands and trade-marks	Total
Amortisation and impairment losses						
Balance at 1 January 2015	**-**	**(20,957)**	**-**	**(219)**	**(8)**	**(21,184)**
Amortisation for the year	-	(1,813)	-	(5)	-	(1,818)
Impairment loss	(10,047)	(68)		(90)	(88)	(10,293)
Disposals	-	389	-	-	-	389
Effect of movement in exchange rates	-	4,151	-	64	-	4,215
Balance at 31 December 2015	**(10,047)**	**(18,298)**	**-**	**(250)**	**(96)**	**(28,691)**
Balance at 1 January 2016	**(10,047)**	**(18,298)**	**-**	**(250)**	**(96)**	**(28,691)**
Amortisation for the year	-	(1,516)	-	(219)	-	(1,735)
Impairment loss	-	-	(251)	-	-	(251)
Disposals	-	904	-	133	-	1,037
Transfers	-	-	251	-	-	251
Effect of movement in exchange rates	-	(4,250)	-	(21)	-	(4,271)
Balance at 31 December 2016	**(10,047)**	**(23,160)**	**-**	**(357)**	**(96)**	**(33,660)**
Carrying amounts						
At 1 January 2015	**60,379**	**2,756**	**2,813**	**128**	**11,891**	**77,967**
At 31 December 2015	**40,030**	**2,466**	**1,535**	**-**	**10,108**	**54,139**
At 31 December 2016	**49,995**	**1,581**	**1,868**	**848**	**12,738**	**67,030**

(a) Amortisation

Amortisation expense of EUR 1,726 thousand (2015: EUR 1,813 thousand) has been recognised as part of general and administrative expenses, EUR 9 thousand (2015: EUR 8 thousand) has been recognised as part of cost of sales.

(b) Impairment testing for cash generating units (CGU) containing goodwill and Intangible assets with the indefinite useful life

For the purpose of impairment testing, goodwill is allocated to the Group's operating segments which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 5.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

14 INTANGIBLE ASSETS (CONTINUED)

The aggregate carrying amounts of goodwill allocated to each CGU and the related impairment losses recognised are as follows:

'000 EUR	**Goodwill 31.12.2016**	**Impairment 31.12.2016**	**Goodwill 31.12.2015**	**Impairment 31.12.2015**
Russian operating segment	49,995	-	40,030	-
Ukrainian operating segment	-	-	10,047	(10,047)
	49,995	-	**50,077**	**(10,047)**

The intangible assets with indefinite useful life are allocated only to the Russian operating segment and are represented by beer brands and trademarks, which are actively sold in Russia and which the Group has plans to produce and sell for an indefinite period of time.

The Group completed its annual impairment test for goodwill and intangible assets with indefinite useful life and concluded, based on the assumptions described below, that no impairment charge was warranted for Russian operating segment as of 31 December 2016 and 2015 and that goodwill impairment for 10,047 thousand EUR, being the full amount of goodwill was recognised for Ukrainian operating segment as of 31 December 2015.

The Group cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values reported. The Group believes that all of its estimates are reasonable: they are consistent with the internal reporting and reflect management's best estimates. However, inherent uncertainties exist that management may not be able to control. During its valuation, the Group performed sensitivity analysis for key assumptions including the weighted average cost of capital and the terminal growth rate taking into account the continued political instability and deteriorating macroeconomic conditions. While a change in the estimates used could have a material impact on the calculation of the value in use and trigger an impairment charge, the Group, based on the sensitivity analysis performed is not aware of any reasonably possible change in a key assumption used that would cause Russian operating segment's carrying amount to materially exceed its recoverable amount. Goodwill impairment testing relies on a number of critical judgments, estimates and assumptions. Goodwill is tested for impairment at the operating segment level (that is one level below the reporting segments). The operating segment level is the lowest level at which goodwill is monitored for internal management purposes. Whenever a business combination occurs, goodwill is allocated as from the acquisition date, to each of the Group's operating segments that are expected to benefit from the synergies of the combination. The Group impairment testing methodology is in accordance with IAS 36, in which value in use approaches is taken into consideration. This includes applying a discounted free cash flow approach based on forecasted cash flows expected to arise from the CGU. The key judgments, estimates and assumptions used in the discounted free cash flow calculations are as follows:

<u>Russian Segment</u>

- The first year of the model is based on management's best estimate of the free cash flow outlook for the year;
- In the second to fourth years of the model, free cash flows are based on Group's strategic plan as approved by key management. The Group's strategic plan is prepared per country and is based on external sources in respect of macroeconomic assumptions, industry, inflation and foreign exchange rates, past experience and identified initiatives in terms of market share, revenue, variable and fixed cost, capital expenditure and working capital assumptions; sales growth in the period 2017 to 2020 is based on volume and price forecasts and is expected by the Group at the level from 2.7% till 7.75%; EBITDA growth is expected to exceed the sales growth which should result in EBITDA margin improvement from approximately 13.6% in 2017 up to 20.1% in 2020.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

