

**O'Key Group S.A.**

**Consolidated Financial Statements  
for the year ended 31 December 2014**  
(with the report of the Réviseur d'Entreprises  
Agréé thereon)

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To the Shareholders of  
O'KEY GROUP S.A.  
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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, 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and 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, 2014, 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 13, 2015

KPMG Luxembourg, Société coopérative  
Cabinet de révision agréé



Jean-Manuel Sérís

## Contents

Report of the Réviseur d'Entreprises Agréé	
Consolidated Statement of Financial Position	2
Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Consolidated Statement of Changes in Equity	5
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	9
1 Reporting entity	8
2 Basis of accounting	9
3 Functional and presentation currency	9
4 Use of estimates and judgments	9
5 Determination of fair values	10
6 Operating segments	11
7 Subsidiaries	13
8 Revenue	13
9 General, selling and administrative expenses	14
10 Other operating income and expenses	15
11 Personnel costs	15
12 Finance income and finance costs	16
13 Foreign exchange (loss)/gain	17
14 Income tax expense	17
15 Property, plant and equipment	19
16 Intangible assets	22
17 Investment property	23
18 Other non-current assets	24
19 Deferred tax assets and liabilities	25
20 Inventories	27
21 Trade and other receivables	27
22 Cash and cash equivalents	28
23 Equity	28
24 Earnings per share	29
25 Loans and borrowings	29
26 Trade and other payables	31
27 Financial instruments and risk management	31
28 Operating leases	39
29 Capital commitments	40
30 Contingencies	40
31 Related party transactions	42
32 Events subsequent to the reporting date	44
33 Basis of measurement	44
34 Changes in accounting policies	44
35 Significant accounting policies	45

'000 RUB	Note	2014	2013
	34		<b>Restated</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	17	548 500	540 000
Property, plant and equipment	15	40 006 546	30 706 631
Construction in progress	15	7 180 792	5 072 198
Intangible assets	16	539 435	550 049
Deferred tax assets	19	1 144 855	483 156
Other non-current assets	18	11 004 304	8 101 698
<b>Total non-current assets</b>		<b>60 424 432</b>	<b>45 453 732</b>
<b>Current assets</b>			
Inventories	20	12 859 297	10 257 942
Trade and other receivables	21	6 207 273	5 106 101
Prepayments		1 277 663	822 558
Cash and cash equivalents	22	5 810 182	3 006 730
<b>Total current assets</b>		<b>26 154 415</b>	<b>19 193 331</b>
<b>Total assets</b>		<b>86 578 847</b>	<b>64 647 063</b>

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 9 to 57.

'000 RUB	Note	2014	2013
	34		<b>Restated</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	23	<b>24 197 143</b>	<b>21 399 385</b>
<b>Non-current liabilities</b>			
Loans and borrowings	25	19 655 016	14 441 833
Deferred tax liabilities	19	835 550	587 974
Other non-current liabilities		78 044	112 256
<b>Total non-current liabilities</b>		<b>20 568 610</b>	<b>15 142 063</b>
<b>Current liabilities</b>			
Loans and borrowings	25	12 425 527	2 312 618
Trade and other payables	26	29 098 249	25 318 592
Current income tax payable		289 318	474 405
<b>Total current liabilities</b>		<b>41 813 094</b>	<b>28 105 615</b>
<b>Total liabilities</b>		<b>62 381 704</b>	<b>43 247 678</b>
<b>Total equity and liabilities</b>		<b>86 578 847</b>	<b>64 647 063</b>

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 9 to 57.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2014

'000 RUB	Note	2014	2013
Revenue	8	151 983 180	139 460 384
Cost of goods sold		(114 778 593)	(106 124 418)
<b>Gross profit</b>		<b>37 204 587</b>	<b>33 335 966</b>
General, selling and administrative expenses	9	(29 117 399)	(24 940 760)
Other operating income and expenses	10	478 362	(519 013)
<b>Operating profit</b>		<b>8 565 550</b>	<b>7 876 193</b>
Finance income	12	24 197	46 015
Finance costs	12	(1 587 734)	(1 139 827)
Foreign exchange (loss)/gain	13	(687 529)	69 282
<b>Profit before income tax</b>		<b>6 314 484</b>	<b>6 851 663</b>
Income tax expense	14	(1 088 765)	(1 875 278)
<b>Profit for the year</b>		<b>5 225 719</b>	<b>4 976 385</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Exchange differences on translating to presentation currency		392 973	(43 395)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Change in fair value of hedges and reclassification from hedging reserve	12	135 159	(107 031)
Income tax on other comprehensive income	12,14	(27 032)	21 406
<b>Other comprehensive income for the year, net of income tax</b>		<b>501 100</b>	<b>(129 020)</b>
<b>Total comprehensive income for the year</b>		<b>5 726 819</b>	<b>4 847 365</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (RUB)	24	<b>19.4</b>	<b>18.5</b>

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 9 to 57.

## Consolidated Statement of Changes in Equity for the year ended 31 December 2014

'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
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	4 976 385	-	4 976 385
<b>Other comprehensive income</b>								
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
<b>Total other comprehensive income</b>		-	-	-	(85 625)	-	(43 395)	(129 020)
<b>Total comprehensive income for the year</b>		-	-	-	(85 625)	4 976 385	(43 395)	4 847 365
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Dividends paid	23	-	-	-	-	(1 538 036)	-	(1 538 036)
<b>Total contributions by and distributions to owners</b>		-	-	-	-	(1 538 036)	-	(1 538 036)
<b>Balance at 31 December 2013</b>		<b>119 440</b>	<b>10 597</b>	<b>8 903 606</b>	<b>-</b>	<b>12 187 055</b>	<b>178 687</b>	<b>21 399 385</b>

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 9 to 57.



