

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

**Condensed Consolidated Interim Financial  
Statements  
for the six months ended 30 June 2014**



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## **Report of the Réviseur d'Entreprises agréé on the review of condensed consolidated interim financial information**

### *Introduction*

We have reviewed the accompanying condensed consolidated interim statement of financial position of O'Key Group S.A. as at 30 June 2014 and the related condensed consolidated interim statements of profit and loss and comprehensive income, changes in equity and cash flows for the six month period then ended, and the notes thereto ("the condensed consolidated interim financial statements"). The Board of Directors is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as adopted, for Luxembourg, by the Institut des Réviseurs d'Entreprises. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2014 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, August 15, 2014

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



Jean-Manuel Sérís

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## Condensed Consolidated Interim Statement of Financial Position as at 30 June 2014

'000 RUB	Note	30 June 2014	31 December 2013
	3		Restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	14	540 653	540 000
Property, plant and equipment	12	32 943 634	30 706 631
Construction in progress	12	6 686 910	5 072 198
Intangible assets	13	488 775	550 049
Deferred tax assets	16	484 749	483 156
Other non-current assets	15	9 974 980	8 101 698
<b>Total non-current assets</b>		<b>51 119 701</b>	<b>45 453 732</b>
<b>Current assets</b>			
Inventories	17	8 924 315	10 257 942
Trade and other receivables	18	4 423 543	5 106 101
Prepayments		1 142 312	822 558
Cash and cash equivalents		1 382 397	3 006 730
<b>Total current assets</b>		<b>15 872 567</b>	<b>19 193 331</b>
<b>Total assets</b>		<b>66 992 268</b>	<b>64 647 063</b>

## Condensed Consolidated Interim Statement of Financial Position as at 30 June 2014

'000 RUB	Note	30 June 2014	31 December 2013
	3		<b>Restated</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	19	<b>21 104 654</b>	<b>21 399 385</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	17 139 760	14 441 833
Deferred tax liabilities	16	609 822	587 974
Other non-current liabilities		95 149	112 256
<b>Total non-current liabilities</b>		<b>17 844 731</b>	<b>15 142 063</b>
<b>Current liabilities</b>			
Loans and borrowings	21	6 899 593	2 312 618
Trade and other payables	22	20 950 330	25 318 592
Current income tax payable		192 960	474 405
<b>Total current liabilities</b>		<b>28 042 883</b>	<b>28 105 615</b>
<b>Total liabilities</b>		<b>45 887 614</b>	<b>43 247 678</b>
<b>Total equity and liabilities</b>		<b>66 992 268</b>	<b>64 647 063</b>

*Condensed Consolidated Interim Statement of Profit and Loss and Other Comprehensive Income for the six months ended 30 June 2014*

**For the six months ended 30 June**

<b>'000 RUB</b>	<b>Note</b>	<b>2014</b>	<b>2013</b>
Revenue	7	<b>72 672 468</b>	<b>64 713 993</b>
Cost of goods sold		(55 131 460)	(49 851 750)
<b>Gross profit</b>		<b>17 541 008</b>	<b>14 862 243</b>
General, selling and administrative expenses	8	(14 155 044)	(11 854 748)
Other operating income and expenses	9	20 250	17 874
<b>Operating profit</b>		<b>3 406 214</b>	<b>3 025 369</b>
Finance income		13 247	36 452
Finance costs		(701 943)	(600 633)
Foreign exchange losses		(74 400)	(52 500)
<b>Profit before income tax</b>		<b>2 643 118</b>	<b>2 408 688</b>
Income tax expense	11	(948 443)	(795 179)
<b>Profit for the period</b>		<b>1 694 675</b>	<b>1 613 509</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		93 544	(37 142)
<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		49 497	33 295
Income tax on other comprehensive income	11	(9 899)	(6 659)
<b>Other comprehensive income for the period, net of income tax</b>		<b>133 142</b>	<b>(10 506)</b>
<b>Total comprehensive income for the period</b>		<b>1 827 817</b>	<b>1 603 003</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (RUB)	20	<b>6.3</b>	<b>6.0</b>

The condensed consolidated interim statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 28.

## Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 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 period</b>								
Profit for the period		-	-	-	-	1 613 509	-	1 613 509
<b>Other comprehensive income</b>								
Foreign currency translation differences		-	-	-	-	-	(37 142)	(37 142)
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	33 295	-	-	33 295
Income tax on other comprehensive income	11	-	-	-	(6 659)	-	-	(6 659)
<b>Total other comprehensive income</b>		-	-	-	26 636	-	(37 142)	(10 506)
<b>Total comprehensive income for the period</b>		-	-	-	26 636	1 613 509	(37 142)	1 603 003
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Dividends paid	19	-	-	-	-	(1 538 036)	-	(1 538 036)
<b>Total contributions by and distributions to owners</b>		-	-	-	-	(1 538 036)	-	(1 538 036)
Balance at 30 June 2013		119 440	10 597	8 903 606	112 261	8 824 179	184 940	18 155 023

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 28.

## Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2014

'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 period</b>								
Profit for the period		-	-	-	-	1 694 675	-	1 694 675
<b>Other comprehensive income</b>								
Foreign currency translation differences		-	-	-	-	-	93 544	93 544
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	49 497	-	-	49 497
Income tax on other comprehensive income	11	-	-	-	(9 899)	-	-	(9 899)
<b>Total other comprehensive income</b>		-	-	-	39 598	-	93 544	133 142
<b>Total comprehensive income for the period</b>		-	-	-	39 598	1 694 675	93 544	1 827 817
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Dividends paid	19	-	-	-	-	(2 122 548)	-	(2 122 548)
<b>Total contributions by and distributions to owners</b>		-	-	-	-	(2 122 548)	-	(2 122 548)
Balance at 30 June 2014		119 440	10 597	8 903 606	39 598	11 759 182	272 231	21 104 654

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 28.



## Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2014

**For the six months ended 30 June**

<b>'000 RUB</b>	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>			
Profit before income tax		2 643 118	2 408 688
<i>Adjustments for:</i>			
Depreciation and amortisation	12, 13, 15	1 470 494	1 222 460
(Gain)/loss on disposal of non-current assets	9	(2 359)	1 401
Finance income		(13 247)	(36 452)
Finance costs		701 943	600 633
Foreign exchange losses		74 400	52 500
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>4 874 349</b>	<b>4 249 230</b>
Change in net trade and other receivables		388 972	341 281
Change in inventories		1 333 627	1 430 736
Change in trade and other payables		(3 873 805)	(3 745 604)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>2 723 143</b>	<b>2 275 643</b>
Interest paid		(963 410)	(743 861)
Income tax paid		(1 126 151)	(1 088 188)
<b>Net cash from operating activities</b>		<b>633 582</b>	<b>443 594</b>

## Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2014

**For the six months ended 30 June**

'000 RUB	Note	2014	2013
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and initial cost of land lease		(7 506 356)	(2 863 010)
Purchase of other intangible assets		(27 830)	(57 218)
Proceeds from sales of property, plant and equipment and intangible assets		52 205	-
Interest received		13 247	36 452
<b>Net cash used in investing activities</b>		<b>(7 468 734)</b>	<b>(2 883 776)</b>
<b>Cash flows used in financing activities</b>			
Proceeds from borrowings	21	8 768 853	5 000 000
Repayment of borrowings	21	(1 500 000)	(3 025 556)
Dividends paid	19	(2 122 548)	(1 538 036)
<b>Net cash from financing activities</b>		<b>5 146 305</b>	<b>436 408</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1 688 847)</b>	<b>(2 003 774)</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		64 514	15 624
<b>Cash and cash equivalents at end of the period</b>		<b>1 382 397</b>	<b>2 547 543</b>

## 1 Background

### (a) Organisation and operations

The O'Key Group S. A. (the "Company") is incorporated and domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. These condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the "Group"). 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 30 June 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 27.

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 30 June 2014 the Group operated 96 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. These condensed consolidated interim 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.

### (c) Seasonality

The Group experiences seasonal fluctuations in its operations, such as an increase in sales during December, prior to Christmas and the New Year period, and May holidays and a decrease in sales in August, September and February, which follow the summer and winter holiday seasons, respectively. The sale of seasonal products, such as school-related non-food products in August, New Year decorations and gifts in December, household appliances for summer houses from April to September affects the Group's interim results.

In the middle of the year Group's stock levels and payables to suppliers decrease compared to year-end.

## 2 Basis of preparation

### (a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013 which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 15 August 2014.

### (b) Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

## 3 Significant accounting policies

Except for the adoption of the new standards and interpretations effective as of 1 January 2014, the accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2013.

