O’Key Group S.A.

Consolidated Financial Statements
for the year ended 31 December 2013
(with the report of the Réviseur d'Entreprises Agréé thereon)

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R.C.S. Luxembourg: B 80.533

Contents

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To the Shareholders of
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O'KEY GROUP S.A., which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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.

Responsibility of the Réviseur d'Entreprises agréé

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. as of December 31, 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated Directors'report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, March 24, 2014

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

Jean-Manuel Séris

'000 RUB	**Note**	**2013**	**2012**
ASSETS			
Non-current assets			
Investment property	17	540 000	632 000
Property, plant and equipment	15	30 706 631	25 692 464
Construction in progress	15	5 072 198	1 720 181
Intangible assets	16	550 049	566 595
Deferred tax assets	19	483 156	375 126
Other non-current assets	18	8 101 698	7 905 066
Total non-current assets		**45 453 732**	**36 891 432**
Current assets			
Inventories	20	10 257 942	9 212 315
Trade and other receivables	21	3 502 011	1 917 634
Prepayments		822 558	856 948
Cash and cash equivalents	22	3 006 730	4 535 693
Total current assets		**17 589 241**	**16 522 590**
Total assets		**63 042 973**	**53 414 022**

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 10 to 58.

'000 RUB	Note	2013	2012
EQUITY AND LIABILITIES			
Equity	23	**21 399 385**	**18 090 056**
Non-current liabilities			
Loans and borrowings	25	14 441 833	9 863 769
Deferred tax liabilities	19	587 974	667 719
Other non-current liabilities		112 256	1 056 447
Total non-current liabilities		**15 142 063**	**11 587 935**
Current liabilities			
Loans and borrowings	25	2 312 618	3 826 135
Trade and other payables	26	23 714 502	19 613 734
Current income tax payable		474 405	296 162
Total current liabilities		**26 501 525**	**23 736 031**
Total liabilities		**41 643 588**	**35 323 966**
Total equity and liabilities		**63 042 973**	**53 414 022**

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 10 to 58.

'000 RUB	**Note**	**2013**	**2012**
Revenue	8	139 460 384	117 333 236
Cost of goods sold		(106 124 418)	(89 706 251)
Gross profit		**33 335 966**	**27 626 985**
General, selling and administrative expenses	9	(24 940 760)	(20 363 950)
Other operating income and expenses	10	(519 013)	63 180
Operating profit		**7 876 193**	**7 326 215**
Finance income	12	46 015	11 428
Finance costs	12	(1 139 827)	(1 035 206)
Foreign exchange gain	13	69 282	165 683
Profit before income tax		**6 851 663**	**6 468 120**
Income tax expense	14	(1 875 278)	(1 789 259)
Profit for the year		**4 976 385**	**4 678 861**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Exchange differences on translating to presentation currency		(43 395)	23 963
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of hedges and reclassification from hedging reserve	12	(107 031)	(103 746)
Income tax on other comprehensive income	12,14	21 406	20 749
Other comprehensive income for the year, net of income tax		**(129 020)**	**(59 034)**
Total comprehensive income for the year		**4 847 365**	**4 619 827**
Earnings per share			
Basic and diluted earnings per share (RUB)	24	**18.5**	**17.4**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 58.

'000 RUB	**Note**	**Share capital**	**Legal reserve**	**Additional paid-in capital**	**Hedging reserve**	**Retained earnings**	**Translation reserve**	**Total equity**
Balance at 1 January 2012		**119 440**	**10 597**	**8 903 606**	**168 622**	**4 903 359**	**198 119**	**14 303 743**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	4 678 861	-	**4 678 861**
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	23 963	23 963
Change in fair value of hedges and reclassification from hedging reserve	12	-	-	-	(103 746)	-	-	(103 746)
Income tax on other comprehensive income	14	-	-	-	20 749	-	-	20 749
Total other comprehensive income		**-**	**-**	**-**	**(82 997)**	**-**	**23 963**	**(59 034)**
Total comprehensive income for the year		**-**	**-**	**-**	**(82 997)**	**4 678 861**	**23 963**	**4 619 827**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	23	-	-	-	-	(833 514)	-	(833 514)
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**(833 514)**	**-**	**(833 514)**
Balance at 31 December 2012		**119 440**	**10 597**	**8 903 606**	**85 625**	**8 748 706**	**222 082**	**18 090 056**

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 10 to 58.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2013		**119 440**	**10 597**	**8 903 606**	**85 625**	**8 748 706**	**222 082**	**18 090 056**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	4 976 385	-	4 976 385
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(43 395)	(43 395)
Change in fair value of hedges and reclassification from hedging reserve	12	-	-	-	(107 031)	-	-	(107 031)
Income tax on other comprehensive income	14	-	-	-	21 406	-	-	21 406
Total other comprehensive income		**-**	**-**	**-**	**(85 625)**	**-**	**(43 395)**	**(129 020)**
Total comprehensive income for the year		**-**	**-**	**-**	**(85 625)**	**4 976 385**	**(43 395)**	**4 847 365**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	23	-	-	-	-	(1 538 036)	-	(1 538 036)
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**(1 538 036)**	**-**	**(1 538 036)**
Balance at 31 December 2013		**119 440**	**10 597**	**8 903 606**	**-**	**12 187 055**	**178 687**	**21 399 385**

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 10 to 58.

'000 RUB	**Note**	**2013**	**2012**
Cash flows from operating activities			
Profit before income tax		6 851 663	6 468 120
Adjustments for:			
Depreciation and amortisation	15, 16, 18	2 513 189	2 149 949
Loss on disposal of non-current assets	10	7 742	40 267
Loss/(gain) from revaluation of investment property	17	92 541	(50 350)
Impairment of non-current assets	10	164 748	-
Finance income	12	(46 015)	(11 428)
Finance costs	12	1 139 827	1 035 206
Foreign exchange gain	13	(69 282)	(165 683)
Cash from operating activities before changes in working capital and provisions		**10 654 413**	**9 466 081**
Change in net trade and other receivables		(1 377 637)	(759 441)
Change in inventories		(1 045 627)	(1 294 658)
Change in trade and other payables		2 811 316	4 416 811
Cash flows from operations before income taxes and interest paid		**11 042 465**	**11 828 793**
Interest paid		(1 196 183)	(1 231 380)
Income tax paid		(1 937 735)	(1 659 749)
Net cash from operating activities		**7 908 547**	**8 937 664**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(10 415 773)	(8 350 612)
Purchase of intangible assets		(177 347)	(168 478)
Proceeds from sales of property, plant and equipment and investment property		13 035	16 640
Interest received		46 015	11 428
Net cash used in investing activities		**(10 534 070)**	**(8 491 022)**

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 10 to 58.