'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2014		119 440	10 597	8 903 606	-	12 187 055	178 687	21 399 385
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	5 225 719	-	5 225 719
<b>Other comprehensive income</b>								
Foreign currency translation differences		-	-	-	-	-	392 973	392 973
Change in fair value of hedges and reclassification from hedging reserve	12	-	-	-	135 159	-	-	135 159
Income tax on other comprehensive income	14	-	-	-	(27 032)	-	-	(27 032)
<b>Total other comprehensive income</b>		-	-	-	108 127	-	392 973	501 100
<b>Total comprehensive income for the year</b>		-	-	-	108 127	5 225 719	392 973	5 726 819
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Dividends paid	23	-	-	-	-	(2 929 061)	-	(2 929 061)
<b>Total contributions by and distributions to owners</b>		-	-	-	-	(2 929 061)	-	(2 929 061)
<b>Balance at 31 December 2014</b>		<b>119 440</b>	<b>10 597</b>	<b>8 903 606</b>	<b>108 127</b>	<b>14 483 713</b>	<b>571 660</b>	<b>24 197 143</b>

## Consolidated Statement of Cash Flows for the year ended 31 December 2014

'000 RUB	Note	2014	2013
	34		Restated
<b>Cash flows from operating activities</b>			
Cash receipts from customers		173 675 975	159 677 795
Other cash receipts		187 512	10 411
Interest received		13 678	46 015
Cash paid to suppliers and employees		(159 017 273)	(145 300 136)
Operating taxes		(583 609)	(512 070)
Other cash payments		(137 106)	(73 219)
VAT paid to budget		(491 268)	(1 048 509)
Recovery of input VAT from investing activities		(1 947 277)	(1 113 140)
Income tax paid		(1 863 368)	(1 937 865)
<b>Net cash from operating activities</b>		<b>9 837 264</b>	<b>9 749 282</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and initial cost of land lease (including VAT)		(18 504 486)	(12 075 822)
Purchase of other intangible assets (including VAT)		(204 896)	(209 269)
Recovery of input VAT from investing activities		1 947 277	1 113 140
Proceeds from sales of property, plant and equipment and intangible assets (including VAT)		15 685	13 035
<b>Net cash used in investing activities</b>		<b>(16 746 420)</b>	<b>(11 158 916)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		16 974 749	12 980 000
Repayment of loans and borrowings		(2 139 482)	(10 358 444)
Interest paid		(2 353 426)	(1 196 183)
Dividends paid		(2 929 061)	(1 538 036)
Other financial proceeds/(payments)		30 516	(15 281)
<b>Net cash from/(used in) financing activities</b>		<b>9 583 296</b>	<b>(127 944)</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>2 674 140</b>	<b>(1 537 578)</b>
Cash and cash equivalents at beginning of the period		3 006 730	4 535 693
Effect of exchange rate fluctuations on cash and cash equivalents		129 312	8 615
<b>Cash and cash equivalents at end of the year</b>		<b>5 810 182</b>	<b>3 006 730</b>

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 9 to 57.

## **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 2014 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 2014 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 2014 the Group operated 108 stores (31 December 2013: 94 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 recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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 9 March 2015.

## 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 the date of operation;
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2014 the principal rate of exchange used for translating foreign currency balances were USD 1 = 56.2584 RUB; EUR 1 = 68.3427 RUB (2013: USD 1 = RUB 32.7292; EUR 1 = RUB 44.9699).

## 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 149 954 million for sales of goods during 2014 (2013: RUB 137 639 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 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 2014 is as follows:

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
Revenue	<b>151 983 180</b>	<b>139 460 384</b>
EBITDA	<b>11 269 508</b>	<b>11 032 178</b>

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

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
EBITDA	11 269 508	11 032 178
Revaluation of investment property	7 528	(92 541)
Gain/(loss) from disposal of non-current assets	724 595	(7 742)
Impairment of non-current assets	(199 697)	(164 748)
Loss from write-off of receivables	(198 243)	(121 477)
Reversal of impairment/(impairment) of receivables	17 747	(24 699)
Depreciation and amortisation	(3 055 888)	(2 513 189)
Finance income	24 197	46 015
Finance costs	(1 587 734)	(1 139 827)
Foreign exchange (loss)/gain	(687 529)	69 282
Hypermarket Savushkina's accident expenses	-	(231 589)
Profit before income tax	<b>6 314 484</b>	<b>6 851 663</b>
Income tax	(1 088 765)	(1 875 278)
Profit for the year	<b>5 225 719</b>	<b>4 976 385</b>

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 2014 and 31 December 2013 are as follows:

<b>Subsidiary</b>	<b>Country of incorporation</b>	<b>Nature of operations</b>	<b>2014</b>	<b>2013</b>
			<b>Ownership/ voting</b>	<b>Ownership/ voting</b>
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

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
Sales of trading stock	142 613 948	130 981 110
Sales of self-produced catering products	7 340 159	6 658 351
Revenue from sale of goods	149 954 107	137 639 461
Rental income	1 501 627	1 300 867
Revenue from advertising services	527 446	520 056
<b>Total revenues</b>	<b>151 983 180</b>	<b>139 460 384</b>

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	2014	2013
Personnel costs	11	(13 928 875)	(12 686 804)
Operating leases	28	(3 872 641)	(3 081 729)
Depreciation and amortization	15, 16, 18	(3 055 888)	(2 513 189)
Communication and utilities		(2 687 257)	(2 326 380)
Advertising and marketing		(1 822 828)	(1 132 405)
Security expenses		(833 025)	(825 689)
Repairs and maintenance costs		(725 920)	(597 896)
Insurance and bank commission		(661 191)	(597 578)
Operating taxes		(632 734)	(562 249)
Legal and professional expenses		(517 361)	(277 943)
Materials and supplies		(345 419)	(302 738)
Other costs		(34 260)	(36 160)
		<b>(29 117 399)</b>	<b>(24 940 760)</b>

Fees billed to the Company and its subsidiaries by KPMG Luxembourg Societe cooperative, and other member firms of the KPMG network during the year are as follows:

'000 RUB	2014	2013
Auditors' remuneration for annual and consolidated accounts	9 316	9 966
Auditors' remuneration for other assurance services	3 269	4 012
Auditors' remuneration for tax advisory services	2 411	255
	<b>14 996</b>	<b>14 233</b>

## 10 Other operating income and expenses

'000 RUB	Note	2014	2013
Gain\loss) from disposal of non-current assets		724 595	(7 742)
Impairment of non-current assets	15,16,18	(199 697)	(164 748)
Loss from write-off of receivables		(198 243)	(121 477)
Reversal of impairment/(Impairment) of receivables	27	17 747	(24 699)
Gain/loss) from revaluation of investment property	17	7 528	(92 541)
HM Savushkina-accident expenses		-	(231 589)
Sundry income		126 432	123 783
		<b>478 362</b>	<b>(519 013)</b>

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).

During the year ended 31 December 2014 year the Group agreed with insurance company compensation of HM Savushkina-accident expenses in the amount of RUB 117 794 thousand. The compensation was recognized within sundry income in profit and loss.

Gain from disposal of non-current assets for the year ended 31 December 2014 includes gain from exchange of land plot on store premises in the amount of RUB 742 787 thousand and represents the difference between carrying amount of land plot transferred and fair value of premises received. Carrying amount of store premises was measured at fair value as determined by independent appraiser. The appraiser used income approach for determining the fair value.

## 11 Personnel costs

'000 RUB	2014	2013
Wages and salaries	(8 814 028)	(7 382 930)
Social security contributions	(2 796 237)	(2 559 013)
Employee benefits	(1 218 688)	(1 677 622)
Share-based payments	-	(35 889)
Other	(1 099 922)	(1 031 350)
<b>Total personnel costs</b>	<b>(13 928 875)</b>	<b>(12 686 804)</b>

During the year ended 31 December 2014 the Group employed 26.8 thousand employees on average (2013: 23.5 thousand employees on average). Approximately 95% of employees are store and warehouse employees and the remaining part is office employees.

**12 Finance income and finance costs**

'000 RUB	<u>2014</u>	<u>2013</u>
<b>Recognised in profit or loss</b>		
Interest income on loans and receivables	21 048	42 941
Other finance income	3 149	3 074
<b>Finance income</b>	<b><u>24 197</u></b>	<b><u>46 015</u></b>
Interest costs on loans and borrowings	(1 587 734)	(849 955)
Reclassification from hedging reserve	-	(289 872)
<b>Finance costs</b>	<b><u>(1 587 734)</u></b>	<b><u>(1 139 827)</u></b>
<b>Net finance costs recognised in profit or loss</b>	<b><u>(1 563 537)</u></b>	<b><u>(1 093 812)</u></b>

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	<b><u>24 197</u></b>	<b><u>46 015</u></b>
Total interest expense on financial liabilities	<b><u>(1 587 734)</u></b>	<b><u>(1 139 827)</u></b>

'000 RUB	<u>2014</u>	<u>2013</u>
<b>Recognised in other comprehensive income</b>		
Change in fair value of hedges	135 159	32 554
Reclassification to profit and loss	-	(139 585)
Income tax on income and expense recognised in other comprehensive income	(27 032)	21 406
<b>Finance income/(costs) recognised in other comprehensive income, net of tax</b>	<b><u>108 127</u></b>	<b><u>(85 625)</u></b>

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 and foreign exchange gain in the amount of RUB 429 457 thousand for the year ended 31 December 2013.

During 2014 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 745 811 thousand (2013: RUB 443 302 thousand).

In 2014 capitalisation rate of 9.25 % was used to determine the amount of borrowing costs eligible for capitalisation (2013: 7.98 %).

### 13 Foreign exchange (loss)/gain

During 2014 Russian Rouble significantly weakened against USD. Net foreign exchange loss recognized in profit and loss in the amount of RUB 687 529 thousand for the year ended 31 December 2014 (2013: gain RUB 69 282 thousand) mainly relates to USD-denominated borrowing. In 2014 the Group has not used hedging instruments to hedge foreign exchange risks.

The Group's risk management policy is to receive borrowings in the same currency which generated revenue (Russian Rouble). As at 31 December 2014, the share of USD-denominated borrowings in Group's debt was not significant. The Group's exposure to currency risk is disclosed in note 27.

### 14 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2013: 20%).

'000 RUB	2014	2013
	_____	_____
Current tax expense	(1 529 920)	(2 041 647)
Deferred tax benefit	441 155	166 369
Total income tax expense	<u>(1 088 765)</u>	<u>(1 875 278)</u>

#### Income tax recognised directly in other comprehensive income

'000 RUB	2014			2013		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
	_____	_____	_____	_____	_____	_____
Foreign currency translation differences	392 973	-	392 973	(43 395)	-	(43 395)
Change in fair value of hedges and reclassification from hedging reserve	135 159	(27 032)	108 127	(107 031)	21 406	(85 625)
	<u>528 132</u>	<u>(27 032)</u>	<u>501 100</u>	<u>(150 426)</u>	<u>21 406</u>	<u>(129 020)</u>

**Reconciliation of effective tax rate:**

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
Profit before income tax	<b>6 314 484</b>	<b>6 851 663</b>
Income tax at applicable tax rate (2014: 20%, 2013: 20%)	(1 262 896)	(1 370 333)
Effect of income taxed at different rates	221 215	(9 748)
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(410 606)	(554 269)
- Other non-deductible expenses	(157 284)	(17 058)
Tax withheld on dividends received from subsidiaries	(148 734)	(33 341)
Adjustments to current income tax for previous periods	955 095	109 471
Other items	(285 555)	-
<b>Income tax expense for the year</b>	<b>(1 088 765)</b>	<b>(1 875 278)</b>

During the year ended 31 December 2014 tax authorities reimbursed to the Group RUB 764 302 thousand of income tax previously paid for the years 2010-2012. The Group also claimed for reimbursement income tax paid for 2013 in the amount of RUB 190 793 thousand. Both income tax claimed for reimbursement and already reimbursed were recognized as reduction of income tax expense for 2014 and relate to expenses, which the Group treats as deductible since 2014.

