O’Key Group S.A.

Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2016

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To the Shareholders of
O'Key Group S.A.
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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 2016, the related condensed consolidated interim statements of profit and loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information ("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 2016 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, 15 August 2016

KPMG Luxembourg Société coopérative
Cabinet de révision agréé

Jean-Manuel Séris

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'000 RUB	Note	30 June 2016	31 December 2015
ASSETS			
Non-current assets			
Investment property	14	564 000	564 000
Property, plant and equipment	12	45 336 200	43 088 062
Construction in progress	12	5 264 867	6 694 671
Intangible assets	13	1 290 164	1 293 723
Deferred tax assets	16	971 386	654 512
Other non-current assets	15	7 362 002	6 934 782
Total non-current assets		**60 788 619**	**59 229 750**
Current assets			
Inventories	17	10 675 329	12 628 304
Trade and other receivables	18	6 591 947	6 937 346
Prepayments		709 690	1 515 881
Cash and cash equivalents		4 245 031	9 768 130
Total current assets		**22 221 997**	**30 849 661**
Total assets		**83 010 616**	**90 079 411**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 31.

’000 RUB	Note	30 June 2016	31 December 2015
EQUITY AND LIABILITIES			
Equity	19	**23 593 640**	**24 490 967**
Non-current liabilities			
Loans and borrowings	21	23 719 020	23 558 269
Deferred tax liabilities	16	1 047 442	826 874
Other non-current liabilities		140 669	99 352
Total non-current liabilities		**24 907 131**	**24 484 495**
Current liabilities			
Loans and borrowings	21	10 387 756	11 750 125
Interests accrued on loans and borrowings	21	228 272	249 605
Trade and other payables	22	23 594 603	28 817 333
Current income tax payable		299 214	286 886
Total current liabilities		**34 509 845**	**41 103 949**
Total liabilities		**59 416 976**	**65 588 444**
Total equity and liabilities		**83 010 616**	**90 079 411**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 31.

For the six months ended 30 June			
'000 RUB	**Note**	**2016**	**2015**
Revenue	7	**83 671 600**	**75 884 906**
Cost of goods sold		(65 004 439)	(57 801 276)
Gross profit		**18 667 161**	**18 083 630**
General, selling and administrative expenses	8	(17 752 736)	(15 224 308)
Other operating income and expenses	9	(247 884)	(269 855)
Operating profit		**666 541**	**2 589 467**
Finance income		211 314	45 899
Finance costs		(1 770 901)	(1 728 696)
Foreign exchange gains/(losses)		189 359	(77 330)
(Loss)/profit before income tax		**(703 687)**	**829 340**
Income tax expense	11	(82 550)	(208 105)
(Loss)/profit for the period		**(786 237)**	**621 235**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		(104 764)	(12 903)
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of hedges and reclassification from hedging reserve		(7 907)	(219 805)
Income tax on other comprehensive income	11	1 581	43 961
Other comprehensive loss for the period, net of income tax		**(111 090)**	**(188 747)**
Total comprehensive (loss)/income for the period		**(897 327)**	**432 488**
Earnings per share			
Basic and diluted (loss)/earnings per share (RUB)	20	**(2.9)**	**2.3**

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 9 to 31.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2015		**119 440**	**10 597**	**8 903 606**	**108 127**	**14 483 713**	**571 660**	**24 197 143**
Total comprehensive income for the period								
Profit for the period		-	-	-	-	621 235	-	**621 235**
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(12 903)	**(12 903)**
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	(219 805)	-	-	**(219 805)**
Income tax on other comprehensive income	11	-	-	-	43 961	-	-	**43 961**
Total other comprehensive income		-	-	-	**(175 844)**	-	**(12 903)**	**(188 747)**
Total comprehensive income for the period		-	-	-	**(175 844)**	**621 235**	**(12 903)**	**432 488**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners		-	-	-	-	-	-	-
Total transactions with owners, recorded directly in equity		-	-	-	-	-	-	-
Balance at 30 June 2015		**119 440**	**10 597**	**8 903 606**	**(67 717)**	**15 104 948**	**558 757**	**24 629 631**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 31.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2016		**119 440**	**10 597**	**8 903 606**	**(138 872)**	**14 757 649**	**838 547**	**24 490 967**
Total comprehensive income for the period								
Loss for the period		-	-	-	-	(786 237)	-	**(786 237)**
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(104 764)	**(104 764)**
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	(7 907)	-	-	**(7 907)**
Income tax on other comprehensive income	11	-	-	-	1 581	-	-	**1 581**
Total other comprehensive income		**-**	**-**	**-**	**(6 326)**	**-**	**(104 764)**	**(111 090)**
Total comprehensive income for the period		**-**	**-**	**-**	**(6 326)**	**(786 237)**	**(104 764)**	**(897 327)**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners		-	-	-	-	-	-	**-**
Total transactions with owners, recorded directly in equity		-	-	-	-	-	-	**-**
Balance at 30 June 2016		**119 440**	**10 597**	**8 903 606**	**(145 198)**	**13 971 412**	**733 783**	**23 593 640**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 31.