14 INTANGIBLE ASSETS (CONTINUED)

- For the subsequent six years of the model, data from the strategic plan is extrapolated generally using simplified assumptions such as constant volumes and variable cost per hectolitre, fixed cost and price growth linked to local consumer price indices ("CPI"), as obtained from external sources; the CPI level used in the model was 3%.
- Cash flows after the first ten-year period are extrapolated generally using expected annual long-term CPI, based on external sources, in order to calculate the terminal value, considering sensitivities on this metric.
- Projections are made in the functional currency of each CGU and discounted at the operating segment's weighted average cost of capital which was approximately 13.07% (2015: 13.32%) for Russia.

Sensitivity to changes in assumptions:

The impairment test is sensitive to changes in EBITDA growth rates and discount rates. The discount rates used are post-tax, and reflect specific risks relating to the Russian operating segment.

- If the revised estimated post-tax discount rate applied to the discounted cash flows of the Russian business had been 1% higher than management's estimates, the recoverable amount of the Russian operating segment would be reduced by EUR 46,992 thousand.
- If the revised estimated perpetual growth rate applied to the discounted cash flows of the Russian business had been 1% lower than management's estimates, the recoverable amount of the Russian operating segment would be decreased by EUR 22,398 thousand.

The above changes in the recoverable amount do not result in any impairment in respect to goodwill or indefinite life intangible assets as at 31 December 2016.

Although the Group believes that its judgments, assumptions and estimates are appropriate, actual results may differ from these estimates under different assumptions or market or macro-economic conditions. However reasonable changes are not expected to lead to a different conclusion.

Ukrainian Segment

The recoverable amount of this CGU in 2015 was determined based on a value in use approach which uses the cash flow projections based on financial budgets approved by the Directors as descripted above in relation to the Russian segment. The weighted average cost of capital for Ukraine segment for 2015 was 34,80%.

15. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 EUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Property, plant and equipment	19,462	13,854	(9,615)	(6,935)	9,847	6,919
Intangible assets	604	416	(3,411)	(2,725)	(2,807)	(2,309)
Inventories	916	1,166	(106)	(66)	810	1,100
Employee benefits	1,926	2,574	(86)	-	1,840	2,574
Trade and other receivables	4,069	3,285	(269)	(69)	3 ,800	3 216
Trade and other payables	7,595	8,914	-	-	7,595	8,914
Tax assets/(liabilities)	34,571	30,209	(13,487)	(9,795)	21,084	20,414
Tax losses carried forward	44,671	31,564	-	-	44,671	31,564
Set off of tax	(13,487)	(9,795)	13,488	9,795	-	-

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

15 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Movement in deferred taxes during the year

'000 EUR	1 January 2016	Recognised in profit or loss (Note 11)	Recognised in other comprehensive income- foreign exchange differences	31 December 2016
Property, plant and equipment	6,919	1,001	1,927	9,847
Intangible assets	(2,309)	53	(551)	(2,807)
Inventories	1,100	(401)	111	810
Employee benefits	2,574	(1,156)	422	1,840
Trade and other receivables	3,216	(223)	807	3,800
Trade and other payables	8,914	(2,434)	1,115	7,595
Tax losses carried forward	31,564	6,425	6,681	44,670
	51,978	**3,265**	**10,512**	**65,755**

'000 EUR	1 January 2015	Recognised in profit or loss (Note 11)	Recognised in other comprehensive income- foreign exchange differences	31 December 2015
Property, plant and equipment	6,646	1,645	(1,372)	6,919
Intangible assets	(2,717)	26	382	(2,309)
Inventories	1,011	300	(210)	1,100
Employee benefits	1,074	1,975	(475)	2,574
Trade and other receivables	3,551	211	(546)	3,216
Trade and other payables	9,411	1,142	(1,639)	8,914
Tax losses carried forward	30,816	6,929	(6,181)	31,564
	49,792	**12,228**	**(10,041)**	**51,978**

Deferred income tax assets are recognised for unused tax losses, tax credit and deductible temporary differences, to the extent that management is satisfied that it is probable that future taxable profits will be available against which they can be utilised. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management assessed that the Group will be able to generate future taxable profits through revenue growth initiatives being currently put in place, as well as amending the terms of related party transaction. Deferred tax assets are expected to be recovered after more than 12 months and within statutory expiration period. Changes that were enacted in the Russian tax legislation in 2015 stipulate that accumulated tax losses will no longer expire and can be utilized in the amount that does not exceed 50% of taxable profit for the respective year. In Ukraine there is no expiration or restriction to the use of taxable losses. The Group has made respective adjustments in its tax loss utilization forecast and expects that unused tax losses accumulated at 31 December 2016 will be fully utilized in course of 2017-2019 years.