## 15 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Cost or deemed cost</i>						
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	<b>3 948 145</b>	<b>22 437 166</b>	<b>4 334 777</b>	<b>9 846 112</b>	<b>5 094 522</b>	<b>45 660 722</b>

Notes to the Consolidated Financial Statements for the year ended 31 December 2014 (continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2014	<b>3 948 145</b>	<b>22 437 166</b>	<b>4 334 777</b>	<b>9 846 112</b>	<b>5 094 522</b>	<b>45 660 722</b>
Additions	2 398 555	4 588 355	820 907	1 683 907	5 293 688	14 785 412
Transfers	424	2 515 178	280 983	335 114	(3 131 699)	-
Transfers from initial cost of land lease	115 741	-	-	-	-	115 741
Disposals	(438 439)	-	(22 328)	(237 448)	(53 395)	(751 610)
Balance at 31 December 2014	<b>6 024 426</b>	<b>29 540 699</b>	<b>5 414 339</b>	<b>11 627 685</b>	<b>7 203 116</b>	<b>59 810 265</b>
<b><i>Depreciation and impairment losses</i></b>						
Balance at 1 January 2013	-	<b>(2 270 698)</b>	<b>(620 650)</b>	<b>(5 250 288)</b>	-	<b>(8 141 636)</b>
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	-	<b>(2 888 988)</b>	<b>(1 010 208)</b>	<b>(5 960 373)</b>	<b>(22 324)</b>	<b>(9 881 893)</b>

Notes to the Consolidated Financial Statements for the year ended 31 December 2014 (continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2014	-	(2 888 988)	(1 010 208)	(5 960 373)	(22 324)	(9 881 893)
Depreciation for the year	-	(804 037)	(413 621)	(1 560 954)	-	(2 778 612)
Impairment losses	-	-	(199 697)	-	-	(199 697)
Disposals	-	-	14 970	222 305	-	237 275
Balance at 31 December 2014	-	(3 693 025)	(1 608 556)	(7 299 022)	(22 324)	(12 622 927)
<b>Carrying amounts</b>						
At 1 January 2013	<b>3 230 282</b>	<b>16 175 744</b>	<b>2 772 102</b>	<b>3 514 336</b>	<b>1 720 181</b>	<b>27 412 645</b>
At 31 December 2013	<b>3 948 145</b>	<b>19 548 178</b>	<b>3 324 569</b>	<b>3 885 739</b>	<b>5 072 198</b>	<b>35 778 829</b>
At 31 December 2014	<b>6 024 426</b>	<b>25 847 674</b>	<b>3 805 783</b>	<b>4 328 663</b>	<b>7 180 792</b>	<b>47 187 338</b>

During 2014 the Group has capitalised interest in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 745 811 thousand (2013: RUB 443 302 thousand). In 2014 capitalisation rate of 9.25% was used to determine the amount of borrowing costs eligible for capitalisation (2013: 7.98 %).

Depreciation expense of RUB 2 778 612 thousand has been charged to selling, general and administrative expenses (2013: RUB 2 247 014 thousand). Impairment loss of RUB 199 697 thousand has been charged to other operating expenses (2013: RUB 29 682 thousand).

As at 31 December 2014 the Group performed impairment test for low-performing stores. For two stores carrying amount exceeded recoverable amount and the Group recognized impairment loss of RUB 199 697 thousand. The Group estimated the recoverable amount of stores being their value in use using income approach.



**Security**

At 31 December 2014, 4 stores have been pledged to third parties as collateral for borrowings (2013: none). Refer to notes 25 and 30.

**16 Intangible assets**

'000 RUB	Software	Lease right	Other intangible assets	Total
<i>Cost</i>				
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	<u>692 872</u>	<u>491 475</u>	<u>43 249</u>	<u>1 227 596</u>
Balance at 1 January 2014	692 872	491 475	43 249	1 227 596
Additions	159 809	-	5 904	165 713
Transfer	(621)	-	621	-
Disposals	(289)	(87 319)	(66)	(87 674)
Balance at 31 December 2014	<u>851 771</u>	<u>404 156</u>	<u>49 708</u>	<u>1 305 635</u>
<i>Amortisation and impairment losses</i>				
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	<u>(298 503)</u>	<u>(368 869)</u>	<u>(10 175)</u>	<u>(677 547)</u>
Balance at 1 January 2014	(298 503)	(368 869)	(10 175)	(677 547)
Amortisation for the year	(123 227)	(47 138)	(5 261)	(175 626)
Transfer	626	748	(1 374)	-
Disposals	289	86 622	62	86 973
Balance at 31 December 2014	<u>(420 815)</u>	<u>(328 637)</u>	<u>(16 748)</u>	<u>(766 200)</u>
<b>Carrying amounts</b>				
At 1 January 2013	<u>347 133</u>	<u>208 885</u>	<u>10 577</u>	<u>566 595</u>
At 31 December 2013	<u>394 369</u>	<u>122 606</u>	<u>33 074</u>	<u>550 049</u>
At 31 December 2014	<u>430 956</u>	<u>75 519</u>	<u>32 960</u>	<u>539 435</u>

**Amortisation and impairment losses**

Amortisation of RUB 175 626 thousand has been charged to selling, general and administrative expenses (2013: RUB 166 184 thousand).

Impairment loss of RUB 27 565 thousand for the year ended 31 December 2013 has been charged to other operating expenses.