'000 RUB	Note	For six months ended 30 June 2016	For six months ended 30 June 2015
	3 (a)		Restated
Cash flows from operating activities			
Cash receipts from customers		95 360 905	87 014 472
Other cash receipts		502 183	143 092
Interest received		211 123	38 252
Cash paid to suppliers and employees		(94 932 335)	(87 007 427)
Operating taxes		(339 144)	(332 972)
Other cash payments		(26 257)	(114 978)
VAT (paid to budget)/received from budget		(504 487)	76 397
Income tax paid		(131 025)	(338 296)
Net cash from/(used in) operating activities		**140 963**	**(521 460)**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease (excluding VAT)		(3 266 985)	(4 292 929)
Purchase of other intangible assets (excluding VAT)		(111 932)	(26 713)
Proceeds from sales of property, plant and equipment and intangible assets (excluding VAT)		910 201	480
Net cash used in investing activities		**(2 468 716)**	**(4 319 162)**
Cash flows from financing activities			
Proceeds from loans and borrowings		8 040 613	10 138 000
Repayment of loans and borrowings		(9 109 994)	(7 967 441)
Interest paid		(2 045 877)	(2 120 399)
Other financial (payments)/proceeds		(50 778)	84 259
Net cash used in/(from) financing activities		**(3 166 036)**	**134 419**
Net decrease in cash and cash equivalents		**(5 493 789)**	**(4 706 203)**
Cash and cash equivalents at beginning of the period		9 768 130	5 810 182
Effect of exchange rate fluctuations on cash and cash equivalents		(29 310)	2 660
Cash and cash equivalents at end of the period		**4 245 031**	**1 106 639**

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 9 to 31.

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 2016 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 2016 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 13, rue Edward Steichen, L-2540 Luxembourg.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'KEY". In September 2015 the Group launched a discounter chain under the brand name "Da!". As at 30 June 2016, the Group operated 156 stores including 48 discounter stores (31 December 2015: 146 stores including 35 discounter 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 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 Rouble, 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 implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The 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 and household appliances for summer houses from April to September affects the Group's interim results.

As a result, in the middle of the year the 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 2015 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 2016.

(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 2015.

3 Significant accounting policies

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 2015. Adoption of new standards and interpretations effective as of 1 January 2016 did not have a significant effect on the financial position and performance of the Group.

(a) Presentation of the consolidated statement of cash flows

At the end of 2015 the Group revised the classification of certain cash flows in the consolidated statement of cash flows.

Previously the Group presented cash paid for acquisition of non-current assets including VAT and recovery of related input VAT in investing activities. Since 2015 the Group presents cash flows from investing activities net of VAT. VAT paid to suppliers of non-current assets and VAT in proceeds from sale of non-current assets are presented in line "VAT paid to budget" in operating activities.

Comparative information has been restated for consistency.

The following table summarises the impact of the changes in classification on aggregate cash-flows from operating, investing and financing activities for the six months ended 30 June 2015:

'000 RUB	**Six months ended 30 June 2015 as previously reported**	**Effect of change in accounting policy**	**Six months ended 30 June 2015 restated**
VAT (paid to budget)/received from budget	833 797	(757 400)	76 397
Recovery of input VAT from investing activities	(1 085 100)	1 085 100	-
Net cash used in operating activities	**(849 160)**	**327 700**	**(521 460)**
Purchase of property, plant and equipment and initial cost of land lease	(5 045 607)	752 678	(4 292 929)
Purchase of other intangible assets	(31 521)	4 808	(26 713)
Recovery of input VAT from investing activities	1 085 100	(1 085 100)	-
Proceeds from sales of property, plant and equipment and intangible assets	566	(86)	480
Net cash used in investing activities	**(3 991 462)**	**(327 700)**	**(4 319 162)**

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 2015.