'000 RUB	**Note**	**2013**	**2012**
Cash flows from financing activities			
Proceeds from borrowings		12 980 000	7 500 000
Repayment of borrowings		(10 358 444)	(5 530 804)
Dividends paid		(1 538 036)	(833 514)
Net cash from financing activities		**1 083 520**	**1 135 682**
Net (decrease)/ increase in cash and cash equivalents		**(1 542 003)**	**1 582 324**
Cash and cash equivalents at beginning of year		4 535 693	2 941 947
Effect of exchange rate fluctuations on cash and cash equivalents		13 040	11 422
Cash and cash equivalents at end of year	22	**3 006 730**	**4 535 693**

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 10 to 58.

1 Reporting entity

(a) Organisation and operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union for the year ended 31 December 2013 for O'Key Group S.A. and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The major shareholders of the Group are three individuals, Mr.Korzhev, Mr.Troitsky and Mr.Volchek ("the shareholder group"). They also have a number of other business interests outside of the Group.

As at 31 December 2013 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs).

Related party transactions are detailed in note 31.

The Company's registered address is: Luxembourg 23, rue Beaumont, L-1219 Luxembourg.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'KEY". At 31 December 2013 the Group operated 94 stores (31 December 2012: 83 stores) in major Russian cities, including but not limited to Moscow, St.Petersburg, Murmansk, Nizhniy Novgorod, Rostov-on-Don, Krasnodar, Lipetsk, Volgograd, Ekaterinburg, Novosibirsk, Krasnoyarsk, Ufa, Astrakhan and Surgut.

(b) Business environment

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

2 Basis of accounting

(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 and were authorised for issue by the Board of Directors on 24 March 2014.

3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

The results and financial position of the Group entities, which functional currencies are different from Russian Roubles, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of the year end;
- profit and loss items for each statement of profit and loss and other comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 32.7292; EUR 1 = RUB 44.9699 (2012: USD 1 = RUB 30.3727; EUR 1 = RUB 40.2286).

4 Use of estimates and judgments

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

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

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 30.

Revenue recognition. The Group has recognised revenue amounting to RUB 137 639 million for sales of goods during 2013 (2012: RUB 115 903 million). According to the Group's policy customers have the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

Determination of net realizable value of inventory. The Group performs analysis of stock for write-off as at each reporting date and writes down inventories to their net realizable value when necessary. For details of approach used for determination of net realizable value refer to note 20.

5 Determination of fair values

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

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in 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*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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.

(a) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the allocation of maintenance and insurance responsibilities between the Group and the lessee.

(b) Non-derivative financial assets

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

(c) Derivatives

The fair value of interest rate and foreign exchange swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(d) 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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

6 Operating segments

The Group is engaged in management of retail stores located in Russia and has identified retail operations as a single reportable segment. Although the Group is not exposed to concentration of sales to individual customers, all the Group's sales are in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

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

The Group's chief operating decision maker has been determined as the CEO.

The Group operating segments represent individual retail stores. Due to similar economic characteristics (refer below) they were aggregated in one reportable segment.

Within the reportable segment all business components demonstrate similar characteristics:

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

The CEO assesses the performance of the operating segment based on earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for one-off items. EBITDA is non-GAAP measure. Other information provided to the CEO is measured in a manner consistent with that in the consolidated financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements as described in note 35.

The segment information for the year ended 31 December 2013 is as follows:

'000 RUB	**2013**	**2012**
Revenue	**139 460 384**	**117 333 236**
EBITDA	**11 032 178**	**9 426 587**

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

'000 RUB	**2013**	**2012**
EBITDA	11 032 178	9 426 587
Revaluation of investment property	(92 541)	50 350
Loss from disposal of non-current assets	(7 742)	(40 267)
Impairment of non-current assets	(164 748)	-
Loss from write-off of receivables	(121 477)	-
(Impairment)/Reversal of impairment of receivables	(24 699)	39 494
Depreciation and amortisation	(2 513 189)	(2 149 949)
Finance income	46 015	11 428
Finance costs	(1 139 827)	(1 035 206)
Foreign exchange gain	69 282	165 683
Hypermarket Savushkina's accident expenses	(231 589)	-
Profit before income tax	6 851 663	6 468 120
Income tax	(1 875 278)	(1 789 259)
Profit for the year	**4 976 385**	**4 678 861**

In July 2013 one of the Group's hypermarket (Savushkina, Saint-Petersburg) suffered from a fire accident. The store was closed for repairs until December 2013. Hypermarket Savushkina`s accident expenses comprise repairs and other expenses related to this accident.

7 Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2013 and 31 December 2012 are as follows:

Subsidiary	Country of incorporation	Nature of operations	2013 Ownership/ voting	2012 Ownership/ voting
LLC O'Key	Russian Federation	Retail	100%	100%
CJSC Dorinda	Russian Federation	Real estate	100%	100%
Axus Financial Ltd	BVI	Financing	100%	100%
LLC O'Key Group	Russian Federation	Managing Company	100%	100%
LLC O'Key Logistics	Russian Federation	Import operations	100%	100%
LLC Fresh Market	Russian Federation	Retail and real estate	100%	100%

8 Revenue

'000 RUB	2013	2012
Sales of trading stock	130 981 110	110 238 301
Sales of self-produced catering products	6 658 351	5 665 084
Revenue from sale of goods	137 639 461	115 903 385
Rental income	1 300 867	1 013 754
Revenue from advertising services	520 056	416 097
Total revenues	**139 460 384**	**117 333 236**

Total revenues comprise sale of goods, rental income from tenants which rent trade area in the Group stores and income from placing advertising in the Group stores.