**17 Investment property****(a) Reconciliation of carrying amount**

'000 RUB	Note	Investment property
<b>Investment properties at fair value as at 1 January 2013</b>		<b>632 000</b>
Expenditure on subsequent improvements		541
Fair value loss (unrealized)		(92 541)
<b>Investment properties at fair value as at 31 December 2013</b>		<b>540 000</b>
<b>Investment properties at fair value as at 1 January 2014</b>		<b>540 000</b>
Expenditure on subsequent improvements		972
Fair value gain (unrealized)		7 528
<b>Investment properties at fair value as at 31 December 2014</b>		<b>548 500</b>

**(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 8 000 per sq. m. (2013: RUB 6 600 ) and expected occupancy of 95 % (2013: 92%). The annual net operating income was assumed to be constant from year 6 to perpetuity. Discount rate of 19 % (2013: 16.3%) was applied to discount future cash flows.

There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2014 (2013: Nil).

**18 Other non-current assets**

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
Initial cost of land lease	4 540 476	3 964 858
Long-term prepayments to entities under control of shareholder group	511 619	735 903
Prepayments for property plant and equipment	4 866 979	2 681 295
Long-term deposits to lessors	303 241	264 706
Other non-current receivables	781 989	454 936
	<b>11 004 304</b>	<b>8 101 698</b>

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:

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
<i>Cost</i>		
<b>Balance at 1 January</b>	<b>4 825 525</b>	<b>4 644 557</b>
Additions	793 009	180 968
Transfers to property plant and equipment	(142 132)	-
<b>Balance at 31 December</b>	<b>5 476 402</b>	<b>4 825 525</b>
<i>Amortization and impairment losses</i>		
<b>Balance at 1 January</b>	<b>(860 667)</b>	<b>(653 175)</b>
Amortization charge	(101 650)	(99 991)
Transfers to property plant and equipment	26 391	-
Impairment losses	-	(107 501)
<b>Balance at 31 December</b>	<b>(935 926)</b>	<b>(860 667)</b>
<b>Net book value</b>	<b>4 540 476</b>	<b>3 964 858</b>

Amortisation of RUB 101 650 thousand has been charged to selling, general and administrative expenses (2013: RUB 99 991 thousand).

At 31 December 2014 no initial cost of land lease was pledged to third parties as collateral for borrowings (2013: none).

## 19 Deferred tax assets and liabilities

### (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Investment property	-	36 193	(4 203)	-	(4 203)	36 193
Property, plant and equipment	186 488	67 450	(856 180)	(727 319)	(669 692)	(659 869)
Construction in progress	-	-	(149 162)	(95 823)	(149 162)	(95 823)
Intangible assets	-	5 794	(14 649)	(3 164)	(14 649)	2 630
Other non-current assets	60 656	10 258	-	-	60 656	10 258
Inventories	716 188	325 198	(41 273)	-	674 915	325 198
Trade and other receivables	-	112 631	-	(6 561)	-	106 070
Trade and other payables	247 782	168 288	-	(59 628)	247 782	108 660
Tax loss carry-forwards	163 658	61 865	-	-	163 658	61 865
Tax assets/(liabilities)	<b>1 374 772</b>	<b>787 677</b>	<b>(1 065 467)</b>	<b>(892 495)</b>	<b>309 305</b>	<b>(104 818)</b>
Set off of tax	(229 917)	(304 521)	229 917	304 521	-	-
Net tax assets/(liabilities)	<b>1 144 855</b>	<b>483 156</b>	<b>(835 550)</b>	<b>(587 974)</b>	<b>309 305</b>	<b>(104 818)</b>

### (b) Unrecognised deferred tax liability

As at 31 December 2014 a temporary difference of RUB 24 344 483 thousand (2013: RUB 21 104 158 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 2014	Recognised in profit or loss	Recognised in hedging reserve	31 December 2014
Investment property	36 193	(40 396)	-	(4 203)
Property, plant and equipment	(659 869)	(9 823)	-	(669 692)
Construction in progress	(95 823)	(53 339)	-	(149 162)
Intangible assets	2 630	(17 279)	-	(14 649)
Other non-current assets	10 258	50 398	-	60 656
Inventories	325 198	349 717	-	674 915
Trade and other receivables	106 070	(79 038)	(27 032)	-
Trade and other payables	108 660	139 122	-	247 782
Tax loss carry-forwards	61 865	101 793	-	163 658
	<b>(104 818)</b>	<b>441 155</b>	<b>(27 032)</b>	<b>309 305</b>

'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
	<b>(292 593)</b>	<b>166 369</b>	<b>21 406</b>	<b>(104 818)</b>

**20 Inventories**

'000 RUB	2014	2013
Goods for resale	12 713 083	10 111 935
Raw materials and consumables	417 893	365 976
Write-down to net realisable value	(271 679)	(219 969)
	<b>12 859 297</b>	<b>10 257 942</b>

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 271 679 thousand as at 31 December 2014 (2013: RUB 219 969 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	Note	2014	2013
	34		<b>Restated</b>
Trade receivables		243 483	202 238
VAT receivable		2 743 875	2 111 674
Prepaid taxes		357 211	270 081
Interest rate swap receivables		135 159	-
Other receivables		2 727 545	2 522 108
		<b>6 207 273</b>	<b>5 106 101</b>

Taxes prepaid include RUB 342 389 thousand of prepaid income tax (2013: RUB 194 028 thousand).

Other receivables include RUB 2 281 600 thousand (2013: RUB 2 197 601 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	2014	2013
Cash on hand	437 753	362 742
RUB denominated bank current account	544 109	896 988
USD denominated bank current account	14 048	8 115
RUB term deposits (interest rate: 2014: 12%-24% p.a.; 2013: 1.5%-6.5% p.a.)	3 517 607	622 444
Cash in transit	1 296 665	1 116 441
Cash and cash equivalents	<b>5 810 182</b>	<b>3 006 730</b>

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: VTB bank, Rosbank, Promsvyazbank, 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.