5 Operating segments

The Group is engaged in management of retail stores located in Russian Federation. 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.

In September 2015, the Group launched a discounter chain under the brand name "Da!" and since then the Group has two reportable segments. Previously the Group identified retail operations as a single reportable segment. Each new segment has similar format of their stores which is described below:

- O'Key – chain of modern Western European style hypermarkets under the "O'KEY" brand reinforced by O'KEY supermarkets throughout the Russian Federation;
- Da! – chain of discounter stores in Moscow and Central region.

The assortment of goods in each chain is different, and the segments are managed separately. For each of the segments, the CEO of the Group reviews internal management reports at least on a monthly basis.

Within each reportable segment all business components demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the components manage their operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the components' 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 not defined in IFRS. 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 condensed consolidated interim financial statements.

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

'000 RUB	**O'Key**		**Da!**		**Total**	
For six months ended 30 June	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External revenue	81 416 443	75 884 906	2 255 157	-	83 671 600	75 884 906
Inter-segment revenue	-	-	30 274	-	30 274	-
EBITDA	4 576 840	5 161 358	(1 241 143)	(459 261)	3 335 697	4 702 097

Inter-segment revenue relates to a rental agreement between LLC Fresh Market (operator of discounter chain Da!) and LLC O'Key.

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

For six months ended 30 June

'000 RUB	**2016**	**2015**
EBITDA	**3 335 697**	**4 702 097**
Loss from disposal of non-current assets	(417 745)	(200 128)
Impairment of receivables	(20 691)	(10 962)
Depreciation and amortization	(2 195 123)	(1 833 620)
Loss from revaluation of investment property	(35 597)	-
Finance income	211 314	45 899
Finance costs	(1 770 901)	(1 728 696)
Foreign exchange gains/(losses)	189 359	(77 330)
Other	-	(67 920)
(Loss)/profit before income tax	**(703 687)**	**829 340**
Income tax expense	(82 550)	(208 105)
(Loss)/profit for the period	**(786 237)**	**621 235**

6 Subsidiaries

Details of the Company's significant subsidiaries at 30 June 2016 and 31 December 2015 are as follows:

Subsidiary	Country of incorporation	Nature of operations	30 June 2016 Ownership/ voting	31 December 2015 Ownership/ voting
LLC O'Key	Russian Federation	Retail	100%	100%
JSC 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 **'000 RUB**	**2016**	**2015**
Sales of trading stock	78 905 727	71 341 967
Sales of self-produced catering products	3 505 824	3 537 919
Subtotal of retail revenue	82 411 551	74 879 886
Rental income	781 771	758 385
Revenue from advertising services	478 278	246 635
Total revenues	**83 671 600**	**75 884 906**

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 **’000 RUB**	**Note**	**2016**	**2015**
Personnel costs	10	(8 359 056)	(7 100 799)
Operating leases		(2 638 288)	(2 213 115)
Depreciation and amortization	12, 13, 15	(2 195 123)	(1 833 620)
Communication and utilities		(1 724 070)	(1 482 615)
Advertising and marketing		(764 311)	(630 520)
Security expenses		(413 174)	(350 994)
Insurance and bank commissions		(347 564)	(349 843)
Repairs and maintenance costs		(530 992)	(425 292)
Operating taxes		(355 420)	(345 765)
Legal and professional expenses		(266 206)	(331 640)
Materials and supplies		(138 576)	(141 036)
Other costs		(19 956)	(19 069)
		(17 752 736)	**(15 224 308)**

9 Other operating income and expenses

For six months ended 30 June **’000 RUB**	**2016**	**2015**
Loss from disposal of non-current assets	(417 745)	(200 128)
Impairment of receivables	(20 691)	(10 962)
Loss from revaluation of investment property	(35 597)	-
Other	226 149	(58 765)
	(247 884)	**(269 855)**

Line “Other” in the table above for six months ended 30 June 2016 includes a gain in the amount of RUB 235 988 thousand from one-off construction services performed to a third party.