9 General, selling and administrative expenses

'000 RUB	**Note**	**2013**	**2012**
Personnel costs	11	(12 686 804)	(10 235 867)
Operating leases	28	(3 081 729)	(2 297 963)
Depreciation and amortization		(2 513 189)	(2 149 949)
Communication and utilities		(2 326 380)	(1 812 353)
Advertising and marketing		(1 132 405)	(990 342)
Security expenses		(825 689)	(707 348)
Repairs and maintenance costs		(597 896)	(452 157)
Insurance and bank commission		(597 578)	(505 810)
Operating taxes		(562 249)	(497 603)
Materials and supplies		(302 738)	(258 840)
Legal and professional expenses		(277 943)	(306 150)
Other costs		(36 160)	(149 568)
		(24 940 760)	**(20 363 950)**

Fees billed to the Company and its subsidiaries by KPMG Luxembourg S.à r.l., and other member firms of the KPMG network during the year are as follows:

'000 RUB	**2013**	**2012**
Auditors' remuneration for annual and consolidated accounts	9 966	9 277
Auditors' remuneration for other assurance services	4 012	5 180
Auditors' remuneration for tax advisory services	255	816
	14 233	**15 273**

10 Other operating income and expenses

’000 RUB	Note	2013	2012
Loss from disposal of non-current assets		(7 742)	(40 267)
Impairment of non-current assets	15,16,18	(164 748)	-
Loss from write-off of receivables		(121 477)	-
(Impairment)/Reversal of impairment of receivables	27	(24 699)	39 494
(Loss)/gain from revaluation of investment property	17	(92 541)	50 350
HM Savushkina-accident expenses		(231 589)	-
Sundry income		123 783	13 603
		(519 013)	**63 180**

Hypermarket Savushkina`s accident expenses comprise write-off of the goods (RUB 76 710 thousand), personnel costs (RUB 26 539 thousand) and repairs expenses (RUB 128 340 thousand).

11 Personnel costs

’000 RUB	2013	2012
Wages and salaries	(7 382 930)	(6 298 681)
Social security contributions	(2 559 013)	(2 111 328)
Employee benefits	(1 677 622)	(1 493 137)
Share-based payments	(35 889)	(81 846)
Other	(1 031 350)	(250 875)
Total personnel costs	**(12 686 804)**	**(10 235 867)**

During the year ended 31 December 2013 the Group employed 23.5 thousand employees on average (2012: 21 thousand employees on average). Approximately 97% of employees are store and warehouse employees and the remaining part is office employees.

12 Finance income and finance costs

'000 RUB	**2013**	**2012**
Recognised in profit or loss		
Interest income on loans and receivables	42 941	10 784
Other finance income	3 074	644
Finance income	**46 015**	**11 428**
Interest costs on loans and borrowings	(849 955)	(1 014 184)
Reclassification from hedging reserve	(289 872)	(21 022)
Finance costs	**(1 139 827)**	**(1 035 206)**
Net finance costs recognised in profit or loss	**(1 093 812)**	**(1 023 778)**
The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:		
Total interest income on financial assets	**46 015**	**11 428**
Total interest expense on financial liabilities	**(1 139 827)**	**(1 035 206)**

'000 RUB	**2013**	**2012**
Recognised in other comprehensive income		
Change in fair value of hedges	32 554	(352 721)
Reclassification to profit and loss	(139 585)	248 975
Income tax on income and expense recognised in other comprehensive income	21 406	20 749
Finance costs recognised in other comprehensive income, net of tax	**(85 625)**	**(82 997)**

Reclassification from hedging reserve to profit and loss includes finance costs in the amount of RUB 289 872 thousand for the year ended 31 December 2013 (2012: RUB 21 022 thousand) and foreign exchange gain in the amount of RUB 429 457 thousand for the year ended 31 December 2013 (2012: loss RUB 227 953 thousand).

During 2013 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 443 302 thousand (2012: RUB 229 652 thousand).

In 2013 capitalisation rate of 7.98 % was used to determine the amount of borrowing costs eligible for capitalisation (2012: 6.97%).

13 Foreign exchange gain

During 2013 Russian Rouble weakened against USD. However, major part of the Group's financial liabilities denominated in USD was hedged and a net foreign exchange gain was recognized in profit and loss amounting to RUB 69 282 thousand for the year ended 31 December 2013 (2012: gain RUB 165 683 thousand).

The Group's risk management policy is to convert part of its USD denominated debt into RUB denominated debt. As at 31 December 2013, the share of USD-denominated borrowings in Group's debt was not significant.

14 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2012: 20%).

'000 RUB	**2013**	**2012**
Current tax expense	(2 041 647)	(1 590 722)
Deferred tax benefit /(expense)	166 369	(198 537)
Total income tax expense	**(1 875 278)**	**(1 789 259)**

Income tax recognised directly in other comprehensive income

'000 RUB	**2013**			**2012**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Foreign currency translation differences	(43 395)	-	(43 395)	23 963	-	23 963
Change in fair value of hedges and reclassification from hedging reserve	(107 031)	21 406	(85 625)	(103 746)	20 749	(82 997)
	(150 426)	**21 406**	**(129 020)**	**(79 783)**	**20 749**	**(59 034)**

Reconciliation of effective tax rate:

'000 RUB	**2013**	**2012**
Profit before income tax	**6 851 663**	**6 468 120**
Income tax at applicable tax rate (2013: 20%, 2012: 20%)	(1 370 333)	(1 293 624)
Effect of income taxed at different rates	(9 748)	(6 364)
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(554 269)	(429 269)
- Other non-deductible expenses	(17 058)	(60 507)
Tax withheld on dividends received from subsidiaries	(33 341)	(266 339)
Tax concessions	-	246 042
Adjustments to current income tax for previous periods	109 471	-
Other items	-	20 802
Income tax expense for the year	**(1 875 278)**	**(1 789 259)**

15 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2012	2 864 870	14 193 167	2 526 726	7 122 120	3 136 848	29 843 731
Additions	365 412	2 191 281	826 464	1 369 292	1 085 745	5 838 194
Transfers	-	2 061 994	42 260	353 063	(2 457 317)	-
Transfers to investment property	-	-	-	-	(6 616)	(6 616)
Disposals	-	-	(2 698)	(79 851)	(38 479)	(121 028)
Balance at 31 December 2012	**3 230 282**	**18 446 442**	**3 392 752**	**8 764 624**	**1 720 181**	**35 554 281**

'000 RUB	**Land**	**Buildings**	**Leasehold improvements**	**Machinery and equipment, auxiliary facilities and other fixed assets**	**Construction in progress**	**Total**
Balance at 1 January 2013	**3 230 282**	**18 446 442**	**3 392 752**	**8 764 624**	**1 720 181**	**35 554 281**
Additions	717 863	3 763 624	576 102	1 433 046	4 172 879	10 663 514
Transfers	-	227 100	366 492	192 180	(785 772)	-
Disposals	-	-	(569)	(543 738)	(12 766)	(557 073)
Balance at 31 December 2013	**3 948 145**	**22 437 166**	**4 334 777**	**9 846 112**	**5 094 522**	**45 660 722**
Depreciation and impairment losses						
Balance at 1 January 2012	-	(1 752 894)	(319 155)	(4 199 727)	-	(6 271 776)
Depreciation for the year	-	(512 673)	(294 997)	(1 131 568)	-	(1 939 238)
Transfers	-	(5 131)	(6 599)	11 730	-	-
Disposals	-	-	101	69 277	-	69 378
Balance at 31 December 2012	**-**	**(2 270 698)**	**(620 650)**	**(5 250 288)**	**-**	**(8 141 636)**