15.1. Non-current income tax assets

Advance payments on profit tax was made by the Ukrainian subsidiary of the Group in 2013, where the subsidiary projected a taxable profit for the whole year. Currently the prepaid profit tax cannot be refunded from the budget due to limited availability of budget funds. The Group has properly legally supported plan to offset the amount of prepayment against liabilities for other taxes. However, the management does not expect to offset the tax receivable within the next 12 months after the reporting date.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

16. INVENTORIES

'000 EUR	**2016**	**2015**
Raw materials	39,235	29,019
Work in progress	3,863	2,847
Finished goods and goods for resale	11,364	11,862
Other	3,967	2,947
	58,429	**46,675**
Write-down of inventories in the year	(549)	(420)

In 2016, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to EUR 239,298 thousand (2015: EUR 247,164 thousand). The write-down of inventories to net realizable value and reversal of write-downs are included into cost of sales. There were no reversal of write-downs in the current year.

17. TRADE AND OTHER RECEIVABLES

'000 EUR	**2016**	**2015**
Trade receivables	60,671	29,915
Non-income taxes receivable	1,035	2,877
Other receivables	1,594	6,184
	63,300	**38,976**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 24. All the impairment for trade and other receivables is recognized on individual basis.

18. CASH AND CASH EQUIVALENTS

'000 EUR	**2016**	**2015**
Bank balances	87,458	71,885
Call deposits	16,129	-
Cash and cash equivalents in the consolidated statement of financial position excluding bank overdrafts used for cash management purposes	**103,587**	**71,885**
Bank overdrafts used for cash management purposes (Note 21)	(7,274)	(9,631)
Cash and cash equivalents in the consolidated statement of financial position and cash flows	**96,313**	**62,254**

The call deposits are represented by EUR 2,181 thousand deposits in UAH with effective interest rate of 10.5% p.a. and by EUR 13,948 thousand deposits in RUB with effective interest rate of 8.45%. All the call deposits have original maturity of less than 3 months, the Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 24.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

19. CAPITAL AND RESERVES

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares (Class B) 2016	Ordinary shares (Class B) 2015	Preference shares (Class A) 2016	Preference shares (Class A) 2015
Authorised shares	30,000,000	30,000,000	125,278,614	125,278,614
Par value	GBP 0.01	GBP 0.01	GBP 0.01	GBP 0.01
In issue at 1 January and 31 December, fully paid	27,796,220	27,796,220	88,832,710	88,832,710

There was no change in the owners of the Company's issued share capital during 2016. Number and value of the issued shares have not changed in comparison with prior year.

Ordinary shares

All shares rank equally with regard to the Company's residual assets.

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. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

Non-redeemable preference shares

Preference shares have no right of conversion or redemption. The special rights, restrictions and provisions applicable to the preference shares are as follows:

- The dividends on the preference shares in any year shall be paid in an amount not less than and in equal priority to the dividend payable to the ordinary shareholders in such year;
- On winding up of the Company, the surplus assets available for distribution to its members shall be distributed proportionately amongst the holders of the preference share and the ordinary shares according to the amounts of their respective holdings of such shares in the Company;
- The holders of the preference shares do not have right to vote in shareholders' meeting, except for the matters affecting the rights of the holders of preference shares, including "change of control" transaction as defined in the "Article of Association" of the Company.

(b) Translation reserve

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

(c) Share premium

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of shares. Share premium account can only be resorted to limited purposes, which do not include the distribution of dividends and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

(d) Distributable reserves

In accordance with Cypriot legislation, the Company's distributable reserves are limited to the balance of accumulated retained earnings of the Company.

The Board of Directors does not recommend the payment of dividend on the basis of the 2016 results. The Board of Directors may at a later stage consider the payment of interim dividends out of retained earnings, in accordance with the relevant provisions of the Companies Laws and the Articles of Association of the Company.