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	<u>31 December 2013 as previously reported</u>	<u>Effect of change in accounting policy</u>	<u>31 December 2013 restated</u>
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

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.

#### **4 Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. In these condensed consolidated interim financial statements the fair values have been determined based on the principles, which are consistent with those applied in the consolidated financial statements for the year ended 31 December 2013.

#### **5 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 adjusted earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for one-off items. EBITDA is a non-GAAP measure. Other information provided to the CEO is measured in a manner consistent with that in the condensed consolidated interim financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements.

The segment information for the six months ended 30 June is as follows:

'000 RUB	2014	2013
Revenue	72 672 468	64 713 993
EBITDA	4 870 618	4 239 487

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

**For six months ended 30 June**

'000 RUB	2014	2013
<b>EBITDA</b>	<b>4 870 618</b>	<b>4 239 487</b>
Gain/(Loss) from disposal of non-current assets	2 359	(1 401)
Reversal of impairment of receivables	3 731	9 743
Depreciation and amortisation	(1 470 494)	(1 222 460)
Finance income	13 247	36 452
Finance costs	(701 943)	(600 633)
Foreign exchange losses	(74 400)	(52 500)
Profit before income tax	<b>2 643 118</b>	<b>2 408 688</b>
Income tax expense	(948 443)	(795 179)
<b>Profit for the period</b>	<b>1 694 675</b>	<b>1 613 509</b>

## 6 Subsidiaries

Details of the Company's significant subsidiaries at 30 June 2014 and 31 December 2013 are as follows:

Subsidiary	Country of incorporation	Nature of operations	30 June 2014	31 December 2013
			Ownership/ voting	Ownership/ voting
LLC O'Key	Russian Federation	Retail	100%	100%
CJSC Dorinda	Russian Federation	Real estate	100%	100%
Axus Financial Ltd	BVI	Financing	100%	100%
LLC O'Key Group	Russian Federation	Managing Company	100%	100%
LLC O'Key Logistics	Russian Federation	Import operations	100%	100%
LLC Fresh Market	Russian Federation	Retail and real estate	100%	100%

**7 Revenue****For six months ended 30 June**

<b>'000 RUB</b>	<b>2014</b>	<b>2013</b>
Sales of trading stock	68 129 712	60 760 227
Sales of self-produced catering products	3 563 006	3 093 152
Subtotal of retail revenue	71 692 718	63 853 379
Rental income	748 110	645 860
Revenue from advertising services	231 640	214 754
<b>Total revenues</b>	<b>72 672 468</b>	<b>64 713 993</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.

**8 General, selling and administrative expenses****For six months ended 30 June**

<b>'000 RUB</b>	<b>Note</b>	<b>2014</b>	<b>2013</b>
Personnel costs	10	(7 182 506)	(6 083 442)
Operating leases		(1 843 640)	(1 390 427)
Depreciation and amortization	12, 13, 15	(1 470 494)	(1 222 460)
Communication and utilities		(1 318 049)	(1 128 960)
Advertising and marketing		(604 124)	(505 505)
Security expenses		(444 282)	(398 974)
Insurance and bank commission		(323 887)	(287 060)
Repairs and maintenance costs		(312 716)	(268 749)
Operating taxes		(297 003)	(287 027)
Legal and professional expenses		(186 236)	(123 758)
Materials and supplies		(157 419)	(139 723)
Other costs		(14 688)	(18 663)
		<b>(14 155 044)</b>	<b>(11 854 748)</b>

**9 Other operating income and expenses**

For six months ended 30 June

'000 RUB	2014	2013
Gain/(Loss) from disposal of non-current assets	2 359	(1 401)
Reversal of impairment of receivables	3 731	9 743
Sundry income	14 160	9 532
	<b>20 250</b>	<b>17 874</b>

**10 Personnel costs**

For six months ended 30 June

'000 RUB	2014	2013
Wages and salaries	(4 465 074)	(3 738 999)
Social security contributions	(1 500 683)	(1 279 981)
Employee benefits	(698 165)	(794 372)
Share-based payments	-	(25 005)
Other	(518 584)	(245 085)
<b>Total personnel costs</b>	<b>(7 182 506)</b>	<b>(6 083 442)</b>

**11 Income tax expense**

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

**Income tax recognised in profit and loss**

For six months ended 30 June

'000 RUB	2014	2013
Current tax expense	(938 089)	(969 634)
Deferred tax expense	(10 354)	174 455
<b>Total income tax expense</b>	<b>(948 443)</b>	<b>(795 179)</b>