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	2014	2013
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	<b>269 074 000</b>	<b>269 074 000</b>

As at 31 December 2014 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 2014 there were no transfers to legal reserve (2013: nil). In 2014 the Group paid interim dividends to shareholders in amount of RUB 2 929 061 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 2014 amounted to RUB 10.9 (2013: RUB 5.7).

In June 2014 shareholders of the Company approved annual dividends for the year ended 31 December 2013. The amount of annual dividends for 2013 was paid by the Group to shareholders as interim dividends in 2013 in the amount of RUB 1 538 036 thousand.

There were no movements in additional paid-in capital during the year ended 31 December 2014.

## 24 Earnings per share

The calculation of basic earnings per share at 31 December 2014 was based on the profit attributable to ordinary shareholders of RUB 5 225 719 thousand (2013: RUB 4 976 385 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.

<i>Number of shares</i>	<b>2014</b>	<b>2013</b>
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for the year ended 31 December	<b>269 074 000</b>	<b>269 074 000</b>

## 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.

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
<i>Non-current liabilities</i>		
Secured bank loans	5 000 000	-
Unsecured bank facilities	8 699 975	5 796 400
Unsecured bonds	4 980 000	7 980 000
Unsecured loans from related parties	975 041	665 433
	<b>19 655 016</b>	<b>14 441 833</b>
<i>Current liabilities</i>		
Unsecured bank facilities	9 314 926	2 204 240
Unsecured bonds	3 000 000	-
Unsecured bonds interest	107 730	105 510
Unsecured loans from third parties	2 871	2 868
	<b>12 425 527</b>	<b>2 312 618</b>

As at 31 December 2014 loans and borrowings with carrying value of RUB 5 000 000 thousand were secured by property, plant and equipment (2013: none). Refer to Note 30.



**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

'000 RUB	Currency	Nominal interest rate	Year of maturity	31 December 2014		31 December 2013	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	RUB	10.10%	2017	3 012 480	3 012 480	3 011 610	3 011 610
Unsecured bonds	RUB	8.90%	2018	5 075 250	5 075 250	5 093 900	5 073 900
Unsecured bank facility	RUB	8.35%	2017-2018	-	-	3 000 000	3 000 000
Secured bank facility	RUB	8.35%	2017-2018	5 000 000	5 000 000	-	-
Unsecured bank facility	RUB	1.7% + 1 mnth Mosprime	2014-2016	2 266 400	2 266 400	1 500 000	1 500 000
Unsecured bank facility	RUB	2.4% + 3 mnth Mosprime	2014-2016	1 530 000	1 530 000	2 000 000	2 000 000
Unsecured bank facility	RUB	8.06%	2014	-	-	640	640
Unsecured bank facility	RUB	7.1-12%	2014	-	-	1 500 000	1 500 000
Unsecured bank facility	RUB	11.24%	2015	2 999 827	2 999 827	-	-
Unsecured bank facility	RUB	1.3% + 3 mnth Mosprime	2015-2017	5 765 000	5 765 000	-	-
Unsecured bank facility	RUB	1.8% + 1 mnth Mosprime	2019	1 500 000	1 500 000	-	-
Unsecured bank facility	RUB	8.43%	2015	3 500 000	3 500 000	-	-
Unsecured bank facility	RUB	10.65%	2014-2015	453 674	453 674	-	-
Unsecured loans from related parties	USD	8.00%	2016	975 041	975 041	665 433	665 433
Unsecured loans from other companies	RUB	0.10%	2015	2 871	2 871	2 868	2 868
				<b>32 080 543</b>	<b>32 080 543</b>	<b>16 774 451</b>	<b>16 754 451</b>

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.

**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 2014 and during the year then ended the Group complied with all loan covenants.

**26 Trade and other payables**

'000 RUB	Note	2014	2013
	34		<b>Restated</b>
Trade payables		26 272 658	21 846 600
Advances received		335 282	256 097
Taxes payable (other than income tax)		644 760	689 240
Payables to staff		1 322 765	1 215 575
Deferred income		76 632	60 412
Other current payables		446 152	1 250 668
		<b>29 098 249</b>	<b>25 318 592</b>

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:

'000 RUB	Note	Carrying amount	
		2014	2013
	34		<b>Restated</b>
Trade and other receivables	21	3 106 187	2 724 346
Cash and cash equivalents	22	5 810 182	3 006 730
		<b>8 916 369</b>	<b>5 731 076</b>

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	Note	Gross	Impairment	Gross	Impairment
		2014	2014	2013	2013
	<b>34</b>			<b>Restated</b>	
Not overdue and past due less than 90 days		2 813 630	-	2 408 254	-
Past due 90-180 days		75 980	-	78 775	-
Past due 180-360 days		9 191	-	9 529	-
More than 360 days		235 815	(28 429)	273 964	(46 176)
		<b>3 134 616</b>	<b>(28 429)</b>	<b>2 770 522</b>	<b>(46 176)</b>

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

'000 RUB	2014	2013
Balance at beginning of the year	46 176	21 477
Impairment loss recognised	-	24 699
Impairment loss reversed	(17 747)	-
Balance at end of the year	<b>28 429</b>	<b>46 176</b>

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 5 810 182 thousand at 31 December 2014 (2013: RUB 3 006 730 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated from BB+ to B based on Standard and Poor's and Moody's 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 3.5;
- 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:

**2014**

'000 RUB	Note	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
<b>Non-derivative financial liabilities</b>						
Secured bank loan		5 000 000	(6 306 546)	(208 178)	(209 322)	(5 889 046)
Unsecured bonds		8 087 730	(9 206 360)	(480 705)	(3 375 025)	(5 350 630)
Unsecured bank facilities		18 014 901	(23 235 154)	(9 207 764)	(2 723 745)	(11 303 645)
Unsecured loans from related parties		975 041	(1 059 456)	(38 681)	(38 681)	(982 094)
Unsecured loans from other companies		2 871	(2 873)	(22)	(2 851)	-
Trade and other payables		28 041 575	(28 041 575)	(28 041 575)	-	-
		<b>60 122 118</b>	<b>(68 851 964)</b>	<b>(37 976 925)</b>	<b>(6 349 624)</b>	<b>(23 525 415)</b>

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.