Loss from disposal of non-current assets for the six months ended 30 June 2016 includes RUB 348 699 thousand of loss relating to closing and disposal of stores and land plots in Moscow and other regions during six months ended 30 June 2016.

Loss from disposal of non-current assets for six months ended 30 June 2015 includes write-off of leasehold improvements in the amount of RUB 117 645 thousand relating to a store in Moscow which was closed during six months ended 30 June 2015.

10 Personnel costs

For six months ended 30 June

'000 RUB	**2016**	**2015**
Wages and salaries	(5 492 792)	(4 673 710)
Social security contributions	(1 769 184)	(1 496 579)
Employee benefits	(590 806)	(452 972)
Other	(506 274)	(477 538)
Total personnel costs	**(8 359 056)**	**(7 100 799)**

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	**2016**	**2015**
Current tax expense	(177 275)	269 231
Deferred tax expense	94 725	(477 336)
Total income tax expense	**(82 550)**	**(208 105)**

Income tax recognised directly in other comprehensive income

For six months ended 30 June

'000 RUB	**2016**			**2015**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Exchange differences on translating to presentation currency	(104 764)	-	(104 764)	12 903	-	12 903
Change in fair value of hedges and reclassification from hedging reserve	(7 907)	1 581	(6 326)	(219 805)	43 961	(175 844)
	(112 671)	**1 581**	**(111 090)**	**(206 902)**	**43 961**	**(162 941)**

Reconciliation of effective tax rate:

For six months ended 30 June

'000 RUB	**2016**	**2015**
(Loss)/profit before income tax	**(703 687)**	**829 340**
Income tax at applicable tax rate (20%)	140 737	(165 868)
Effect of income taxed at different rates	(3 614)	-
Tax effect of items which are not deductible for taxation purposes:		
Inventory shrinkage expenses	(71 269)	(315 481)
Other non-deductible expenses	(85 599)	(44 756)
Tax withheld on dividends received from subsidiaries	(59 212)	-
Adjustments to current income tax for previous periods	(3 593)	318 000
Income tax expense for the period	**(82 550)**	**(208 105)**

During six months ended 30 June 2015 tax authorities reimbursed to the Group RUB 318 000 thousand of income tax previously paid for the year 2013. The reimbursement was recognized as reduction of income tax expense for six months ended 30 June 2015.

12 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2015	**6 024 426**	**29 540 699**	**5 414 339**	**11 627 685**	**7 203 116**	**59 810 265**
Additions	13 146	640 779	378 915	1 019 406	3 197 678	5 249 924
Transfers	-	1 454 624	257 357	487 693	(2 199 674)	-
Disposals	-	(1 220)	(120 418)	(163 720)	(159 539)	(444 897)
Balance at 30 June 2015	**6 037 572**	**31 634 882**	**5 930 193**	**12 971 064**	**8 041 581**	**64 615 292**
Balance at 1 January 2016	**4 839 188**	**32 413 643**	**6 918 148**	**14 346 880**	**6 694 671**	**65 212 530**
Additions	26 050			976 288	2 252 592	3 254 930
Transfers		2 488 137	863 737	167 941	(3 519 815)	-
Disposals	(6 079)	(3 157)	(256 396)	(1 114 611)	(162 581)	(1 542 824)
Balance at 30 June 2016	**4 859 159**	**34 898 623**	**7 525 489**	**14 376 498**	**5 264 867**	**66 924 636**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
Depreciation and impairment losses						
Balance at 1 January 2015	**-**	**(3 693 025)**	**(1 608 556)**	**(7 299 022)**	**(22 324)**	**(12 622 927)**
Depreciation for the period	-	(515 490)	(228 121)	(940 693)	-	(1 684 304)
Disposals	-	-	2 773	158 860	-	161 633
Balance at 30 June 2015	**-**	**(4 208 515)**	**(1 833 904)**	**(8 080 855)**	**(22 324)**	**(14 145 598)**
Balance at 1 January 2016	**-**	**(4 650 025)**	**(1 839 374)**	**(8 940 398)**	**-**	**(15 429 797)**
Depreciation for the period	-	(558 675)	(296 305)	(1 147 518)	-	(2 002 498)
Disposals	-	31	35 904	1 072 791	-	1 108 726
Balance at 30 June 2016	**-**	**(5 208 669)**	**(2 099 775)**	**(9 015 125)**	**-**	**(16 323 569)**
Net book value						
At 1 January 2015	**6 024 426**	**25 847 674**	**3 805 783**	**4 328 663**	**7 180 792**	**47 187 338**
At 30 June 2015	**6 037 572**	**27 426 367**	**4 096 289**	**4 890 209**	**8 019 257**	**50 469 694**
At 1 January 2016	**4 839 188**	**27 763 618**	**5 078 774**	**5 406 482**	**6 694 671**	**49 782 733**
At 30 June 2016	**4 859 159**	**29 689 954**	**5 425 714**	**5 361 373**	**5 264 867**	**50 601 067**