No dividends were distributed in 2015 by the Company.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

20. LOSS PER SHARE

Basic earnings per share are calculated by dividing the loss attributable to ordinary and to preference shareholders by the weighted average number of ordinary and preference shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

2016	**Loss (Numerator) '000 EUR**	**Number of shares (Denominator)**	**Per share-amount EUR**
Basic and diluted EPS			
Attributable to holders of class "A" participating shares	(16,754)	88,832,710	(0,19)
Attributable to holders of class "B" participating shares	(5,242)	27,796,220	(0,19)
Total attributable to participating shares	**(21,996)**	**116,628,930**	**(0,19)**

2015	**Loss (Numerator) '000 EUR**	**Number of shares (Denominator)**	**Per share-amount EUR**
Basic and diluted EPS			
Attributable to holders of class "A" participating shares	(78,321)	88,832,710	(0,88)
Attributable to holders of class "B" participating shares	(24,507)	27,796,220	(0,88)
Total attributable to participating shares	**(102,828)**	**116,628,930**	**(0,88)**

21. LOANS AND BORROWINGS

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

'000 EUR	**Note**	**2016**	**2015**
Non-current			
Loan from entity under common control	28 (b)	**66,540**	**-**
Current			
Bank overdraft (Note 18)		7,274	9,631
Current loans from bank		16,181	14,987
Current loans from entities under common control	28 (b)	168,647	141,317
		192,102	**165,935**

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

21 LOANS AND BORROWINGS (CONTINUED)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2016		31 December 2015	
'000 EUR	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Non-current loan from an entity under common control	USD	4.945%	2018	66,540	66,540	-	-
Bank overdraft	EUR	6.15% - 6.80%	2017	7,274	7,274	9,631	9,631
Current loans from bank	UAH	11.3% -12.5%	2017	16,181	16,181	14,987	14,987
Current loans from an entity under common control	RUB	Mosprime+ 2%	2017*	161,414	161,414	72,775	72,775
Current loans from an entity under common control	USD	LIBOR + 2%	2017*	586	586	64,297	64,297
Current loans from an entity under common control	EUR	8,2%	2017	7	7	-	-
Current interest payable	N/A	N/A	2017	6,640	6,640	4,245	4,245
Total interest-bearing liabilities				**258,642**	**258,642**	**165,935**	**165,935**

*: The loan maturity date was extended post year end to 2018.

The fair value of short term and long term loans/borrowings equals their carrying amount, as the impact of discounting is not significant. The loans are not secured.

From 2015 certain current loans from bank nominated in UAH were guaranteed by the Group ultimate parent (Anheuser-Busch InBev N.V.). The value of the received guarantee amounted to EUR 8,268 thousand as of 31 December 2016 (31 December 2015: EUR 8,962 thousand).

22. EMPLOYEE BENEFITS

One of the Group subsidiaries, PJSC SUN InBev Ukraine, makes contributions to a defined benefit plan that provides pension benefits for a limited number of employees upon retirement. The subsidiary recognises all actuarial gains and losses arising from the plan in other comprehensive income and all expenses related to the plan in personnel expenses in profit or loss. The amount is not material for the Group and covers a limited number of employees in Ukraine.

23. TRADE AND OTHER PAYABLES

'000 EUR	**2016**	**2015**
Trade payables	215,718	198,751
Non-income taxes payable	31,895	17,461
Payroll and social security payables	14,725	14,277
Other payables and accrued expenses	10,199	12,874
	272,537	**243,363**

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

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments by category

'000 EUR	2016	2015
Loans and receivables		
Loan granted to a related party	778	-
Trade and other receivables excluding non-income taxes receivable	62,265	36,099
Cash and cash equivalents	103,587	71,885
	166,630	**107,984**
Available for sale		
Available for sale financial asset investments	111	89
	166,741	**108,073**
Financial liabilities measured at amortized cost		
Trade and other payables and accrued expenses	225,917	211,625
Current loans and borrowings	192,102	165,935
Non-current loans and borrowings	66,540	-
Finance lease liabilities	238	**-**
	484,797	**377,560**

(a) Overview

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

- credit risk
- liquidity risk
- market risk
- Interest Rate risk
- Capital risk management
- Currency risk
- Operational risk (as described in Note 1)

This note presents information about the 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 Parent's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Parent has established a Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Parent's Board of Directors on its activities.

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

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(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 the loan granted to related party. Credit risks also arises from cash and cash equivalents and deposits with banks and financial institutions, as well as from group receivable resulting from sale FA.

(i) Trade and other receivables

Sales are performed through the network of independent distributors and direct distribution. The direct distribution consists of two major groups of companies: key accounts (large supermarkets and malls) and selling points.

There was no significant concentration of credit risk by region or with any single counterparty as at 31 December 2016 (2015: none). For example the largest receivable from an individual customer, Pivnoy Mir Surgut, as of 31 December 2016 amounted to EUR 2,662 thousand which was 0,03% of total accounts receivable of the Group.

The Group has a credit policy in place and the exposure to counterparty credit risk is monitored. A credit assessment is performed on each of the Group's customers in order to determine their financial strength. Credit limits are set per customer depending on the customer's financial profile and risk category and on the collaterals and guarantees received from the customer, if any. Other than those balances in which an impairment has been recognised, the current trade and other receivables balances is with customers with good credit quality and history of limited or no default.