**2013**

'000 RUB	Note	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
<b>Non-derivative financial liabilities</b>						
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	34	24 312 843	(24 312 843)	(24 312 843)	-	-
		<b>41 067 294</b>	<b>(44 612 904)</b>	<b>(26 519 002)</b>	<b>(1 390 568)</b>	<b>(16 703 314)</b>

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.

**Exposure to currency risk**

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

'000 RUB	USD-denominated	USD-denominated
	2014	2013
Trade and other receivables	251 011	107 308
Unsecured loans from related parties	(975 041)	(665 433)
Trade and other payables	(120 810)	(1 009 339)
Gross exposure	<b>(844 840)</b>	<b>(1 567 464)</b>
Of which carrying amount of hedged financial assets and financial liabilities	-	-
Net exposure	<b>(844 840)</b>	<b>(1 567 464)</b>

The following significant exchange rates applied during the year:

Russian Rouble equals	Average rate		Reporting date rate	
	2014	2013	2014	2013
US Dollar	38.4217	31.8480	56.2584	32.7292

**Sensitivity analysis**

A 20% weakening of the RUB against USD at 31 December 2014 would have decreased equity and profit and loss by RUB 168 968 thousand (2013: RUB 313 492 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 was performed on the same basis for 2013.

A strengthening 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 2014, 56% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2013: 30%).

The Group uses swaps to hedge its exposure to variability of interest rates. As at 31 December 2014 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 2014 fair value of swap was RUB 135 159 thousand (31 December 2013: Nil).

**Profile**

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

'000 RUB	Carrying amount	
	2014	2013
<b>Fixed rate instruments</b>		
Financial assets	3 517 607	622 444
Financial liabilities	(21 019 143)	(13 254 451)
<b>Variable rate instruments</b>		
Financial liabilities	(11 061 400)	(3 500 000)

**Cash flow sensitivity analysis for variable rate instruments**

A change of 500 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 was performed on the same basis for 2013.

Profit or loss

Equity

'000 RUB	500 bp increase	500 bp decrease	500 bp increase	500 bp decrease
<b>2014</b>				
Variable rate instruments	(553 070)	553 070	-	-
Interest rate swap	76 500	(76 500)	55 628	(56 213)
<b>Cash flow sensitivity (net)</b>	<b>(476 570)</b>	<b>476 570</b>	<b>55 628</b>	<b>(56 213)</b>
<b>2013</b>				
Variable rate instruments	(175 000)	175 000	-	-
Interest rate swap	100 000	(100 000)	-	-
<b>Cash flow sensitivity (net)</b>	<b>(75 000)</b>	<b>75 000</b>	<b>-</b>	<b>-</b>

**(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
<b>31 December 2014</b>		
Gross amounts	1 463 010	8 833 587
Amounts offset in accordance with IAS 32 offsetting criteria	(2 560)	(2 560)
Net amounts presented in the statement of financial position	1 460 450	8 831 027
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1 460 421)	(1 460 421)
<b>Net amount</b>	<b>29</b>	<b>7 370 606</b>

'000 RUB	Note	Trade and other receivables	Trade and other payables
	34	Restated	Restated



'000 RUB	Note	Trade and other receivables	Trade and other payables
<b>31 December 2013</b>			
Gross amounts		533 751	4 170 076
Amounts offset in accordance with IAS 32 offsetting criteria		(739)	(739)
Net amounts presented in the statement of financial position		533 012	4 169 337
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria		(532 689)	(532 689)
<b>Net amount</b>		<b>323</b>	<b>3 636 647</b>

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 approximates their carrying amounts, excluding fixed rate loans and borrowings, for which fair value is disclosed in the table below:

'000 RUB	Carrying amount	Fair value
<b><i>Non-current liabilities</i></b>		
Secured bank loans	5 000 000	4 240 142
Unsecured bonds	4 980 000	4 223 638
Unsecured loans from related parties	975 041	917 695
	<b>10 955 041</b>	<b>9 381 475</b>
<b><i>Current liabilities</i></b>		
Unsecured bank facilities	6 953 501	6 878 309
Unsecured bonds	3 107 730	2 783 820
Unsecured loans from third parties	2 871	2 871
	<b>10 064 102</b>	<b>9 665 000</b>

**(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).

Fair value of Group's loans and borrowings was determined for disclosure purposes by discounting future cash flows at the market rate of interest at the reporting date. Due to significant disruption of Russian debt market in December 2014 for fixed rate borrowings market rate of interest was determined by calculating the change in yield for government bonds from issuance date to 31 December 2014 for each loan and adding this spread to nominal interest rate of the loan (Level 2 fair value). For variable rate borrowings market rate of interest approximates nominal interest rate as at reporting date.

**(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 2014 RUB 3 974 291 thousand was recognised as an expense (including amortization of initial cost of land lease amounting to RUB 101 650 thousand) in the profit and loss in respect of operating leases (2013: RUB 3 181 720 thousand). Contingent rent recognised as an expense for the year ended 31 December 2014 amounted to RUB 866 605 thousand (2013: RUB 818 462 thousand).

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

<b>RUB 000'</b>	<b>2014</b>	<b>2013</b>
Less than one year	2 634 774	1 975 473
Between one and five years	8 525 459	6 076 801
More than five years	15 809 958	12 700 022
	<b>26 970 191</b>	<b>20 752 296</b>

Future minimum lease payments as at 31 December 2014 include RUB 18 713 753 thousand (31 December 2013: RUB 13 665 445 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 2014 RUB 1 501 627 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2013: RUB 1 300 867 thousand). All leases whether the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 52 275 thousand for the year ended 31 December 2014 (2013: RUB 38 503 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 8 616 146 thousand as at 31 December 2014 (2013: RUB 11 041 167 thousand). The capital commitments mostly consist of construction contracts of the stores.