**Income tax recognised directly in other comprehensive income****For six months ended 30 June**

'000 RUB	2014			2013		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Exchange differences on translating to presentation currency	93 544	-	93 544	(37 142)	-	(37 142)
Change in fair value of hedges and reclassification from hedging reserve	49 497	(9 899)	39 598	33 295	(6 659)	26 636
	<b>143 041</b>	<b>(9 899)</b>	<b>133 142</b>	<b>(3 847)</b>	<b>(6 659)</b>	<b>(10 506)</b>

**Reconciliation of effective tax rate:****For six months ended 30 June**

'000 RUB	2014	2013
<b>Profit before income tax</b>	<b>2 643 118</b>	<b>2 408 688</b>
Income tax at applicable tax rate (20%)	(528 624)	(481 738)
Effect of income taxed at different rates	33 664	(5 015)
Inventory shrinkage expenses	(312 837)	(254 143)
Other non-deductible expenses	(27 277)	(20 940)
Tax withheld on dividends received from subsidiaries	(113 369)	(33 343)
<b>Income tax expense for the period</b>	<b>(948 443)</b>	<b>(795 179)</b>

**12 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	<b>3 230 282</b>	<b>18 446 442</b>	<b>3 392 752</b>	<b>8 764 624</b>	<b>1 720 181</b>	<b>35 554 281</b>
Additions	-	47 902	128 873	351 890	1 037 303	1 565 968
Transfers	-	4 016	237 977	160 585	(402 578)	-
Disposals	-	-	-	(71 642)	(745)	(72 387)
Balance at 30 June 2013	<b>3 230 282</b>	<b>18 498 360</b>	<b>3 759 602</b>	<b>9 205 457</b>	<b>2 354 161</b>	<b>37 047 862</b>
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	772 913	391 588	93 869	804 840	3 054 366	5 117 576
Transfers	424	975 298	181 006	242 078	(1 398 806)	-
Transfers from initial cost of land lease (see note 15)	115 733	-	-	-	-	115 733
Disposals	-	-	(22 085)	(100 089)	(40 848)	(163 022)
Balance at 30 June 2014	<b>4 837 215</b>	<b>23 804 052</b>	<b>4 587 567</b>	<b>10 792 941</b>	<b>6 709 234</b>	<b>50 731 009</b>

Notes to the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2014  
(continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2013	-	(2 270 698)	(620 650)	(5 250 288)	-	(8 141 636)
Depreciation for the period	-	(304 443)	(181 847)	(601 388)	-	(1 087 678)
Disposals	-	-	-	71 642	-	71 642
Balance at 30 June 2013	-	(2 575 141)	(802 497)	(5 780 034)	-	(9 157 672)
Balance at 1 January 2014	-	(2 888 988)	(1 010 208)	(5 960 373)	(22 324)	(9 881 893)
Depreciation for the period	-	(388 856)	(199 623)	(743 269)	-	(1 331 748)
Disposals	-	-	14 726	98 450	-	113 176
Balance at 30 June 2014	-	(3 277 844)	(1 195 105)	(6 605 192)	(22 324)	(11 100 465)
<i>Net book value</i>						
At 1 January 2013	3 230 282	16 175 744	2 772 102	3 514 336	1 720 181	27 412 645
At 30 June 2013	3 230 282	15 923 219	2 957 105	3 425 423	2 354 161	27 890 190
At 1 January 2014	3 948 145	19 548 178	3 324 569	3 885 739	5 072 198	35 778 829
At 30 June 2014	4 837 215	20 526 208	3 392 462	4 187 749	6 686 910	39 630 544

Depreciation expense of 1 331 748 RUB thousand has been charged to selling, general and administrative expenses (six months ended 30 June 2013: RUB 1 087 678 thousand).