Credit limits are reviewed at least once a year. The credit control for all customers is carried out on a daily basis. If the credit limit is exceeded shipments to those customers are suspended.
The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

(ii) Loan granted to related party

The Company granted a loan to an entity controlled by the Parent (Note 28(b)). The Group assesses the credit risk relating to this loan as low as the Shareholder Group is an established business and is expected to have sufficient liquidity to repay the loan when due.

(iii) Cash and cash equivalents

The Group attempt to minimize its credit exposure to counterparties by entering into agreements with major international financial institutions with "A" or higher credit ratings as issued by Fitch. Although our theoretical credit risk is the replacement cost at the then estimated fair value of the financial instruments at these institutions, the Group believe that the risk of incurring credit risk losses is remote and that such losses, if any, would not be material.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iii) Cash and cash equivalents (continued)

The credit quality of financials assets that are neither past due nor impaired can be assessed by reference to external credit ratings of Fitch about counterparty default rates:

	31 December 2016		31 December 2015	
’000 EUR	**Bank balances payable on demand**	**Term deposits**	**Bank balances payable on demand**	**Term deposits**
AAA rated	-	-	-	-
AA- to AA+ rated	-	-	-	-
A- to A+ rated	102,095	-	70,377	-
Lower than A- rated	1,464		1,486	
Unrated	28	-	22	-
	103,587	**-**	**71,885**	**-**

For the following financial institutions Fitch Agency doesn’t establish credit ratings, therefore the rating of the ultimate parent has been introduced:

Financial institution	Owner	% Ownership
Deutsche Bank Plc (Russia)	Deutsche Bank AG	100%
Deutsche Bank OJSC (Ukraine)	Deutsche Bank AG	100%
Bank Mendes Gans NV (Netherlands)	ING Bank NV	100%
ING Bank OJSC Ukraine (Ukraine)	ING Bank NV	100%

Concentrations of Credit Risk

The Group is potentially subject to concentrations of credit risk on accounts receivable and financial instruments, such as hedging instruments and cash and cash equivalents. Credit risk includes the risk of non-performance by counterparties. The maximum potential loss may exceed the amount recognized on the consolidated statement of financial position. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Group’s business often involves large transactions with customers for which the Group does not require collateral. If one or more of those customers were to default in its obligations under applicable contractual arrangements, the Group could be exposed to potentially significant losses. Moreover, a prolonged downturn in the global economy could have an adverse impact on the ability of customers to pay their obligations on a timely basis. The Group believes that the reserves for potential losses are adequate. As of December 31, 2016 and 2015 the Group has significant concentration of credit risk related to its cash and cash equivalents.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) Exposure to credit risk

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

	Carrying amount	
'000 EUR	**2016**	**2015**
Available for sale financial asset investments	111	89
Loan granted to related party	778	-
Trade and other receivables excluding non-income taxes receivable	62,265	36,099
Cash and cash equivalents	103,587	71,885
	166,741	**108,073**

(v) Impairment losses

The aging of trade and other receivables at the reporting date was:

'000 EUR	**Gross 2016**	**Impairment 2016**	**Gross 2015**	**Impairment 2015**
Not past due	61,238	(529)	38,882	(554)
Past due 0-30 days	2,406	(1)	640	(2)
Past due 31- 59 days	126	(8)	6	(1)
Past due 60 - 89 days	141	(80)	24	(20)
Past due 90 - 179 days	48	(42)	24	(23)
Past due 180- 359 days	33	(32)	445	(445)
Past due more than 360 days	6,130	(6,130)	5,668	(5 668)
	70,122	(6,822)	**45,689**	**(6,713)**

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

'000 EUR	**2016**	**2015**
Balance at beginning of the year	(6,713)	(6,793)
Increase during the year	(1465)	(913)
Decrease due to reversal	1.356	993
Balance at end of the year	**(6,822)**	**(6,713)**

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The Group charges an allowance for impairment on the individual basis and in respect of the following amounts: 100% balance receivable for the amounts past due more than 90 days and 50% for the amounts past due from 45 to 90 days adjusted for individually unimpaired amounts, unless the Group is confident that the debt will be collected The Group may create an impairment allowance for amounts that are past due by less than 45 days when there is strong evidence that the debt will not be collected.

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.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(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's primary sources of cash have historically been cash flows from operating activities, the issuance of debt and bank borrowings. The Group's material cash requirements include debt service and capital expenditures.

The Group believes that cash flows from operating activities, available cash and cash equivalents and access to the Parent's borrowing facilities, will be sufficient to finance capital expenditures and debt.