Depreciation expense of RUB 2 002 498 thousand has been charged to selling, general and administrative expenses (six months ended 30 June 2015: RUB 1 684 304 thousand).

Security

Carrying amount of stores pledged as collateral for loans and borrowings is RUB 2 562 904 thousand as at 30 June 2016 (31 December 2015: RUB 2 592 895 thousand).

13 Intangible assets

'000 RUB	Software	Lease rights	Other intangible assets	Total
Cost				
Balance at 1 January 2015	851 771	404 156	49 708	1 305 635
Additions	51 673	-	6 510	58 183
Transfer	76	-	(76)	-
Balance at 30 June 2015	**903 520**	**404 156**	**56 142**	**1 363 818**
Balance at 1 January 2016	**1 093 006**	**1 061 973**	**128 156**	**2 283 135**
Additions	116 492	-	16 984	133 476
Disposals	(160 230)	(135 006)	(3 774)	(299 010)
Balance at 30 June 2016	**1 049 268**	**926 967**	**141 366**	**2 117 601**
Amortization and impairment losses				
Balance at 1 January 2015	(420 815)	(328 637)	(16 748)	(766 200)
Amortization for the period	(67 075)	(23 670)	(2 609)	(93 354)
Transfer	6	-	(6)	-
Balance at 30 June 2015	**(487 884)**	**(352 307)**	**(19 363)**	**(859 554)**
Balance at 1 January 2016	**(558 077)**	**(403 308)**	**(28 027)**	**(989 412)**
Amortization for the period	(89 287)	(34 788)	(10 378)	(134 453)
Disposals	160 230	131 958	4 240	296 428
Balance at 30 June 2016	**(487 134)**	**(306 138)**	**(34 165)**	**(827 437)**
Carrying amounts				
At 1 January 2015	**430 956**	**75 519**	**32 960**	**539 435**
At 30 June 2015	**415 636**	**51 849**	**36 779**	**504 264**
At 1 January 2016	**534 928**	**658 665**	**100 129**	**1 293 723**
At 30 June 2016	**562 134**	**620 829**	**107 201**	**1 290 164**

Amortization and impairment charge

Amortization of RUB 134 453 thousand has been charged to selling, general and administrative expenses (6 months ended 30 June 2015: RUB 93 354 thousand).

14 Investment property

’000 RUB	Investment property
Investment properties at fair value as at 1 January 2015	**548 500**
Expenditure on subsequent improvements	1 626
Investment properties at fair value as at 30 June 2015	**550 126**
Investment properties at fair value as at 1 January 2016	**564 000**
Expenditure on subsequent improvements	35 597
Loss from revaluation of investment property	(35 597)
Investment properties at fair value as at 30 June 2016	**564 000**

As at 1 January 2015 and 2016 the fair value of investment property has been determined by independent appraisers. The fair value of investment property as at 30 June 2016 and 30 June 2015 was updated by the Group applying the 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 2016 compared to 1 January 2016.

Fair value of investment property as at 30 June 2016 and 30 June 2015 did not significantly change as compared to 1 January 2016 and 1 January 2015, respectively. Fair value loss was recognized as at 30 June 2016 (30 June 2015: Nil).

15 Other non-current assets

’000 RUB	30 June 2016	31 December 2015
Initial cost of land lease	4 166 700	4 188 872
Long-term prepayments to entities under control of shareholder group	922 738	651 302
Prepayments for non-current assets	1 835 350	1 703 876
Long-term deposits to lessors	437 214	390 732
	7 362 002	**6 934 782**

Initial cost of land lease includes purchase price and the costs directly attributable to acquisition of lease rights and is amortized 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 2034. Related party transactions are detailed in note 27.

