O’KEY Group S.A. Annual Report 2013

O’KEY group

O'KEY aims to improve customer lifestyles by offering an outstanding shopping experience and making a broad assortment of high quality products more accessible across a network of hypermarkets, supermarkets and discounters throughout Russia.

In pursuit of this aim the Group will rapidly expand its store portfolio and capitalise on the commercial opportunities within the grocery market.

Operational Highlights

489k
'000m² of selling space (428k in 2012)

94
Total number of stores, up from 83 in 2012

22
Presence in 22 major cities in Russia

16.4%
Increase in unique loyalty card holders to 6.5 million

845 RUB
Average basket value

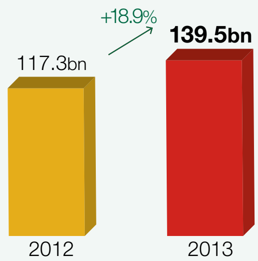
8%
Like-for-Like revenue growth

0.5%
Growth in Like-for-like number of purchases

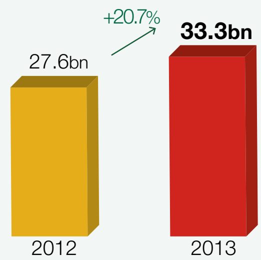
9.3%
Increase in purchases to 185.6 million in 2013

Financial Highlights

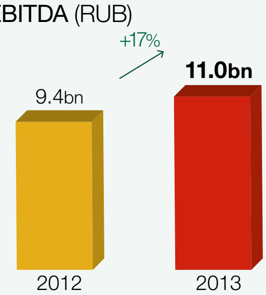
Revenue (RUB)



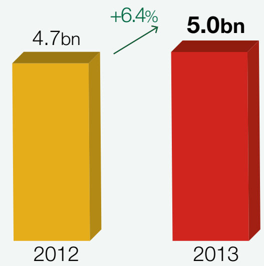
Gross profit (RUB)



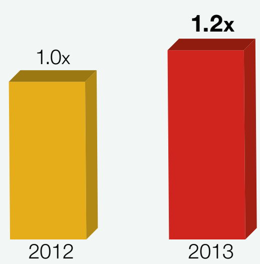
EBITDA (RUB)



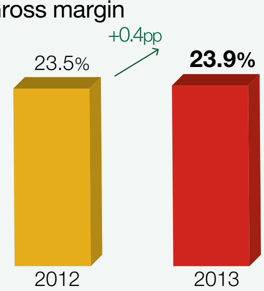
Net profit (RUB)



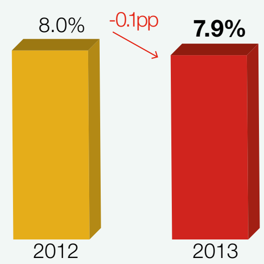
Net debt to EBITDA



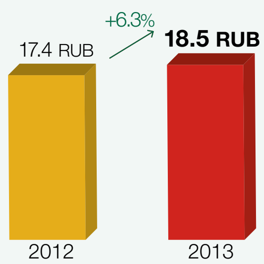
Gross margin



EBITDA margin



Earnings per share



Satisfying customers through…

Providing an Outstanding Shopping Experience

For more information see pages
14-15

Providing a Broad and Compelling Assortment

For more information see pages
16-17

Providing Excellent Value for Money

For more information see pages
18-19

O'KEY at a Glance

"O'KEY is one of the largest retail chains in Russia. Its primary retail format is the modern Western European hypermarket under the 'O'KEY' brand, complemented by 'O'KEY-Express' supermarkets."

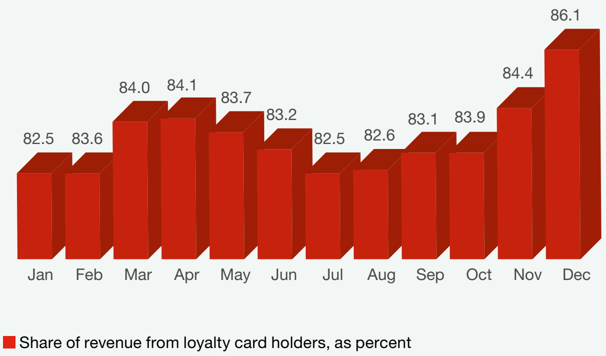
- Headquartered in Moscow
- Global Depositary Receipts listed on the London Stock Exchange
- Employing more than 24,500 people