**13 Intangible assets**

'000 RUB	<u>Software</u>	<u>Lease rights</u>	<u>Other Intangible assets</u>	<u>Total</u>
<i>Cost</i>				
Balance at 1 January 2013	685 903	491 475	14 030	1 191 408
Additions	57 218	-	-	57 218
Balance at 30 June 2013	<b>743 121</b>	<b>491 475</b>	<b>14 030</b>	<b>1 248 626</b>
Balance at 1 January 2014	692 872	491 475	43 249	1 227 596
Additions	25 559	-	2 271	27 830
Disposals	-	(87 319)	-	(87 319)
Balance at 30 June 2014	<b>718 431</b>	<b>404 156</b>	<b>45 520</b>	<b>1 168 107</b>
<i>Amortization and impairment losses</i>				
Balance at 1 January 2013	(338 770)	(282 590)	(3 453)	(624 813)
Amortization for the period	(54 998)	(29 331)	(1 380)	(85 709)
Balance at 30 June 2013	<b>(393 768)</b>	<b>(311 921)</b>	<b>(4 833)</b>	<b>(710 522)</b>
Balance at 1 January 2014	(298 503)	(368 869)	(10 175)	(677 547)
Amortization for the period	(63 319)	(23 555)	(2 230)	(89 104)
Disposals	-	87 319	-	87 319
Balance at 30 June 2014	<b>(361 822)</b>	<b>(305 105)</b>	<b>(12 405)</b>	<b>(679 332)</b>
<i>Carrying amounts</i>				
At 1 January 2013	<b>347 133</b>	<b>208 885</b>	<b>10 577</b>	<b>566 595</b>
At 30 June 2013	<b>349 353</b>	<b>179 554</b>	<b>9 197</b>	<b>538 104</b>
At 1 January 2014	<b>394 369</b>	<b>122 606</b>	<b>33 074</b>	<b>550 049</b>
At 30 June 2014	<b>356 609</b>	<b>99 051</b>	<b>33 115</b>	<b>488 775</b>

**Amortization and impairment charge**

Amortization of RUB 89 104 thousand has been charged to selling, general and administrative expenses (6 months ended 30 June 2013: RUB 85 709 thousand).

**14 Investment property**

'000 RUB	<u>Investment property</u>
<b>Investment properties at fair value as at 1 January 2013</b>	<b>632 000</b>
Expenditure on subsequent improvements	465
<b>Investment properties at fair value as at 30 June 2013</b>	<b>632 465</b>
<b>Investment properties at fair value as at 1 January 2014</b>	<b>540 000</b>
Expenditure on subsequent improvements	653
<b>Investment properties at fair value as at 30 June 2014</b>	<b>540 653</b>

As at 1 January 2013 and 2014 the fair value of investment property has been determined by independent appraisers. The fair value of investment property as at 30 June 2014 and 30 June 2013 was updated by the Group applying income approach (level 3 fair value based on inputs to valuation technique used).

There were no significant changes in assumptions used for determination of fair value of investment property as at 30 June 2014 compared to 1 January 2014.

Fair value of investment property as at 30 June 2014 and 30 June 2013 did not significantly change as compared to 1 January 2014 and 1 January 2013, respectively. Therefore, no fair value gain/(loss) was recognized as at 30 June 2014 (30 June 2013: Nil).

**15 Other non-current assets**

'000 RUB	<u>30 June 2014</u>	<u>31 December 2013</u>
Initial cost of land lease (see note 12)	4 033 207	3 964 858
Long-term prepayments to entities under control of shareholder group	623 761	735 903
Prepayments for non-current assets	4 556 281	2 681 295
Long-term deposits to lessors	294 265	264 706
Other non-current receivables	467 466	454 936
	<b>9 974 980</b>	<b>8 101 698</b>

Initial cost of land lease includes purchase price and the 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 27.

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

'000 RUB	2014	2013
<i>Cost</i>		
<b>Balance at 1 January</b>	<b>4 825 525</b>	<b>4 644 557</b>
Additions	233 724	109 346
Transfer to land	(142 132)	-
<b>Balance at 30 June</b>	<b>4 917 117</b>	<b>4 753 903</b>
<i>Amortization and impairment losses</i>		
<b>Balance at 1 January</b>	<b>(860 667)</b>	<b>(653 175)</b>
Amortization charge	(49 642)	(49 073)
Transfer to land	26 399	-
<b>Balance at 30 June</b>	<b>(883 910)</b>	<b>(702 248)</b>
<b>Net book value at 30 June</b>	<b>4 033 207</b>	<b>4 051 655</b>