'000 RUB	**Land**	**Buildings**	**Leasehold improvements**	**Machinery and equipment, auxiliary facilities and other fixed assets**	**Construction in progress**	**Total**
Balance at 1 January 2013	**-**	**(2 270 698)**	**(620 650)**	**(5 250 288)**	**-**	**(8 141 636)**
Depreciation for the year	-	(618 290)	(382 720)	(1 246 004)	-	(2 247 014)
Impairment losses	-	-	(7 358)	-	(22 324)	(29 682)
Disposals	-	-	520	535 919	-	536 439
Balance at 31 December 2013	**-**	**(2 888 988)**	**(1 010 208)**	**(5 960 373)**	**(22 324)**	**(9 881 893)**
Carrying amounts						
At 1 January 2012	**2 864 870**	**12 440 273**	**2 207 571**	**2 922 393**	**3 136 848**	**23 571 955**
At 31 December 2012	**3 230 282**	**16 175 744**	**2 772 102**	**3 514 336**	**1 720 181**	**27 412 645**
At 31 December 2013	**3 948 145**	**19 548 178**	**3 324 569**	**3 885 739**	**5 072 198**	**35 778 829**

Depreciation expense of RUB 2 247 014 thousand has been charged to selling, general and administrative expenses (2012: RUB 1 939 238 thousand). Impairment loss of RUB 29 682 thousand has been charged to other operating expenses (2012: Nil).

Security

At 31 December 2013 property, plant and equipment have not been pledged to third parties as collateral for borrowings (2012: RUB 6 404 435 thousand). Refer to notes 25 and 30. In 2010 the Group has entered into agreement with third party in relation to one of its land plots with carrying value of RUB 554 967 thousand as at 31 December 2013. Under terms of this agreement the third party will build a trade center on this land plot. Upon completion of construction the Group will exchange part of the land plot for part of trade center and will locate O'Key hypermarket there. In 2010 the Group received guarantee payment in relation to this transaction. Guarantee received is included in other current payables for RUB 981 876 thousand as at 31 December 2013.

16 Intangible assets

'000 RUB	**Software**	**Lease rights**	**Other intangible assets**	**Total**
Cost				
Balance at 1 January 2012	517 425	491 475	14 030	**1 022 930**
Additions	168 478	-	-	**168 478**
Balance at 31 December 2012	**685 903**	**491 475**	**14 030**	**1 191 408**
Balance at 1 January 2013	**685 903**	**491 475**	**14 030**	**1 191 408**
Additions	148 005	**-**	29 342	**177 347**
Disposals	(141 036)	-	(123)	**(141 159)**
Balance at 31 December 2013	**692 872**	**491 475**	**43 249**	**1 227 596**
Amortisation and impairment losses				
Balance at 1 January 2012	(284 522)	(219 615)	(694)	**(504 831)**
Amortisation for the year	(54 248)	(62 975)	(2 759)	(119 982)
Balance at 31 December 2012	**(338 770)**	**(282 590)**	**(3 453)**	**(624 813)**
Balance at 1 January 2013	**(338 770)**	**(282 590)**	**(3 453)**	**(624 813)**
Amortisation for the year	(100 743)	(58 714)	(6 727)	(166 184)
Impairment losses	-	(27 565)	-	(27 565)
Disposals	141 010	**-**	5	141 015
Balance at 31 December 2013	**(298 503)**	**(368 869)**	**(10 175)**	**(677 547)**
Carrying amounts				
At 1 January 2012	**232 903**	**271 860**	**13 336**	**518 099**
At 31 December 2012	**347 133**	**208 885**	**10 577**	**566 595**
At 31 December 2013	**394 369**	**122 606**	**33 074**	**550 049**

Amortisation and impairment losses

Amortisation of RUB 166 184 thousand has been charged to selling, general and administrative expenses (2012: RUB 119 982 thousand).

Impairment loss of RUB 27 565 thousand has been charged to other operating expenses (2012: Nil).

17 Investment property

(a) Reconciliation of carrying amount

’000 RUB	**Note**	**Investment property**
Investment properties at fair value as at 1 January 2012		**573 000**
Transfers from property, plant and equipment		6 616
Expenditure on subsequent improvements		2 034
Fair value gain (unrealized)	10	50 350
Investment properties at fair value as at 31 December 2012		**632 000**
Investment properties at fair value as at 1 January 2013		**632 000**
Expenditure on subsequent improvements		541
Fair value loss (unrealized)	10	(92 541)
Investment properties at fair value as at 31 December 2013		**540 000**

(b) Measurement of fair value

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued.

The fair value measurement for investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 5).

The appraisers used income approach for determining the fair value. An estimate was made of annual net operating income for 5 years which is mainly based on annual net rent rate of RUB 3 900 per sq. m. (2012: RUB 4 600) and expected occupancy of 92% (2012: 93%). The annual net operating income was assumed to be constant from year 6 to perpetuity. Discount rate of 16.3% (2012: 17.8%) was applied to discount future cash flows.

Rental income from investment property amounted to RUB 90 835 thousand for the year ended 31 December 2013 (2012: RUB 108 741 thousand).

Direct operating expenses arising from investment property that generated rental income amounted to RUB 53 054 thousand for the year ended 31 December 2013 (2012: RUB 83 363 thousand).

There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2013 (2012: Nil).

18 Other non-current assets

'000 RUB	**2013**	**2012**
Initial cost of land lease	3 964 858	3 991 382
Long-term prepayments to entities under control of shareholder group	735 903	952 302
Prepayments for property plant and equipment	2 681 295	2 677 459
Long-term deposits to lessors	264 706	159 525
Other non-current receivables	454 936	124 398
	8 101 698	**7 905 066**

Initial cost of land lease includes purchase price and costs directly attributable to acquisition of lease rights and is amortised over the period of the lease (49-51 years).

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2017. Related party transactions are detailed in note 31.