What we do:

- Employ the "all under one roof" modern hypermarket concept and operate in 22 major Russian cities. The Group also operates the O'KEY-Express supermarket concept
- Apply a differentiated business model which creates an exceptional in-store customer experience through an attractive environment and well balanced assortment structure supported by high levels of service
- Provide a wide assortment which includes local produce, exclusive imported products and an attractive range of fresh, delicatessen and own produce

High level of customer loyalty

Source: Company data



Our History:

2001
O'KEY Group is founded in St. Petersburg

2002
First O'KEY hypermarket opens
- First hypermarket is launched in St. Petersburg
- Strategy centred around becoming the leading food retailer in St. Petersburg

2003-2006
Taking leading positions in St. Petersburg
- Eight hypermarkets and two supermarkets launched in St. Petersburg
- Total selling space increased from 6,000 to 87,000m^2

2007-2008
Regional expansion
- Strong, international management team joins O'KEY
- Stores opened in six new regions in three Federal districts
- Number of stores grows to 37, doubling selling space to more than 190,000m
- O'KEY breaks into Russia's top ten retailers by revenue

2009-2013
Becoming a leading national retailer
- Development in the Moscow market
- 'O'KEY' breaks into Russia's top five food retailers in terms of revenues
- Launch of an Initial Public Offering (IPO) on the London Stock Exchange
- Number of stores grows to 94, with selling space of 489,000m^2

Geographical coverage

Fast facts

60
Hypermarkets in 22 cities

34
Supermarkets in 10 cities

24,500
Employees

6.5 million
Unique loyalty card holders

186 million
Customer transactions in 2013

35,000
Stock Keeping Units Sold constantly in a store

69%
Share of non-food products in the assortment

20%
Revenue and selling space CAGR 2009-2013

Strategic Report

Strategic Report
A Statement by Tony Maher, Chairman and Chief Executive

"In terms of revenue growth, we will continue our organic expansion in high value cities and maintain our commitment to a strong customer proposition."

Our belief in the potential and scale of the underexploited Russian retail opportunity remains strong given the long-term macroeconomic trends, such as improving household incomes and growth in consumption. Our firm conviction remains to offer an outstanding shopping experience and make a broad range of products at attractive prices more accessible to customers across Russia.

The current environment is characterised by a number of challenges. Market conditions were primarily affected by greater competition not just for customers, but also for qualified labour and future store locations. In response we are focussing on near-term objectives which will enhance our value proposition and appeal to customers. We monitor our performance against these objectives via the system of Key Performance Indicators (on pages 10 and 11) that measures the efficiency with which the Group manages customer satisfaction and maintains high value proposition.

As the marketplace evolves, our notably strong brand equity and customer proposition will need to be matched by an equally strong operating discipline in all aspects of the Group's activities. Indeed, current market conditions and the creation of a new fully-fledged supermarket division present a valuable opportunity to pay particular attention to internal efficiency and management effectiveness. We are committed to making these the key features of our future growth.

Strategy

The central pillars of the O'KEY strategic vision remain unchanged: in terms of revenue growth, we will continue our organic expansion in large and medium sized cities and maintain our commitment to a strong customer proposition.

In terms of products, this means a broad assortment and distinctive offerings which combine private label, branded and self-produced ranges. Superior quality is a competitive differentiator and our consistent emphasis on fresh produce, in-store preparation and delicatessen selections remains important within both the hypermarket and supermarket formats.

Tony Maher
Chairman and Chief Executive

Strategic Report (continued)

Loyalty is a key feature of the O'KEY Group's success. Our regular customers contribute 85% of our stores revenues. We also enjoy one of the lowest staff turnover rates among Russian retailers. The Group has successfully built this loyalty through an unrelenting focus on the details which have become hallmarks of our customer service, notably well-trained staff providing consistency in the way O'KEY delivers its proposition and thereby creating strong brand equity.

The format of our stores and the shopping environment is at or above the standards of Western Europe which makes O'KEY a differentiated concept in the Russian market. Our hypermarkets, with good transport links complemented by supermarkets within walking distance of residential districts, provide consumers with exciting options and convenience.