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

'000 RUB	**2016**	**2015**
Cost		
Balance at 1 January	**5 225 208**	**5 476 402**
Additions	36 000	16 949
Balance at 30 June	**5 261 208**	**5 493 351**
Amortization and impairment losses		
Balance at 1 January	**(1 036 336)**	**(935 926)**
Amortization charge	(58 172)	(55 962)
Balance at 30 June	**(1 094 508)**	**(991 888)**
Net book value at 30 June	**4 166 700**	**4 501 463**

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
'000 RUB	**30 June 2016**	**31 December 2015**	**30 June 2016**	**31 December 2015**	**30 June 2016**	**31 December 2015**
Investment property	3 993	-	-	(1 113)	3 993	(1 113)
Property, plant and equipment	252 123	357 514	(951 389)	(922 764)	(699 266)	(565 250)
Construction in progress	-	-	(61 984)	(210 954)	(61 984)	(210 954)
Intangible assets	-	-	(104 753)	(95 313)	(104 753)	(95 313)
Other non-current assets	-	-	(156 720)	(118 434)	(156 720)	(118 434)
Inventories	487 860	572 154	(17 892)	(29 245)	469 968	542 909
Trade and other receivables and payables	-	-	(379 758)	(261 414)	(379 758)	(261 414)
Tax loss carry-forwards	852 464	537 207	-	-	852 464	537 207
Tax assets/(liabilities)	**1 596 440**	**1 466 875**	**(1 672 496)**	**(1 639 237)**	**(76 056)**	**(172 362)**
Set off of tax	(625 054)	(812 363)	625 054	812 363	**-**	-
Net tax assets/(liabilities)	**971 386**	**654 512**	**(1 047 442)**	**(826 874)**	**(76 056)**	**(172 362)**

(b) Unrecognised deferred tax liability

As at 30 June 2016 a temporary difference of RUB 21 435 655 thousand (31 December 2015: RUB 22 842 672 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 5-15% would apply.

17 Inventories

'000 RUB	**30 June 2016**	**31 December 2015**
Goods for resale	10 750 870	12 436 674
Raw materials and consumables	436 878	595 017
Write-down to net realizable value	(512 419)	(403 387)
	10 675 329	**12 628 304**

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 realizable value, which resulted in decrease of carrying value of stock by RUB 512 419 thousand as at 30 June 2016 (31 December 2015: RUB 403 387 thousand). The write down to net realizable 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 management's best 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	**30 June 2016**	**31 December 2015**
Trade receivables	254 985	362 599
VAT receivable	1 066 179	1 902 761
Prepaid taxes other than income tax	65 819	67 747
Prepaid income tax	757 865	791 787
Bonuses receivable from suppliers	2 574 096	1 653 027
Other receivables	1 873 003	2 159 425
	6 591 947	**6 937 346**

19 Equity

As at 30 June 2016 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 31 December 2015: EUR 2 691 thousand) is represented by 269 074 000 shares (31 December 2015: 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 2016 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 2016.

20 Earnings per share

The calculation of basic loss per share for six months ended 30 June 2016 was based on the loss attributable to ordinary shareholders of RUB 786 237 thousand (six months ended 30 June 2015 profit: RUB 621 235 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000 (six months ended 30 June 2015: 269 074 000), calculated as shown below. The Company has no dilutive potential ordinary shares.

For six months ended 30 June

	2016	**2015**
Number of shares		
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	30 June 2016	31 December 2015
Non-current liabilities		
Secured bank loans	3 750 000	5 000 000
Unsecured bank facilities	13 382 857	17 052 875
Unsecured bonds	5 598 150	385 144
Unsecured loans from related parties	985 163	1 117 400
Unsecured loans from third parties	2 850	2 850
	23 719 020	**23 558 269**
Current liabilities		
Secured bank loans	1 250 000	-
Unsecured bank facilities	4 157 756	1 770 125
Unsecured bonds	4 980 000	9 980 000
Loans and borrowings	**10 387 756**	**11 750 125**
Unsecured bonds interest	228 248	238 714
Interests accrued on loans	24	10 891
Interests accrued on loans and borrowings	**228 272**	**249 605**
	10 616 028	**11 999 730**

As at 30 June 2016 loans and borrowings with a carrying value of RUB 5 000 000 thousand (31 December 2015: RUB 5 000 000 thousand) were secured by property, plant and equipment.