Movements in the carrying amount of initial cost of land lease were as follows:

'000 RUB	**2013**	**2012**
Cost		
Balance at 1 January	**4 644 557**	**3 946 624**
Additions	180 968	717 434
Disposals	-	(19 501)
Balance at 31 December	**4 825 525**	**4 644 557**
Amortization and impairment losses		
Balance at 1 January	**(653 175)**	**(576 690)**
Amortization charge	(99 991)	(90 729)
Disposals	-	14 244
Impairment losses	(107 501)	-
Balance at 31 December	**(860 667)**	**(653 175)**
Net book value	**3 964 858**	**3 991 382**

Amortisation of RUB 99 991 thousand has been charged to selling, general and administrative expenses (2012: RUB 90 729 thousand).

Impairment loss of RUB 107 501 thousand has been charged to other expenses (2012: Nil).

At 31 December 2013 no initial cost of land lease was pledged to third parties as collateral for borrowings (2012: RUB 456 971 thousand). Refer to note 25.

19 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
'000 RUB	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Investment property	36 193	-	-	(21 135)	36 193	(21 135)
Property, plant and equipment	67 450	-	(727 319)	(448 858)	(659 869)	(448 858)
Construction in progress	-	-	(95 823)	(59 064)	(95 823)	(59 064)
Intangible assets	5 794	-	(3 164)	(1 609)	2 630	(1 609)
Other non-current assets	10 258	54 320	-	-	10 258	54 320
Inventories	325 198	232 008	-	-	325 198	232 008
Trade and other receivables	112 631	160 769	(6 561)	(285 600)	106 070	(124 831)
Trade and other payables	168 288	158 138	(59 628)	(81 562)	108 660	76 576
Tax loss carry-forwards	61 865	-	-	-	61 865	-
Tax assets/(liabilities)	**787 677**	**605 235**	**(892 495)**	**(897 828)**	**(104 818)**	**(292 593)**
Set off of tax	(304 521)	(230 109)	304 521	230 109	-	-
Net tax assets/(liabilities)	**483 156**	**375 126**	**(587 974)**	**(667 719)**	**(104 818)**	**(292 593)**

(b) Unrecognised deferred tax liability

As at 31 December 2013 a temporary difference of RUB 21 104 158 thousand (2012: RUB 16 851 838 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

(c) Movement in temporary differences during the year

'000 RUB	1 January 2013	Recognised in profit or loss	Recognised in hedging reserve	31 December 2013
Investment property	(21 135)	57 328	-	36 193
Property, plant and equipment	(448 858)	(211 011)	-	(659 869)
Construction in progress	(59 064)	(36 759)	-	(95 823)
Intangible assets	(1 609)	4 239	-	2 630
Other non-current assets	54 320	(44 062)	-	10 258
Inventories	232 008	93 190	-	325 198
Trade and other receivables	(124 831)	209 495	21 406	106 070
Trade and other payables	76 576	32 084	-	108 660
Tax loss carry-forwards	-	61 865	-	61 865
	(292 593)	**166 369**	**21 406**	**(104 818)**

'000 RUB	1 January 2012	Recognised in profit or loss	Recognised in hedging reserve	31 December 2012
Investment property	9 391	(30 526)	-	(21 135)
Property, plant and equipment	(487 062)	38 204	-	(448 858)
Construction in progress	(20 325)	(38 739)	-	(59 064)
Intangible assets	(2 667)	1 058	-	(1 609)
Other non-current assets	(15 444)	69 764	-	54 320
Inventories	257 552	(25 544)	-	232 008
Trade and other receivables	61 372	(206 952)	20 749	(124 831)
Trade and other payables	82 378	(5 802)	-	76 576
	(114 805)	**(198 537)**	**20 749**	**(292 593)**

20 Inventories

'000 RUB	**2013**	**2012**
Goods for resale	10 111 935	9 128 059
Raw materials and consumables	365 976	341 346
Write-down to net realisable value	(219 969)	(257 090)
	10 257 942	**9 212 315**

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 219 969 thousand as at 31 December 2013 (2012: RUB 257 090 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

The write-down is included in cost of goods sold.

21 Trade and other receivables

'000 RUB	**2013**	**2012**
Trade receivables	159 934	98 370
VAT receivable	2 111 674	1 196 210
Prepaid taxes	270 081	197 935
Other receivables	960 322	425 119
	3 502 011	**1 917 634**

Taxes prepaid include RUB 194 028 thousand of prepaid income tax (2012: RUB 130 638 thousand).

Other receivables include RUB 636 651 thousand (2012: RUB 345 814 thousand) of bonuses receivable from suppliers.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

22 Cash and cash equivalents

’000 RUB	2013	2012
Cash on hand	362 742	341 447
RUB denominated bank current account	896 988	957 771
USD denominated bank current account	8 115	15 824
RUB term deposits (interest rate: 1.5%-6.5%; 2012: 1.77%p.a.)	622 444	65 679
Cash in transit	1 116 441	3 154 972
Cash and cash equivalents	**3 006 730**	**4 535 693**

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: Bank Saint-Petersburg, Nordea bank, Sberbank, Raiffeisen bank, VTB bank, Credit Evropa bank, TransCredit bank, Unicredit bank and Uralsib bank.

The Group's exposure to credit and currency risks related to cash and cash equivalents is disclosed in note 27.

23 Equity

Reconciliation of number of shares from 1 January to 31 December is provided in the table below.

	Ordinary shares	
Number of shares unless otherwise stated	**2013**	**2012**
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269 074 000	269 074 000
On issue at 31 December, fully paid	**269 074 000**	**269 074 000**

As at 31 December 2013 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand) is represented by 269 074 000 shares with a par value of 0.01 EUR each.

In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During the year ended 31 December 2013 there were no transfers to legal reserve (2012: nil).

In February 2013 the Group paid interim dividends to shareholders in amount of RUB 1 538 036 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2013 amounted to 5.7 RUB (2012: RUB 3.1).

In June 2013 shareholders of the Company approved annual dividends for the year ended 31 December 2012. The amount of annual dividends for 2012 was paid by the Group to shareholders as interim dividends in 2012 in the amount of RUB 833 514 thousand.

There were no movements in additional paid-in capital during the year ended 31 December 2013.

24 Earnings per share

The calculation of basic earnings per share at 31 December 2013 was based on the profit attributable to ordinary shareholders of RUB 4 976 385 thousand (2012: RUB 4 678 861 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000, calculated as shown below. The Company has no dilutive potential ordinary shares.

Number of shares	**2013**	**2012**
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for the year ended 31 December	**269 074 000**	**269 074 000**

25 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 27.