In every case our customers expect the same O'KEY in-store experience and, as the Group expands and its formats develop, meeting these expectations requires a greater level of management discipline. Naturally no business expands without also managing the risks encountered both internally and externally. We realise the risks and challenges that our business faces now and will focus on managing those to deliver profitable growth in the future. Further information on risks is contained on pages 25 to 27.

"We are working on a number of improvements to address the rate and manner in which we execute new store openings. Given the number of locations we have secured to date, we will accelerate our store opening programme."

Priorities going forward

Looking ahead there is a need to focus on better execution of our strategy with the aim of maintaining our strong market position and achieving our growth potential in a way which adds value. We will be paying particular attention to the following areas:

There are opportunities for overhead reduction, both as a percentage of revenue and in absolute terms, and we are taking steps to decrease our general and administrative expenses as a percentage of our revenue.

We are working on a number of improvements to address the rate and manner in which we execute new store openings. Given the number of locations we have secured to date, we will accelerate our store opening programme and achieving this will depend on more disciplined and responsible project management as well as greater control throughout the different stages of store construction.

In addition we aim to ensure that the pipeline of sites for future store locations is secured, on a rolling basis, a full three years in advance of proposed opening.

In relation to new openings we have announced plans to develop a discounted store format that will clearly be differentiated from other small formats in the Russian market today. Compared to our larger stores the discounter format will trade from store sizes of 750 square metres, will have a smaller assortment and will be entirely based on its own logistics platform. The discounted format will clearly be different from our existing stores, yet we intend to maintain our high standards of service and comfortable in store environment. We are finalising the team who will deliver this project and are on track to build the distribution centre this year and secure the necessary locations for the first openings in 2015.

Strategic Report (continued)

In general the Group aims to increase its margins going forward but not at the expense of our overall competitiveness. Through measures that improve our working capital and efficiencies across the businesses, we will improve our price competitiveness and deliver higher value to our customers. Our ambition is to maximise long-term value by achieving a balanced set of results in terms of our key indicators and to ensure that this balance is sustained as our growth plans are realised.

Overall, the long-term outlook for our business model remains compelling and the growth trajectory in the Russian grocery markets is positive. O’KEY has successfully grown to serve 6.5 million satisfied customers a year from 500 thousand square metres of high quality trading space and today employs around 25,000 hardworking and loyal employees. I am therefore confident the actions we are taking now will deliver superior results for our stakeholders in the year ahead.

Review of the year and growth history

The last five years have shown a commitment to delivering growth:

- Growth in gross and net profit
- Stable EBITDA margins
- Managed expansion: of stores, products, selling space, infrastructure
- High revenue per square foot
- Improved net debt profile
- Growth in market share in core markets
- Secured sites for a further 70 stores

Tony Maher
Chairman and Chief Executive
April 2014

"The successful execution of our strategy allows us to keep improving our customers' experience as we replicate our business model throughout Russia."

Expand footprint

- Further penetrate the Russian market focusing on Urals, Siberia and Moscow.
- Establish presence in 25 Russian cities by 2015.
- Ensure that the high standards of convenience are met by all new locations without compromising O'KEY's store model and commitment to the customer.

Provide broad product offering

- Constantly develop assortment to ensure a truly "one-stop-shop experience".
- Cooperate with local suppliers to meet customer expectations in every city.
- Grow the share of our private labels while ensuring high quality standards and attractive prices.

Enhance supply chain

- Optimise supply chain for every category of products and SKU (Stock Keeping Unit).
- Maintain high shelf availability and optimal inventory levels as the business grows.
- Improve efficiency of logistics supporting import and private label operations.

Optimise information systems and business processes

- Enhance technological platform to support expanding the scale of operations.
- Implement innovative retailing solutions to meet and exceed customer expectations.
- Introduce best practices into existing business processes.

Business Model

"Since opening our first hypermarket in 2002, O'KEY has developed a differentiated business model that, uniquely for the Russian market, focusses on delivering a positive customer experience."

As a result, customer loyalty is high, with regular customers accounting for around 85% of revenues.

This positioning has enabled us to compete successfully in the most competitive market in Russia – St. Petersburg – and then roll out our stores across Russia to become one of the country's largest food retailers.