## **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.

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 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 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.

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.

In addition, a number of new laws introducing changes to the Russian tax legislation have been adopted in the fourth quarter 2014 and are effective 1 January 2015. In particular, those changes are aimed at regulating transactions with offshore companies and their activities which may potentially impact the Group's tax position and create additional tax risks going forward.

(c) **Assets pledged or restricted**

The Group has the following assets pledged as collateral:

'000 RUB	Note	2014	2013
Fixed assets (carrying value)	15	2 643 191	-
<b>Total</b>		<b>2 643 191</b>	<b>-</b>

## 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	2014	2013
Salaries and bonuses	221 300	111 615
Social security contributions	4 849	2 354
Long-service bonus	137 931	248 711
Share-based payments	-	18 424
	<b>364 080</b>	<b>381 104</b>

In addition members of Board of Directors received remuneration in the amount of RUB 15 758 thousand for the year ended 31 December 2014 (2013: RUB 15 073 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 2014	Transaction value 2013	Trade payables 2014	Trade payables 2013
Services provided:				
Other related parties	44 279	36 857	(5 200)	(3 543)
	<b>44 279</b>	<b>36 857</b>	<b>(5 200)</b>	<b>(3 543)</b>

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	Transaction value	Prepayments	Prepayments
	2014	2013	2014	2013
Lease of premises				
Other related parties	(734 345)	(699 221)	678 885	907 642
Including:				
Rental fee	(634 537)	(597 794)	-	-
Reimbursement of utilities	(60 592)	(57 875)	-	-
Reimbursement of other expenses	(39 216)	(43 552)	-	-
Other services received:				
Other related parties	(3 345)	(3 880)	236	(24)
Finance costs:				
Other related parties	(63 730)	(52 026)	-	-
	<b>(801 420)</b>	<b>(755 127)</b>	<b>679 121</b>	<b>907 618</b>

In 2014 no finance costs from related parties were capitalized in cost of property, plant and equipment (2013: Nil).

Outstanding balance for lease of premises as at 31 December 2014 represents net balance of prepayments for rent of hypermarkets for the period until 2017 in the amount of RUB 760 516 thousand (2013: RUB 977 078 thousand) and current liabilities for rent of hypermarkets in the amount RUB 1 799 thousand (2013: RUB 3 137 thousand). Long-term part of prepayments is RUB 511 619 thousand (2013: RUB 735 903 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	Amount loaned	Outstanding balance	Outstanding balance
	2014	2013	2014	2013
Loans received:				
Other related parties	-	-	(975 041)	(665 433)

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

There are no events subsequent to the reporting date which require disclosure.

## 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.

### (a) Presentation of the consolidated statement of cash flows

At the end of 2014 the Group changed its accounting policies in relation to presentation of the consolidated statement of cash flows:

- The Group decided to report cash flows from operating activities using direct method as described in IAS 7 *Statement of Cash Flows*. Previously cash flows from operating activities were reported using indirect method.
- The Group decided to classify interest paid as financing cash flow. Previously interest paid was classified as operating cash flow. Classifying interest paid as financing cash flow will result in receiving complete information about providing long-term funds to the Group and returning of those funds.
- The Group decided to classify interest received as operating cash flow. Previously interest received was classified as investing cash flow. Interest received includes interest received by depositing money which relates to operating rather than investing activities. This change will help to receive more accurate information based on the nature of transactions
- The Group decided to present cash flows from investing activities including VAT and present recovery of input VAT from investing activities in separate line in the consolidated statement of cash flows. Previously cash-flows relating to VAT paid to suppliers and recovery of input VAT were presented net in operating activities. The Group believes that current presentation better reflects cash flows relating to acquisition of non-current assets.

Comparative information has been restated so that it is also in conformity with the revised accounting policy.

The following table summarises the impact of changes in accounting policy on aggregate cash-flows from operating, investing and financing activities:

'000 RUB	2013 as previously reported	Effect of change in accounting policy	2013 restated
Net cash from operating activities	7 908 547	1 840 735	9 749 282
Net cash used in investing activities	(10 534 070)	(624 846)	(11 158 916)
Net cash from/(used in) financing activities	1 083 520	(1 211 464)	(127 944)
Net decrease in cash and cash equivalents	(1 542 003)	4 425	(1 537 578)
Effect of exchange rate fluctuations on cash and cash equivalents	13 040	(4 425)	8 615

**(b) Offsetting of financial assets and financial liabilities**

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 were applied retrospectively. The effect of retrospective application on the consolidated statement of financial position as at 31 December 2013 was as follows:

'000 RUB	31 December 2013 as previously reported	Effect of change in accounting policy	31 December 2013 restated
Trade and other receivables	3 502 011	1 604 090	5 106 101
Trade and other payables	23 714 502	1 604 090	25 318 592

Management assesses that retrospective application of amendments to IAS 32 has no material effect on the information in the statement of financial position at 1 January 2013 and a third statement of financial position as at 1 January 2013 is not presented.

Several other new standards and amendments apply for the first time in 2014. However, they do not impact the annual consolidated financial statements of the Group or the condensed consolidated interim financial statements of the Group.

## 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) Presentation of the statement of cash flows**

The Group reports cash flows from operating activities using direct method. Cash flows from payment of VAT to suppliers and recovery of input VAT are presented either in operating or investing activities depending on nature of payments to suppliers.

**(u) Guarantees**

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

**(v) 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 2014, 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*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group does not intend to adopt this standard early as it is not yet endorsed by the European Union.

- IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

The Group does not intend to adopt this standard early as it is not yet endorsed by the European Union.

The Group has not analysed the likely impact of the new Standards on its financial position or performance.