'000 RUB	**2013**	**2012**
Non-current liabilities		
Secured bank loans	-	6 236 313
Unsecured bank facilities	5 796 400	-
Unsecured bonds	7 980 000	3 009 934
Unsecured loans from related parties	665 433	617 522
	14 441 833	**9 863 769**
Current liabilities		
Secured bank loans	-	1 819 810
Unsecured bank facilities	2 204 240	2 003 457
Unsecured bonds interest	105 510	-
Unsecured loans from third parties	2 868	2 868
	2 312 618	**3 826 135**

As at 31 December 2013 all borrowings were unsecured. As at 31 December 2012 loans and borrowings with carrying value of RUB 8 056 123 thousand were secured by property, plant and equipment and initial cost of land lease. Refer to note 30.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2013		31 December 2012	
'000 RUB	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	USD	LIBOR + 3.9-5%	2013	-	-	432 541	432 541
Secured bank loan	USD	LIBOR + 3.15%	2010-2015	-	-	3 954 901	3 954 901
Secured bank loan	RUB	8.5%	2015	-	-	1 168 681	1 168 681
Secured bank loan	RUB	3.5% + 1 mnth Mosprime	2013-2017	-	-	2 500 000	2 500 000
Unsecured bonds	RUB	10.10%	2017	3 011 610	3 011 610	3 009 934	3 009 934
Unsecured bonds	RUB	8.90%	2018	5 093 900	5 073 900	-	-
Unsecured bank facility	RUB	8.35%	2017-2018	3 000 000	3 000 000	-	-
Unsecured bank facility	RUB	2.5% + 1 mnth Mosprime	2014-2016	1 500 000	1 500 000	-	-
Unsecured bank facility	RUB	2.4% + 3 mnth Mosprime	2014-2016	2 000 000	2 000 000	-	-
Unsecured bank facility	RUB	8.06%	2014	640	640	503 457	503 457
Unsecured bank facility	RUB	8.60%	2013	-	-	1 500 000	1 500 000
Unsecured bank facility	RUB	7.1-12%	2014	1 500 000	1 500 000	-	-
Unsecured loans from related parties	USD	8.00%	2016	665 433	665 433	617 522	617 522
Unsecured loans from other companies	RUB	0.10%	2014	2 868	2 868	2 865	2 865
Unsecured loans from other companies	RUB	12.00%	2013	-	-	3	3
				16 774 451	**16 754 451**	**13 689 904**	**13 689 904**

During 2012 and 2013 the Group placed unsecured bonds on MICEX which expire after 5 years in 2017 and 2018, accordingly. However bonds holders have an option to claim repayment of bonds after 3 years.

In December 2013 the Group exercised its right to early settle loan payable to EBRD in the amount of RUB 3 582 427 thousand as at the date of settlement (31 December 2012: RUB 3 954 901 thousand). Initially, the loan had maturity in 2010-2015.

Compliance with loan covenants

The Group monitors compliance with loan covenants on an ongoing basis. Where noncompliance is unavoidable in managements' view, the Group requests waiver letters from the banks before the year-end, confirming that the banks shall not use its right to demand early redemption.

At 31 December 2013 and during the year then ended the Group complied with all loan covenants.

26 Trade and other payables

'000 RUB	2013	2012
Trade payables	20 242 510	17 344 008
Advances received	256 097	181 083
Taxes payable (other than income tax)	689 240	650 827
Payables to staff	1 215 575	1 099 639
Foreign exchange and interest rate swap liabilities	-	32 554
Short-term liabilities incurred in share-based payment transactions	-	76 835
Deferred income	60 412	28 365
Other current payables	1 250 668	200 423
	23 714 502	**19 613 734**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

27 Financial instruments and risk management

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

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 Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’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 are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(b) Credit risk

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

(i) Exposure to credit risk

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

	Note	**Carrying amount**	
’000 RUB		**2013**	**2012**
Trade and other receivables	21	1 120 256	523 489
Cash and cash equivalents	22	3 006 730	4 535 693
		4 126 986	**5 059 182**

Due to the fact that the Group’s principal activities are located in Russian Federation the credit risk is mainly associated with domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditability.

(ii) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of the customers are retail consumers, who are not provided with any credit. Therefore the Group’s trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O’Key stores. Thus, the credit risk in part of trade receivables is mostly managed through procedures for selection of suppliers and tenants.

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.

Impairment losses

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

'000 RUB	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not overdue and past due less than 90 days	1 035 229	-	436 509	-
Past due 90-180 days	28 530	-	22 227	-
Past due 180-360 days	3 451	-	10 595	-
More than 360 days	99 222	(46 176)	75 635	(21 477)
	1 166 432	**(46 176)**	**544 966**	**(21 477)**

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

'000 RUB	2013	2012
Balance at beginning of the year	21 477	44 226
Impairment loss recognised	24 699	-
Impairment loss reversed	-	(22 749)
Balance at end of the year	**46 176**	**21 477**

The management has performed a thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than 1 year. Based on past experience the management believes that normally the balances outstanding less than 360 days should not be impaired.

(iii) Cash and cash equivalents

The Group held cash and cash equivalents of RUB 3 006 730 thousand at 31 December 2013 (2012: RUB 4 535 693 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated AAA based on Standard and Poor's national rating for Russian Federation and AAA based on Fitch Rating national rating for Russian Federation.

(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.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 2.5;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

(i) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including future interest payments:

2013

'000 RUB	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-5 yrs**
Non-derivative financial liabilities					
Unsecured bonds	8 085 510	(9 913 633)	(372 145)	(374 636)	(9 166 852)
Unsecured bank facilities	8 000 640	(9 607 280)	(1 807 634)	(986 665)	(6 812 981)
Unsecured loans from related parties	665 433	(776 279)	(26 399)	(26 399)	(723 481)
Unsecured loans from other companies	2 868	(2 869)	(1)	(2 868)	-
Trade and other payables	22 708 753	(22 708 753)	(22 708 753)	-	-
	39 463 204	**(43 008 814)**	**(24 914 932)**	**(1 390 568)**	**(16 703 314)**

During 2012 and 2013 the Group placed unsecured bonds on MICEX which expire after 5 years in 2017 and 2018, accordingly. However bonds holders have an option to claim repayment of bonds after 3 years, thus 3 years period is used for contractual cash flows calculation purposes.