In store experience

- Our stores are modern, convenient and have good transport links providing a positive shopping experience.
- We put special emphasis both on the ambience of our stores and quality of in-store service.

Assortment

- Our stores provide a wide range of superior quality food and non-food produce combining private label, branded and cost-competitive ranges with in-store preparation and delicatessen offerings.
- We work closely with local suppliers to ensure we exactly meet customer expectations in every city.

Value for money

- Our products are competitively priced and we constantly seek new ways to deliver value to our customers.

Supply chain

- Our supply chain ensures a constant supply of products with optimal lead times whether sourced locally, nationally or internationally.

Customer satisfaction & loyalty

- We relentlessly focus on delivering consistently high quality shopping experience at all of our stores.

Key Performance Indicators

Financial KPIs

	2013	Definition
Revenue (in RUB)	139.5bn	Measures the value of merchandise and services rendered to customers. Maintaining high pace of revenue growth is crucial for our longer-term success.
Like-for-like revenue growth	8%	Measures the change in same store revenue. One of the most important operational indicators that evaluates the underlying progress without new additions.
Gross margin	23.9%	Measures the profit left after deducting costs and expenses directly associated with the sale of goods as a percent of revenue. This indicator demonstrates how efficient we are in our commercial negotiations and stock management and is one of the key profitability metrics.
EBITDA (in RUB)	11.0bn	Earnings before interest, taxes, depreciation and amortisation. EBITDA is the key indicator of our efficiency both internally and externally.
Earnings per share (in RUB)	18.5	Calculated by dividing the earnings of shareholders by the weighted average number of share in issue at 31 December 2013.

Strategic KPIs

	2013	Definition
Providing an outstanding shopping experience		
Number of loyalty card holders (million)	6.5	Measures the number of individual customers who hold an O'KEY loyalty card and shop regularly in our stores. Loyal customers shop with us more frequently and spend more per visit, therefore developments in this indicator can impact revenue progress and our ability to retain customers.
Brand equity in St. Petersburg *Nielsen 2013, St. Petersburg Brand Leadership 2005-13	2.9	The index reflects customers' perception of a brand and their willingness to recommend its products or services. Values between 1.0 and 3.0 are normal for retailers, where 3.0 indicates very wide recognition by respondents and high preparedness to recommend a retailer and its stores. We consistently monitor this index to evaluate the quality of service provided to customers and their perception of OKEY brand.
Number of purchases per annum (million)	185.6	Total number of purchases made in our stores per annum. It is a measurement of how effective we are in attracting new customers.

Strategic KPIs (continued)

	2013	Definition
Providing a broad and compelling assortment		
Share of fresh products in sales	46%	Measures the proportion of products in a typical basket which are fresh or prepared on-site. This category is highly demanded by our customers and is crucial for the overall success of our offering.
Number of SKUs sold constantly in a store	35,000	Measures the number of Stock Keeping Units (SKUs) that are regularly available in stores. Wide choice of products is one of O'KEY's differentiators and we intend to maintain and develop it further.
Share of non-food in the assortment	69%	Measures the share of non-food SKUs in the assortment. Our strong non-food proposition helps to attract customers and creates additional motivation to visit our stores.
Providing excellent value for money		
% of purchases with loyalty cards	69%	Measures the percentage of purchases that are made using an O'KEY loyalty card. An important metric of how efficiently we address the needs of our existing customers and if they appreciate our value proposition.
Size of average purchase in hypermarkets (in RUB)	934	Measures the size of an average purchase in our hypermarkets. It helps to evaluate the impact of inflation and other drivers on the spending of our customers.
Number of items per basket	13	Shows the number of items in an average basket of our shoppers. This metric is a good indicator of changes in consumption whether if it is driven by internal changes or macro conditions.

The Consumer Environment

“Russia is the largest market in Europe and also has one of the fastest growing retail sectors. Per capita consumer spend is forecast to increase by 44% between 2013 and 2016.”

With a population of 143.3 million, Russia is the largest market in Europe and also has one of the fastest growing retail sectors. Between 2008 and 2013, Russian retail turnover increased by approximately 70% in Russian Rouble terms and 33%[1] in US Dollar terms. Over the same period, the total Russian retail market grew from being the sixth largest by turnover globally to the third.