It is the Group's objective to continue to reduce its financial indebtedness by using cash from operating activities.

2016

'000 EUR	Carrying amount	Contrac-tual cash flows	0-12 mths (1)	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities								
Trade payables and other payables	225,917	225,917	225,917	-	-	-	-	-
Bank overdraft	7,274	7,274	7,274					
Interest on overdraft		513	513					
Current loans payable	192,102	192,102	192,102	-	-	-	-	-
Interest on current loans	-	1,134	1,134					
Non-current loans payable	66,540	66,540	-	66,540				
Interest on non-current loans payable	-	6,681	-	6,681				
	491,833	**500,161**	**426,940**	**73,221**	**-**	**-**	**-**	**-**

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

2015

'000 EUR	Carrying amount	Contrac-tual cash flows	0-12 mths (1)	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities								
Trade payables and other payables	211,625	211,625	211,625	-	-	-	-	-
Bank overdraft	9,631	9,631	9,631					
Interest on bank overdraft		11	11					
Current loans payable[2]	165,935	165,935	165,935	-	-	-	-	-
Interest on current loans payable	-	7,028	7,028					
	387,191	**394,230**	**394,230**	**-**	**-**	**-**	**-**	**-**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 optimising the return.

[2] Current loans payable are payable on demand

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(i) Currency risk

The Group is exposed to currency risk on loans granted and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUB) and Ukrainian Hryvnia (UAH). The currencies in which these transactions primarily are denominated are EUR and United States Dollar (USD).

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUB. This provides an economic hedge without a need to enter into derivative contracts.

Exposure to currency risk

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

'000 EUR	USD-denominated 2016	EUR-denominated 2016	USD-denominated 2015	EUR-denominated 2015
Non-current loans from related parties	(66,540)	-	-	-
Trade and other payables	(35,076)	(64,153)	(28,123)	(52,626)
Current loans from related parties	-	-	(79,571)	(197)
Net exposure	**(101,616)**	**(64,153)**	**(107,694)**	**(52,823)**

The following significant exchange rates applied during the year:

in EUR	Average rate		Reporting date exchange rate	
	2016	2015	2016	2015
RUB for EUR 1	74.1070	67.9915	63.8111	79.6972
UAH for EUR 1	28.1436	24.1905	28.4226	26.2231

Sensitivity analysis

A strengthening/weakening of the RUB and UAH, as indicated below, against the following currencies at 31 December would have increased (decreased) equity and profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

'000 EUR	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2016				
USD (+/-10% movement in exchange rate)	(10,162)	(10,162)	10,162	10,162
EUR (+/-10% movement in exchange rate)	(6,415)	(6,415)	6,415	6,415
31 December 2015				
USD (+/-30% movement in exchange rate)	(33,991)	(33,991)	33,991	33,991
EUR (+/-30% movement in exchange rate)	(17,211)	(17,211)	17,211	17,211

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(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 to fixed or variable rates, as the majority of the Group's loans is drawn from related parties.

Profile

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

	Carrying amount	
'000 EUR	**2016**	**2015**
Fixed rate instruments	**-**	**-**
Financial assets	16,129	-
Financial liabilities	(66,778)	-
	(50,649)	**-**
Variable rate instruments		
Financial assets	778	-
Financial liabilities	(192,102)	(165,935)
	(191,324)	**(165,935)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

	Profit or loss		Equity	
'000 EUR	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2016				
Variable rate instruments	(1,913)	1,913	(1,913)	1,913
Cash flow sensitivity (net)	**(1,913)**	**1,913**	**(1,913)**	**1,913**
2015				
Variable rate instruments	(1,659)	1,659	(1,659)	1,659
Cash flow sensitivity (net)	**(1,659)**	**1,659**	**(1,659)**	**1,659**

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(e) Accounting classifications and fair values

As required by IFRS 13 Fair value measurement, the following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable.

As at the year end, the Group has no material financial instruments measured at fair value.

Fair values versus carrying amounts

Management believes that there is no significant difference between the carrying amounts and fair values of financial assets and liabilities. The basis for determining fair values is disclosed in Note 4.

Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2016:

'000 EUR	**Gross amounts before offsetting in the consolidated statement of financial position**	**Gross amounts set off in the consolidated statement of financial position**	**Net amount after offsetting in the consolidated statement of financial position**	**Net amount of exposure**
Assets				
Trade receivables	69,993	(9,322)	60,671	60,671
Total assets subject to offsetting, master netting and similar arrangement	**69,993**	**(9,322)**	**60,671**	**60,671**
Liabilities				
Trade payables	225,040	(9,322)	215,718	215,718
Total liabilities subject to offsetting, master netting and similar arrangement	**225,040**	**(9,322)**	**215,718**	**215,718**

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(f) Capital management

The Parent has overall responsibility for the establishment and oversight of the Group's capital management framework. The Group is continuously optimizing its capital structure targeting to maximize shareholder value while keeping the desired financial flexibility to execute the strategic.