2012

'000 RUB	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-5 yrs**
Non-derivative financial liabilities					
Secured bank loans	8 056 123	(9 172 269)	(1 054 656)	(1 113 462)	(7 004 151)
Unsecured bonds	3 009 934	(3 916 444)	(151 085)	(151 085)	(3 614 274)
Unsecured bank facilities	2 003 457	(2 046 007)	(2 046 007)	-	-
Unsecured loans from related parties	617 522	(769 789)	(24 363)	(24 363)	(721 063)
Unsecured loans from other companies	2 868	(2 868)	(1)	(2 867)	-
Trade and other payables	18 644 070	(18 644 070)	(18 644 070)	-	-
Other non-current liabilities	911 181	(911 181)	-	-	(911 181)
Derivative financial liabilities					
Foreign exchange and interest rate swap liabilities	32 554	(466 376)	(114 132)	(102 648)	(249 596)
	33 277 709	**(35 929 004)**	**(22 034 314)**	**(1 394 425)**	**(12 500 265)**

There are no payments due after 5 years.

(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.

The Group buys derivatives in order to manage market risk. All such transactions are carried out within the guidelines set in Group's policy on hedging market risk. The Group applies hedge accounting in order to manage volatility in profit or loss

(i) Currency risk

The Group holds its business in Russian Federation and mainly collects receivables nominated in Russian Roubles. However financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar.

Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to acceptable level by keeping proportion of financial assets and liabilities in foreign currencies to total financial liabilities at acceptable level. From time to time the Group converts assets and liabilities from one currency to another. The Group regularly considers necessity of using derivatives to hedge its exposure to currency risk. During 2013 the Group settled USD-denominated loan which was hedged with a currency swap. Accordingly, the foreign currency swap was closed.

Exposure to currency risk

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

'000 RUB	**USD-denominated 2013**	**USD-denominated 2012**
Trade and other receivables	107 308	3 346
Secured bank loans	-	(4 387 442)
Unsecured loans from related parties	(665 433)	(617 522)
Trade and other payables	(1 009 339)	(11 250)
Other non-current liabilities	-	(911 181)
Foreign exchange and interest rate swap liabilities	-	(32 554)
Gross exposure	**(1 567 464)**	**(5 956 603)**
Of which carrying amount of hedged secured bank loans	**-**	3 954 901
Net exposure	**(1 567 464)**	**(2 001 702)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
Russian Rouble equals	**2013**	**2012**	**2013**	**2012**
US Dollar	31.8480	31.0930	32.7292	30.3727

Sensitivity analysis

A 10% strengthening of the RUB against USD at 31 December 2013 would have increased equity by RUB 156 746 thousand (2012: RUB 592 405 thousand) and profit or loss by RUB 156 746 thousand (2012: RUB 196 915 thousand). 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 2012.

A weakening of the RUB against USD at 31 December would have had the equal but opposite effect on equity and profit and loss, on the basis that all other variables remain constant.

(ii) Interest rate risk

The Group has material exposure to interest rate risk. As at 31 December 2013, 30% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2012: 66%).

The Group uses swaps to hedge its exposure to variability of interest rates. As at 31 December 2013 the Group had an interest swap agreement with a bank. Under this agreement the Group swaps Mosprime rate for fixed rate. At inception, the swap had a maturity of three years. As at 31 December 2013 fair value of swap was Nil.

Profile

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

	Carrying amount	
'000 RUB	**2013**	**2012**
Fixed rate instruments		
Financial assets	622 444	-
Financial liabilities	(13 254 451)	(6 802 462)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(3 500 000)	(6 919 996)

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 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 2012.

	Profit or loss		Equity	
'000 RUB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2013				
Variable rate instruments	(35 000)	35 000	-	-
Interest rate swap	20 000	(20 000)	-	-
Cash flow sensitivity (net)	(15 000)	15 000	-	-
2012				
Variable rate instruments	(68 801)	68 801	-	-
Interest rate swap	39 485	(39 485)	40 618	5 160
Cash flow sensitivity (net)	**(29 316)**	**29 316**	**40 618**	**5 160**

(e) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

'000 RUB	**Trade and other receivables**	**Trade and other payables**
31 December 2013		
Gross amounts	1 778 802	11 329 566
Amounts offset in accordance with IAS 32 offsetting criteria	(1 592 835)	(1 592 835)
Net amounts presented in the statement of financial position	185 967	9 736 731
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-
Net amount	185 967	9 736 731

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2012		
Gross amounts	1 591 873	10 301 428
Amounts offset in accordance with IAS 32 offsetting criteria	(1 491 743)	(1 491 743)
Net amounts presented in the statement of financial position	100 130	8 809 685
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-
Net amount	100 130	8 809 685

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

Amounts offset in accordance with IAS 32 offsetting criteria comprise mainly trade payables for goods and bonuses receivable from suppliers.

(f) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 5. Fair value of Group's financial assets and liabilities, including loans and borrowings, approximates their carrying amounts.

(g) Fair value hierarchy

Group's derivative financial assets and liabilities comprise interest rate swap which is carried at fair value. Fair value of swap was determined based on observable market data (Level 2 fair value), including forward interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs (Level 3 fair value). Group's bonds are listed on MICEX. Fair value of bonds payable was determined for disclosure purposes based on active market quotations (Level 1 fair value).

(h) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

28 Operating leases

Leases as lessee

The Group has both own and leased land plots. The own land plots are included in property, plant and equipment. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are capitalized as initial cost of land lease and are amortised over the period of the lease (49-51 years). The further information on leases is detailed below.

When the Group leases land plots under operating leases, the lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 49 years.

The Group also rents premises under operating leases. These leases typically run up to 10 years, although some leases may be for longer period. Property leases can be renewed based on mutual agreement of the lessor and the Group. The Group has subleases. Fees payable by the Group for operating leases of stores comprise fixed payments and contingent rent which is determined as excess of 3%-5% of the revenue of related stores over fixed rent rate.

During the year ended 31 December 2013 RUB 3 181 720 thousand was recognised as an expense (including amortization of initial cost of land lease amounting to RUB 99 991 thousand) in the profit and loss in respect of operating leases (2012: RUB 2 388 692 thousand). Contingent rent recognised as an expense for the year ended 31 December 2013 amounted to RUB 818 462 thousand (2012: RUB 637 255 thousand).

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

RUB 000'	**2013**	**2012**
Less than one year	1 975 473	1 286 026
Between one and five years	6 076 801	4 223 262
More than five years	12 700 022	8 857 409
	20 752 296	**14 366 697**

Future minimum lease payments as at 31 December 2013 include RUB 13 665 445 thousand (31 December 2012: RUB 8 475 644 thousand) in respect of property leases cancellable only with the permission of the lessor. Management believes that the Group is able to negotiate early cancellation of these leases, if necessary.