The Russian grocery retail market is the fifth largest market in the world and has demonstrated steady growth since the crisis of 2009. A key driver of this growth is inflation, which amounted to 6.8% in 2013 on a CPI basis, and food inflation was slightly higher at 7.7%. Moderate inflation is positive for grocery retailers as it causes the value of the average customer basket to rise and offsets cost increases. O’KEY’s average basket in hypermarkets grew by 7.5% to RUB 934 in 2013.

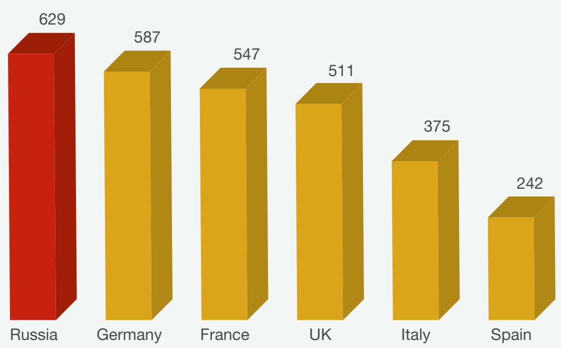
The unemployment rate in Russia has declined from 8.3% in 2009 to 5.5% in 2012-13 due to the positive economic conditions in the country. Economic growth and declining unemployment resulted in average wages almost doubling from less than RUB 22,000 in 2008 to an all-time high of RUB 39,648 in December 2013.

These dual trends of increasing real wages and growing employment have remained robust over the past three years and have created favourable conditions for retailers.

Per capita consumer spend in the Russian retail market is forecast to increase by 44% between 2013 and 2016. Whilst, in PwC’s “World in 2050” report, Russia is forecast to become the largest European economy in purchasing power parity (PPP) terms by 2020.

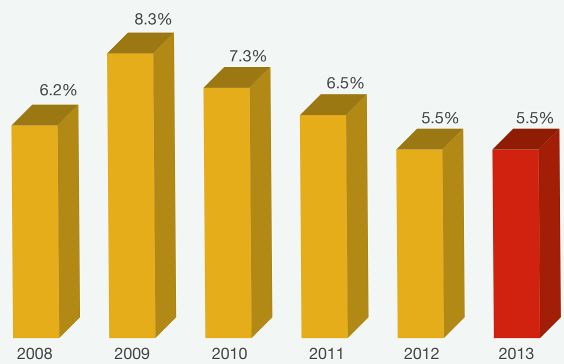
Market size shown by retail value (excluding sales tax) (US$ bln)

Source: Euromonitor



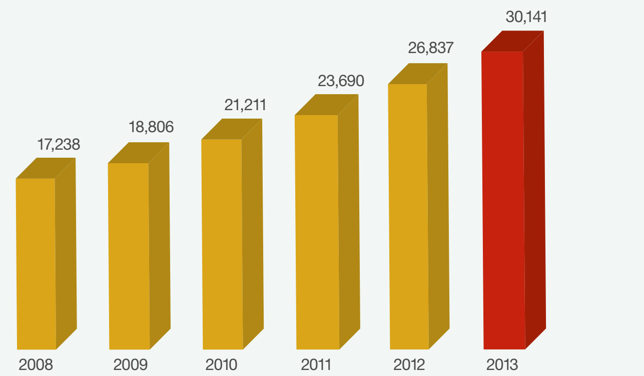
Russia unemployment rate, %

Source: Federal State Statistics Service



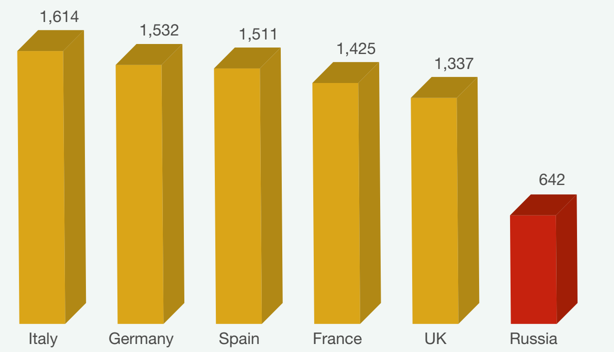
Accrued average monthly nominal wages per employee in Russia (RUB)

Source: Federal State Statistics Service



Selling space (m^2) per ‘000 people

Source: Euromonitor



In addition, Russian customers have progressively changed their habits by moving away from their traditional reliance on shopping at markets to more modern retail outlets. According to a 2013 GfK Russia survey, modern retail outlets have more than 61% share of total retail sales. Retail chains are expanding rapidly in Russia and, according to an Infoline Agency report, the top 130 Russian retail chains opened more than 4,200 new outlets in 2013.