## 16 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	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Investment property	32 860	36 193	-	-	32 860	36 193
Property, plant and equipment	133 313	67 450	(738 143)	(727 319)	(604 830)	(659 869)
Construction in progress		-	(110 902)	(95 823)	(110 902)	(95 823)
Intangible assets	11 599	5 794	(3 427)	(3 164)	8 172	2 630
Other non-current assets	6 040	10 258	(26 690)	-	(20 650)	10 258
Inventories	323 910	325 198	-	-	323 910	325 198
Trade and other receivables	154 383	112 631	(112 294)	(6 561)	42 089	106 070
Trade and other payables	234 390	168 288	(123 404)	(59 628)	110 986	108 660
Tax loss carry-forwards	93 292	61 865		-	93 292	61 865
<b>Tax assets/(liabilities)</b>	<b>989 787</b>	<b>787 677</b>	<b>(1 114 860)</b>	<b>(892 495)</b>	<b>(125 073)</b>	<b>(104 818)</b>
<b>Set off of tax</b>	<b>(505 038)</b>	<b>(304 521)</b>	<b>505 038</b>	<b>304 521</b>	<b>-</b>	<b>-</b>
<b>Net tax assets/(liabilities)</b>	<b>484 749</b>	<b>483 156</b>	<b>(609 822)</b>	<b>(587 974)</b>	<b>(125 073)</b>	<b>(104 818)</b>

**(b) Unrecognised deferred tax liability**

As at 30 June 2014 a temporary difference of RUB 18 926 585 thousand (31 December 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.

**17 Inventories**

'000 RUB	30 June 2014	31 December 2013
Goods for resale	8 992 325	10 111 935
Raw materials and consumables	262 797	365 976
Write-down to net realisable value	(330 807)	(219 969)
	<b>8 924 315</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 330 807 thousand as at 30 June 2014 (31 December 2013: RUB 219 969 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-off 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.

**18 Trade and other receivables**

'000 RUB	Note	30 June 2014	31 December 2013
	3		<b>Restated</b>
Trade receivables		144 261	202 238
VAT receivable		1 704 822	2 111 674
Prepaid taxes		115 515	270 081
Foreign exchange and interest rate swap receivables		49 497	-
Other receivables		2 409 448	2 522 108
		<b>4 423 543</b>	<b>5 106 101</b>

Taxes prepaid include RUB 100 645 thousand of prepaid income tax (31 December 2013: RUB 194 028 thousand).

Other receivables include RUB 2 148 723 thousand of bonuses receivable from suppliers (31 December 2013: RUB 2 197 601 thousand).

## 19 Equity

As at 30 June 2014 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 31 December 2013: EUR 2 691 thousand) is represented by 269 074 000 shares (31 December 2013: 269 074 000 shares) with a par value of 0.01 EUR each.

The Rouble value of the subscribed capital is determined with application of RUB/EUR historical exchange rate as at the date of each equity transaction.

In accordance with Luxembourg 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 six months ended 30 June 2014 there were no transfers to legal reserve from net profits.

There were no movements in additional paid-in capital during six months ended 30 June 2014.

In February 2014 the Group paid interim dividends to shareholders in the amount of USD 60 999 076 (RUB 2 122 548 thousand). Interim dividends paid were recognised as distribution to shareholders in the Condensed Consolidated Interim Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for six months ended 30 June 2014 amounted to RUB 7.9 (six months ended 30 June 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.

## 20 Earnings per share

The calculation of basic earnings per share for six months ended 30 June 2014 was based on the profit attributable to ordinary shareholders of RUB 1 694 675 thousand (six months ended 30 June 2013: RUB 1 613 509 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000 (six months ended 30 June 2013: 269 074 000), calculated as shown below. The Company has no dilutive potential ordinary shares.

### For six months ended 30 June

	2014	2013
<i>Number of shares</i>		
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for six months ended 30 June	269 074 000	269 074 000



**21 Loans and borrowings**

'000 RUB	<u>30 June 2014</u>	<u>31 December 2013</u>
<i>Non-current liabilities</i>		
Secured bank loans	5 000 000	-
Unsecured bank facilities	3 476 000	5 796 400
Unsecured bonds	7 980 000	7 980 000
Unsecured loans from related parties	683 760	665 433
	<b><u>17 139 760</u></b>	<b><u>14 441 833</u></b>
<i>Current liabilities</i>		
Unsecured bank facilities	6 793 174	2 204 240
Unsecured bonds interest	103 550	105 510
Unsecured loans from third parties	2 869	2 868
	<b><u>6 899 593</u></b>	<b><u>2 312 618</u></b>

As at 30 June 2014 loans and borrowings with carrying value of RUB 5 000 000 thousand (31 December 2013: Nil) were secured by property, plant and equipment and initial cost of land lease.