During the year ended 31 December 2015 the Group issued bonds in amount of RUB 5 000 000 thousand which expire after 5 years in 2020. As described in note 25(a) to consolidated financial statements of the Group for the year ended 31 December 2015, bonds holders had an option to claim repayment in April 2016. In April 2016, majority of the bonds holders exercised their option and the Group early settled bonds in total amount of RUB 4 786 994 .

During six months ended 30 June 2016 the Group issued bonds in the amount of RUB 5 000 000 thousand which expire after 5 years in 2021. Bonds holders have an option to claim repayment in October 2018.

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 2016 and for the six months then ended the Group complied with all loan covenants.

22 Trade and other payables

'000 RUB	30 June 2016	31 December 2015
Trade payables	18 801 905	24 000 558
Advances received	2 104 984	1 772 204
Taxes payable (other than income tax)	682 502	627 824
Payables to staff	1 531 294	1 603 412
Deferred income	62 955	85 310
Interest rate swap payables	181 497	173 590
Other current payables	229 466	554 435
	23 594 603	**28 817 333**

23 Non-cancellable operating leases

During six months ended 30 June 2016 the Group entered into several non-cancellable operating leases of land plots and store premises.

Non-cancellable operating lease rentals are payable as follows:

'000 RUB	30 June 2016	31 December 2015
Less than one year	2 991 786	3 012 410
Between one and five years	11 256 147	10 775 153
More than five years	21 836 022	20 743 629
	36 083 955	**34 531 192**

24 Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUB 2 922 871 thousand as at 30 June 2016 (31 December 2015: RUB 3 570 470 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 outstanding.

(b) Taxation contingencies

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

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for the Group's tax positions based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. In addition to tax liabilities recognised in these condensed consolidated interim financial statements, the Group is exposed to uncertain tax positions for which no provision has been made because management has assessed that additional payments are not probable. However, the interpretations of the relevant authorities could differ. If the authorities would be successful in enforcing their interpretations, the maximum unrecognised exposures approximate RUB 2 400 million as at 30 June 2016.

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 swaps which are carried at fair value. Fair value of swaps 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 the Moscow Exchange. Fair value of bonds payable was determined for disclosure purposes based on active market quotations (Level 1 fair value).

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	**2016**	**2015**
Salaries and bonuses	136 816	135 221
Social security contributions	3 607	5 121
Long-service bonus	2 641	17 226
Other payments	-	46 631
	143 064	**204 199**

(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 2016	**Six months ended 30 June 2015**	**30 June 2016**	**31 December 2015**
Services provided:				
Other related parties	15 311	19 155	(3 060)	(6 007)
	15 311	**19 155**	**(3 060)**	**(6 007)**

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 2016	**Six months ended 30 June 2015**	**30 June 2016**	**31 December 2015**
Lease of premises				
Other related parties	(400 620)	(363 057)	906 822	936 956
Including:				
Rental fee	(332 453)	(304 618)	-	-
Reimbursement of utilities	(34 522)	(29 168)	-	-
Reimbursement of other expenses	(33 645)	(29 271)	-	-
Other services received:				
Other related parties	(1 894)	(1 967)	-	-
Finance costs:				
Other related parties	(41 923)	(35 514)	-	-
	(444 437)	**(400 538)**	**906 822**	**936 956**

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 906 822 thousand as at 30 June 2016 comprises prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 940 846 thousand and current liabilities for rent of hypermarkets in the amount of RUB 34 024 thousand. Long-term part of prepayments amounting to RUB 922 738 thousand is disclosed in 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 41 923 thousand for six months ended 30 June 2016 (six months ended 30 June 2015: RUB 35 514 thousand) and were recorded as finance costs in profit or loss.

(iii) Loans

'000 RUB	Repayment	Repayment	Outstanding balance	Outstanding balance
	For six months ended 30 June			
	2016	2015	30 June 2016	31 December 2015
Loans received:				
Other related parties	-	146 457	(985 163)	(1 117 400)

The loans from other related parties bear interest at 8% per annum and are payable in 2018.

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

28 Events subsequent to the reporting date

In July 2016 the Group paid dividends to shareholders in the amount of RUB 1 464 856 thousand.