The amount of retail selling space per capita in Russia is underdeveloped, despite rapid rates of expansion by Russia’s largest retail chains in recent years. The number of square metres of selling area per 1000 people in Russia is 642[1] compared to developed European countries where this indicator is above 1,500 square metres per 1000 people on average. Whilst these figures clearly highlight Russia’s ongoing potential as a market, as well as consumers’ increased purchasing power and disposable income, it is O’KEY’s commitment to customer service which has, and continues to, enable us to exploit the positive macroeconomic and sector environment. The loyalty engendered by our unique product offering is borne from our share of revenue generated from loyalty card holders – a rate unmatched by our peers.

1 Euromonitor data for 2013
2 Russian Federal State Statistics Service

Providing an Outstanding Shopping Experience

O'KEY's primary focus is to give customers an outstanding shopping experience by offering modern, convenient and innovative stores that are well located, well designed and have everything under one roof.

Over the years of our successful development, O'KEY has accumulated a wealth of knowledge and expertise, all of which we use to achieve one goal: exceeding customer expectations. In everything we do, whether it is choosing a store location, tailoring the product assortment structure or controlling quality of service and merchandise, we judge success based on the quality of the shopping experience and the value for money our customers receive in our stores.

The quality of a customer's shopping experience starts with the convenience of store location. It is not just proximity to the customers, but also the ease of reaching and leaving the store by various means and, in relevant cases, the availability of parking. To ensure every store meets customer requirements, we have embedded a process of project evaluation to ensure consistency throughout the Company.

Another element that differentiates O'KEY from our competitors is the store layout. Our premises are bright, warm and well ventilated with a convenient and well signed section layout that utilises low shelving to ensure all produce is easy to reach. In contrast to many local competitors, O'KEY does not use forklift trucks in customer areas and individual SKUs are restocked discreetly from inventories maintained in stockrooms. We also provide additional services and products before our till lines in order to maximise convenience and provide a one-stop-shopping experience. These services include pharmacies, dry cleaners, toy stores, banking services and even food courts which are provided through carefully selected partners.

A fundamental feature of the shopping experience is the level of customer service. The superior quality of service provided and friendliness of our employees is what underpins the friendly shopping environment of our stores. To promote consistent quality of customer service, we enrol employees in compulsory training programs in corporate culture, hospitality and conflict management. Additionally, all our hypermarkets have an information desk where dedicated employees are available to provide advice and assistance to customers. The O'KEY shopping experience concludes with quick and easy service at the check-out points which are designed to minimise queuing time.

6.5 million

Unique loyalty card holders

185.6 million

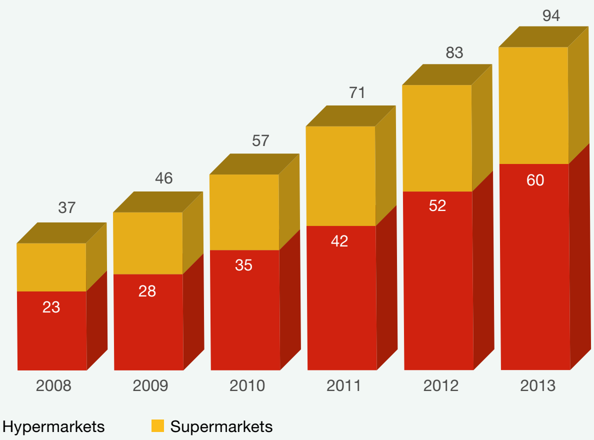
Customer transactions

2.9

Brand equity in St. Petersburg

*Nielsen 2013, St. Petersburg Brand Leadership 2005-13

Number of stores by format 2008-2013



Providing a Broad and Compelling Assortment

O'KEY's wide product assortment of both food and non-food produce that is high in quality and freshness makes O'KEY a destination of choice.