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2013 RUB 1 300 867 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2012: RUB 1 013 754 thousand). All leases whether the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 38 503 thousand for the year ended 31 December 2013 (2012: RUB 28 582 thousand). Contingent rent is determined as excess of 3,5%-25% of the tenant’s revenue over fixed rent rate.

29 Capital commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 11 041 167 thousand as at 31 December 2013 (2012: RUB 5 796 762 thousand).

30 Contingencies

(a) Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

The Group companies entered into intragroup transactions which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules and practical application of the law, but could be significant. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

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

(c) Assets pledged or restricted

The Group has the following assets pledged as collateral:

'000 RUB	**Note**	**2013**	**2012**
Fixed assets (carrying value)	15	-	6 404 435
Initial cost of land lease (carrying value)	18	-	456 971
Total		**-**	**6 861 406**

31 Related party transactions

(a) Major shareholders

The major shareholders of the Group are three individuals Mr. Korzhev, Mr. Troitsky and Mr. Volchek ("the shareholder group").

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 11):

'000 RUB	**2013**	**2012**
Salaries and bonuses	111 615	113 526
Social security contributions	2 354	778
Long-service bonus	248 711	85 425
Share-based payments	18 424	42 016
	381 104	**241 745**

In addition members of Board of Directors received remuneration in the amount of RUB 15 073 thousand for the year ended 31 December 2013 (2012: RUB 12 068 thousand) which is included in Legal and professional expenses.

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group (see note 1).

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

(i) Revenue

'000 RUB	**Transaction value 2013**	**Transaction value 2012**	**Outstanding balance 2013**	**Outstanding balance 2012**
Services provided:				
Other related parties	36 857	38 664	(3 543)	(5 110)
	36 857	**38 664**	**(3 543)**	**(5 110)**

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

(ii) Expenses

'000 RUB	Transaction value 2013	Transaction value 2012	Outstanding balance 2013	Outstanding balance 2012
Lease of premises				
Other related parties	(699 221)	(675 140)	907 642	1 109 960
Including:				
Rental fee	(597 794)	(565 526)	-	-
Reimbursement of utilities	(57 875)	(54 831)	-	-
Reimbursement of other expenses	(43 552)	(54 783)	-	-
Other services received:				
Other related parties	(3 880)	(15 908)	(24)	608
Finance costs:				
Other related parties	(52 026)	(49 430)	-	-
	(755 127)	**(740 478)**	**907 618**	**1 110 568**

In 2013 no finance costs from related parties were capitalized in cost of property, plant and equipment (2012: Nil).

Outstanding balance for lease of premises as at 31 December 2013 represents net balance of prepayments for rent of hypermarkets for the period until 2017 in the amount of RUB 977 078 thousand (2012: RUB 1 168 638 thousand) and current liabilities for rent of hypermarkets in the amount RUB 3 137 thousand (2012: RUB 58 678 thousand). Long-term part of prepayments is RUB 735 903 thousand (2012: RUB 952 302 thousand), refer to note 18.

All other outstanding balances are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

'000 RUB	Amount loaned 2013	Amount loaned 2012	Outstanding balance 2013	Outstanding balance 2012
Loans received:				
Other related parties	-	-	**(665 433)**	**(617 522)**

The loans from other related parties bear interest at 8% per annum and are payable in 2016.

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

32 Events subsequent to the reporting date

In January 2014 the Group announced the decision to appoint Tony Denis Maher as the Group's Chief Executive officer.

In February 2014 the Group paid interim dividends to shareholders in the amount of USD 60 999 076 (RUB 2 122 548 thousand).

After the reporting date there was a weakening of the RUB against the USD and the EURO approximately by 12%.

33 Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are stated at fair value;
- Liabilities incurred in cash-settled share-based payment transactions are remeasured at fair value;
- Investment property is remeasured at fair value.

34 Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 35 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a. Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

b. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

c. IFRS 13 Fair Value Measurement

The nature and effects of the changes are explained below.

(a) Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see note 27(e)).

(b) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its statement of other comprehensive income, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(c) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

The change had no significant impact on the measurements of the Group's assets and liabilities and disclosures.

35 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 34, which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) 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) Foreign currency

(i) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on 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.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

(c) Financial instruments

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

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

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

The Group derecognises a financial 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.

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

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

(ii) Non-derivative financial assets - measurement

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with original maturities 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 statement of cash flows.

(iii) Non-derivative financial liabilities - measurement

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iv) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of profit and loss and other comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

(d) Transactions with owners

(i) Ordinary shares/share capital

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.

(ii) Distributions to owners/contributions from owners

The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholders) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) Subsequent costs

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

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 30 years;
- Machinery and equipment, auxiliary facilities 2-20 years;
- Motor vehicles 5-10 years;
- Leasehold improvements over the term of underlying lease;
- Other fixed assets 2-10 years.

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

(f) Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property, including investment property under construction, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss. If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(ii) 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 is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets 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:

- lease rights 5-10 years;
- software licenses 1-7 years;
- other intangible assets 1-5 years.

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

(h) Leased assets

(i) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortized using straight-line method over the period of lease being up to 51 years.

(ii) Finance leases

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.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as other payables (long-term accounts payable for amounts due after 12 months from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted moving average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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) 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 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, observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

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 receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

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's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits

Other long-term employee benefits represent long-service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(iii) Short-term employee 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 bonus 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.

(iv) Cash-settled share-based payment transactions

The fair value of the amount payable to employees in respect of cash-settled share-based payment transactions is recognised as an employee expense in profit and loss with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes of the fair value of the liability are recognised as personnel expenses in profit or loss.

(l) Provisions

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

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, returns and discounts.

(i) Goods sold

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register.

(ii) Services

Revenue from services rendered is recognised in profit or loss when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(n) Cost of sales

Cost of sales include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories, primarily in the form of volume discounts and slotting fees. These bonuses are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of sales.

(o) Finance income and costs

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. 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.

(p) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: 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, and differences relating to investments in subsidiaries and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future. A deferred tax asset is recognised for unused tax losses, unused 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 used. 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.

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

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

(q) Earnings per share

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

(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 the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Value added tax

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early as it is not yet endorsed by the European Union.

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The Group has not yet analysed the likely impact of the amendments on its financial position and performance.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The amendments are likely to increase the Group's trade and other receivables from and trade and other payables to certain counterparties because it is unlikely that the Group will meet the criteria for offsetting. In particular, the current bankruptcy legislation in Russia does not allow offsetting if this has impact on the succession of settlements determined by the law. However, the impact has not yet been quantified.