The Group manages its capital based on their debt which includes the Group's total liabilities to capital ratio. The Group's debt to capital ratio at the end of the reporting period was as follows:

'000 EUR	**2016**	**2015**
Total liabilities	(531,575)	(409,611)
Less: cash and cash equivalents	103,587	71,885
Net debt	**(427,988)**	**(337,726)**
Total equity	(26,897)	(43,564)
Debt to capital ratio at 31 December	**15.9**	**7.75**

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

The Group leases a number of warehouses and plots of land under operating leases. Lease payments are usually increased annually to reflect market rentals. The Group does not have any non-cancellable operating leases.

Since the land title does not pass, the Group has determined that the land leases are operating leases. The rent paid to the landlords of the warehouses is increased to market rent at regular intervals, and the Group does not participate in the residual value of the warehouses, it was determined that substantially all the risks and rewards of the warehouses are with the landlords. As such, the Group determined that the leases are operating leases.

The lease expenditure charged in consolidated statement of comprehensive income is EUR 4 059 thousand (2015: EUR 4,537 thousand).

26. COMMITMENTS

At 31 December 2016 the Group had outstanding contractual commitments totalling approximately EUR 354 thousand (31 December 2015: EUR 7,742 thousand) to purchase property, plant and equipment. In addition, the Group had commitments to purchase raw and packaging materials worth EUR 12,274 thousand at 31 December 2016 (31 December 2015: EUR 12,953 thousand). All the Groups commitments are current and will be settled within 12 months after reporting date.

27. CONTINGENCIES

(a) Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

(b) Taxation contingencies

Taxation contingencies in the Russian Federation

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD).

This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. Management plans to defend vigorously the Group's transfer pricing positions.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to a 20% tax rate. As a result, management reassessed the Group’s tax positions and recognised, where required, deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group’s operations to which the CFC legislation will apply to and to the extent that the Group (rather than its owners) is obliged to settle such taxes.

27 CONTINGENCIES (CONTINUED)

(c) Taxation contingencies (continued)

Taxation contingencies in Ukraine

The Group also performs its operations in Ukraine and, therefore, within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law 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.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of 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.

(d) 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.

(e) Business environment

Contingencies arising from the Group’s operating environment are disclosed in Note 1.

28. RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered related if one party has the ability to control the other party or exercise significant influence over the financial or operational decisions of the other party as determined by the IAS 24 "Related Party Disclosures". In determining each possible related party relationship, consideration is given to the substance of the relationship and not the legal form. Related parties may enter into transactions that may not be possible between non-related parties and transactions between related parties may not be made on the same terms and conditions and amounts for transactions with non-related parties.

(a) Control relationships

The Company’s immediate and ultimate parent companies are disclosed in Note 1(a). The ultimate parent company produces publicly available financial statements in accordance with IFRS.

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

28 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Control relationships (continued)

(i) Management and directors remuneration

Key management of the Group includes members of its Board of Directors and other member of the top management of the Group's principal subsidiaries included into the Commercial Committee.

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

'000 EUR	**2016**	**2015**
Salaries and bonuses	1,586	1,096
Contributions to State pension fund	213	78
Other service benefits	189	90
	1,988	**1,264**

The total remuneration of the Directors (included into the key management remuneration above) for 2016 was EUR 447 thousand (2015: EUR 166 thousand).

(ii) Guarantees from the ultimate parent company

The Group ultimate parent company has expressed its willingness to provide financial support to the Group for a period of no less than 12 months from the sign off date in order to enable it to continue as a going concern and meet its liabilities as they fall due.

From 2015 certain current loans from bank nominated in UAH were guaranteed by the Group ultimate parent (Anheuser-Busch InBev N.V.). The value of the received guarantee amounted to EUR 8,268 thousand as of 31 December 2016 (31 December 2015: EUR 8,962 thousand), refer to note 21.

(b) Transactions with other related parties

The Group has entered into various service agreements with other entities controlled by AB InBev. These services include management support, general technical assistance, provision of loans, publicity, marketing, use of brands and various other services. The amount of the service fees is agreed annually between the parties. During 2016 service expenditures and royalties amounted to EUR 22,936 thousand (2015: EUR 37,324 thousand) under these agreements.

The total interest expense charged by related parties amounted to EUR 15,811 thousand (2015: EUR 36,487 thousand). The total interest income from related parties in 2015 amounted to EUR 0 (2015: 0).