Our product assortment is an important differentiator for the Company. We developed our assortment structure around customer needs and tailored it to appropriate quality and price expectations. The minimum 35,000 SKUs stocked all year round represent a well-balanced portfolio of products that meet differing expectations and needs regardless of customers' income levels and preferences.

We offer close to 13,000 SKUs in food and almost twice as many items in non-food, where categories include cosmetics, health and beauty, consumer electronics, clothing, DIY, toys and crockery. Our selection of fresh food and delicatessen prepared in every hypermarket has become a signature of O'KEY and very popular with our customers. At the same time we have developed our private label that provides high quality for a moderate price.

We recognise that our customers appreciate the level of quality associated with international brands and they feature in all our stores. However, we equally recognise that throughout Russia customers appreciate locally-sourced produce. Therefore, when developing the assortment structure for a particular region or city, we make sure local tastes and expectations are catered for. Naturally, fresh foods form a large part of our local assortment, which brings numerous advantages such as shorter lead-time, a longer subsequent shelf life, high brand recognition and better inventory rotation.

Having a broad assortment allows us to meet customer expectations in respect to choice and this is where the quality aspect becomes the key decision trigger for a purchase. Our product Quality Control Department and monitoring units maintain permanent quality monitoring in stores, detect and bring to the attention of the management any deviations from norms. They also have the responsibility to educate and develop staff awareness and involvement in quality control. Our food safety and health inspectors conduct regular spot-checks on food preparation areas and medical checks on employees who work with food.

As with product quality, we carefully monitor standards of service quality. O'KEY has developed a number of proprietary policies where Quality Managers perform checks in store to ensure compliance and develop improvement initiatives. The standards of service provided within each store impacts our results and how our customers perceive our stores and we consider them to be very important. To highlight this, store management compensation correlates to the results of the service inspections: around 25% of store managers' bonuses are determined by the scores of the inspections.

By offering customers an extensive choice of quality products and by tailoring our assortment in response to evolving preferences, O'KEY differentiates itself from its competitors and builds long-lasting relationships with customers.

35,000

Average of SKUs on offer all year round

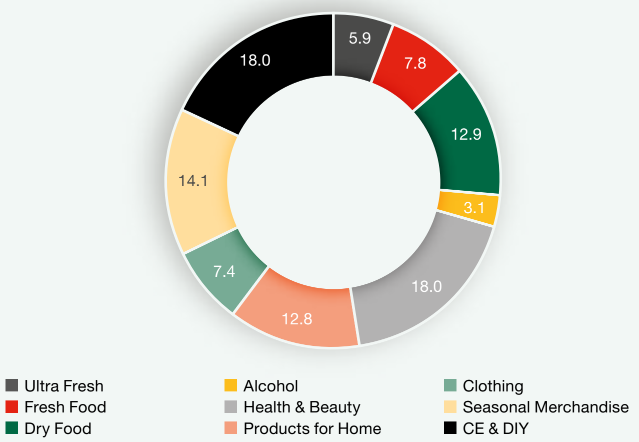
46%

Share of fresh products in sale

69%

Share of non-food in the assortment

Breakdown of assortment by SKU



Providing Excellent Value for Money

Generating loyalty and traffic by delivering value.

Due to the breadth of our assortment, as well as the availability of non-food products, private labels and the additional services we can offer, our hypermarkets become destination points for shoppers and customers are often willing to travel long distances to our stores.

We don't believe our customers shop at O'KEY stores only because of our prices, but we know that they could easily stop shopping with us if we get pricing wrong. We therefore have a price monitoring system in place to ensure that our prices always stay highly competitive in the marketplace. To ensure the competitiveness of our products we align our prices on comparable items to our competitors' lowest prices. Price matching is done on a daily basis for the top 30 SKUs and then on an extended range every week. Products that do not have an exact match in competitor stores, or where we have lower purchase prices, are subject to gross margin limits. In addition to direct price reductions, customers are offered promotions and catalogues containing special discounts.

To ensure that we are in line with our major competitors we consistently invest in our prices. We increase our competitiveness by passing surplus margin and cost savings into selling prices, offering private labels and regularly offering promotions and sales.