The Group has a number of loan and revolving credit line agreements with local banks. Net increase of borrowings under these agreements amounted to RUB 7 268 853 thousand for six months ended 30 June 2014.

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

At 30 June 2014 and for the six months then ended the Group complied with all loan covenants.

**22 Trade and other payables**

'000 RUB	<u>Note</u>	<u>30 June 2014</u>	<u>31 December 2013</u>
	3		<b>Restated</b>
Trade payables		17 320 667	21 846 600
Advances received		253 862	256 097
Taxes payable (other than income tax)		818 909	689 240
Payables to staff		1 238 969	1 215 575
Deferred income		50 470	60 412
Other current payables		1 267 453	1 250 668
		<b><u>20 950 330</u></b>	<b><u>25 318 592</u></b>

## 23 Non-cancellable operating leases

During six months ended 30 June 2014 the Group entered into several non-cancellable operating leases of land plots.

Non-cancellable operating lease rentals are payable as follows:

RUB 000'	30 June 2014	31 December 2013
Less than one year	1 831 221	1 975 473
Between one and five years	6 945 806	6 076 801
More than five years	14 865 741	12 700 022
	<b>23 642 768</b>	<b>20 752 296</b>

## 24 Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUB 13 794 164 thousand as at 30 June 2014 (31 December 2013: RUB 11 041 167 thousand).

## 25 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.

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

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

## 26 Financial instruments and risk management

### (a) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 4. Fair value of Group's financial assets and liabilities approximates their carrying amounts.

### (b) 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, including forward interest rates (Level 2). The Group has no financial assets and liabilities measured at fair value based on unobservable inputs. Fair value of swap changed from Nil as at 31 December 2013 to RUB 49 497 thousand as at 30 June 2014 (receivable) due to change of forward interest rates.

## 27 Related party transactions

### (a) Control relationships

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 period, which is included in personnel costs (see note 10):

#### For the six months ended 30 June

'000 RUB	2014	2013
Salaries and bonuses	83 340	53 155
Social security contributions	1 527	1 355
Long-service bonus	34 000	59 770
Share-based payments	-	14 885
	<b>118 867</b>	<b>129 165</b>

In addition, members of Board of Directors received remuneration of RUB 6 508 thousand (six months ended 30 June 2013: RUB 6 734 thousand), which is included in legal and professional expenses (see note 8).

(c) **Transactions with other related parties**

Other related parties are entities which belong to the shareholder group. The Group's other related party transactions are disclosed below.

(i) **Revenue**

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	Six months ended 30 June 2014	Six months ended 30 June 2013	30 June 2014	31 December 2013
Services provided:				
Other related parties	21 837	21 023	(2 202)	(3 543)
	<b>21 837</b>	<b>21 023</b>	<b>(2 202)</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	Outstanding balance	Outstanding balance
	Six months ended 30 June 2014	Six months ended 30 June 2013	30 June 2014	31 December 2013
Lease of premises				
Other related parties	(359 152)	(361 797)	842 605	907 642
Including:				
Rental fee	(307 262)	(303 002)	-	-
Reimbursement of utilities	(32 841)	(28 439)	-	-
Reimbursement of other expenses	(19 049)	(30 356)	-	-
Other services received:				
Other related parties	(1 434)	(2 113)	284	(24)
Finance costs:				
Other related parties	(28 364)	(25 178)	-	-
	<b>(388 950)</b>	<b>(389 088)</b>	<b>842 889</b>	<b>907 618</b>

All outstanding balances with related parties, except for prepayments for operating leases, are to be settled in cash within six months of the reporting date. None of the balances are secured.

Outstanding balance of RUB 842 605 includes prepayments for rent of hypermarkets for the period until 2017 amounting to RUB 841 719 thousand. Long-term part of prepayments is RUB 623 761 thousand, refer to note 15. Terms of the leases are such that the Group pays rentals which include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

Interest costs on loans from related parties amounted to RUB 28 364 thousand for six months ended 30 June 2014 (six months ended 30 June 2013: RUB 25 178 thousand) and were recorded as finance costs in profit or loss.

(iii) **Loans**

'000 RUB	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	For six months ended 30 June			
	2014	2013	30 June 2014	31 December 2013
Loans received:				
Other related parties	-	-	(683 760)	(665 433)

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

(d) **Pricing policies**

Related party transactions are not necessarily based on market prices.

## 28 Events subsequent to the reporting date

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