Purchases from other related parties amounted to EUR 31,448 thousand for 2016 (2015: EUR 40,127 thousand).

The total borrowing repaid by the group to related parties amounted to EUR 96,073 thousand for 2016 (2015: EUR 290,633 thousand).

The total received by the group repayments of loans granted from related parties amounted to EUR 68,082 thousand (2015: EUR 128,856 thousand).

All Amounts are Expressed in Thousands of Euros Unless Otherwise Stated

28 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other related parties (continued)

The outstanding balances with related parties were as follows:

`000 EUR	**31 December 2016**	**31 December 2015**
Trade receivables from entities under common control	5,150	4,767
Trade payables to entities under common control	(30,469)	(29,937)
Loan granted to an entity under common control	778	-
Current loans from entities under common control	(162,179)	(136,995)
Interest payable to entities under common control	(6,468)	(4,322)
Non-current loans from entities under common control	(66,540)	-
	(259,728)	**(166,487)**

29. SIGNIFICANT SUBSIDIARIES

Subsidiary	**Country of incorporation/ business**	**2016 Ownership/ voting**	**2015 Ownership/ voting**
JSC Sun InBev Russia	Russian Federation	93.55%/93.55%	93.55%/93.55%
PJSC Sun InBev Ukraine	Ukraine	98.34%/98.34%	98.34%/98.34%

30. EVENTS SUBSEQUENT TO THE REPORTING DATE

(a) The following exchange rates were noted as of 31 of March 2017 and during the period between 1st January 2017 and 31st March 2017:

	Average rate		**Exchange rate as of the date**	
	Period 1 January 2017 until 31 March 2017	**Year ended 31 December 2016**	**31 March 2017**	**31 December 2016**
RUB for EUR	63.0279	74.1070	59.9961	63.8111
UAH for EUR	28.8151	28.1436	28.8918	28.4226

(b) Russia

According to the Russian tax legislation the excise tax rate was changed starting as of 1st January 2017:

- for beer with alcohol 0.51% - 8.6 % - to 21 RUB/ litre (in 2016 - 20 RUB/ litre);
- for beer with alcohol over 8.61% - to 39 RUB/ litre (in 2016 - 37 RUB/ litre).

There were no other material subsequent to the reporting date events, which have a bearing on the understanding of the consolidated financial statements.

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31. GOING CONCERN BASIS

These consolidated financial statements have been prepared on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis and instability in Russia and Ukraine on future operations of the Group.

The principal risks and uncertainties faced by the Group are disclosed in Notes 1, 2, 24 and 27 of the consolidated financial statements. The Group received confirmation of financial support from Anheuser-Busch InBev (the "Parent") that will enable it to continue in operation for at least twelve months from the date of the consolidated financial statements.

The management of the Group has undertaken in 2016 and has planned for 2017 the following initiatives for the purpose of enhancing the profitability of the Group's operations and financial position:

- In 2016 the management has grown Net Revenue/hl by 16.5% through the following initiatives:
  - Significant price increases in 2016 in both countries (19% in Russia and 32% in Ukraine) in order to improve profitability
  - Continuous premiumization of the products sold in both countries, growth in sales of Premium brands such as Bud, Hoegaarden and imported product
- In 2017 the management plans to continue growing Net Revenue/hl (+8.3%) through ongoing premiumization driven by Premium brands (incl. imported), as well as further development of draught beer, providing continuous Net Revenue growth.
- The management continues to work on optimization of fixed expenses (General & Administrative) in order to improve the bottom-line result (in 2016 the General &Administrative expenses decline was approximately 20% compared to previous year)
- The management continues to work with government authorities on their support to the business activities of the Group

After considering all the uncertainties, initiatives and the Parent's support confirmation, the management has a reasonable expectation that the Group will be successful in achieving profitability and meeting its current obligations and for this reason believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts.

32. RECLASSIFICATION

Bank overdraft balance at as 31 December 2015 has been reclassified for consistency with the presentation adopted in the Parent's consolidated financial statements for the year ended 31 December 2016 in accordance with the requirements of IFRS. The impact on the classification is shown below:

	Before reclassification	After reclassification	Difference
Current assets			
Cash and equivalents	62,254	71,885	9,631
Total current assets	**163,478**	**173,109**	**9,631**
Total assets	**443,544**	**453,175**	**9,631**
Current liabilities			
Loans and borrowings	156,304	165,935	9,631
Total current liabilities	**399,872**	**409,503**	**9,631**
Total liabilities	**399,980**	**409,611**	9,631
Total equity and liabilities	**443,544**	**453,175**	**9,631**

Independent Auditor's Report on pages 12 to 17.