Our overall objective with regards to pricing is to provide our customers with the best value offer. We give customers plenty of choice so that they can make a balanced decision on the products they buy, and our pricing policy ensures that they receive good offers whether they look for quality or price.

13

Items per basket on average

69%

of purchases made with loyalty cards

934 RUB

Average value of basket in our hypermarkets

Corporate Social Responsibility

Our Board of Directors and Executive Management are committed to meeting high standards in Corporate Social Responsibility. At O'KEY we see sustainable growth as a critical part of our business model. For us, meeting the needs of the modern consumer means operating responsibly to ensure that we create opportunities for future generations to realise their potential. For this reason, we support a full range of corporate social responsibility activities covering our key focus areas of anti-corruption, health and safety, employee recruitment and retention and community work.

Anti-corruption

In 2013 we have continued to implement the Company guidelines regarding ethics and corruption that were set out in 2012 and strengthened the anti-corruption measures we have in place to protect our business integrity and that of our employees and suppliers.

Our guidelines explicitly commit O'KEY as a company to the principles of open partnership and business ethics and underline our zero tolerance policy towards corruption. Managers must adhere to a strict policy concerning gifts and discounts and are encouraged to report any practice failing to meet these standards to our dedicated whistleblower e-mail address to be investigated by the internal audit and security departments.

Our supplier policy, which was instituted in 2010, sets out strict standards and aims to minimise any potential conflict of interest when choosing a supplier. The policy requires a full-scale tender process is carried out to assess the merits of all potential suppliers with a final decision subject to committee approval. While any business with a large scale supply chain will always face challenges in terms of ensuring complete transparency, we strive to maintain best practice at every step of the process. In this vein, any new contract between O'KEY and a supplier now includes an addendum stipulating that the supplier will inform a specified Company representative about any known cases of corruption and our partners now have an obligation to report any member of our staff soliciting an unauthorised payment or bribe. Introduced in 2012, this cross-party agreement adds another level of security to our already robust anti-corruption measures.

Further, in 2013 we have implemented tender procedures for the selection of new service providers/subcontractors in the security and construction departments. These procedures were implemented to improve the efficiency of the decision-making process and reduce the scope for abuse by individuals by introducing committees with balanced expertise. Tender committees usually consist of three to seven people from departments involved in the services ordered. Participants usually include staff from the security, financial and legal departments, and the list can be extended to involve specialists from sales, construction and development departments.

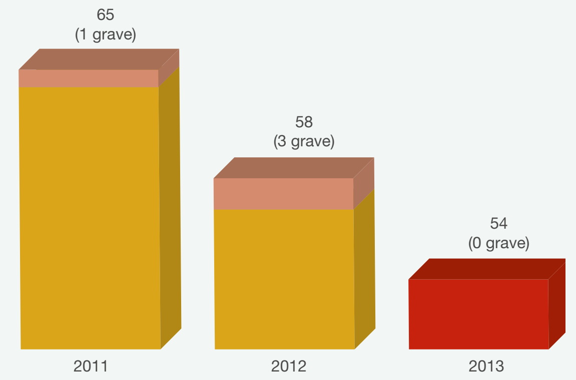
In 2013 we continued our internal anti-corruption training programmes for employees and management which educate our teams on the procedures and safeguards in place and ensure that they are aware of the consequences of failing to meet our high standards. Any employee involved in drawing up budgets or choosing suppliers is obliged to attend.

Health and safety

The Company takes full responsibility for providing its workforce of more than 24,500 employees with safe working conditions which meet all the health and safety standards and regulations. Over the course of 2013, we have performed routine assessments to ensure that our sites comply in full with Federal Laws on Health and Safety requirements. Assessments are performed regularly at least 12 times per year and are supported by the system of reports that was introduced in 2013. During the year we have developed and systematised statistical reports on injuries, working conditions and accidents that are now available on a regular basis. In 2013 we have implemented a set of measures and instructions directed at prevention of accidents that are compulsory for store employees. In addition, we have revised investigation process for the accidents with our employees and customers.

As a result of our systematic approach to the management of safety at work, the number of work related injuries has decreased from 58 in 2012 to 54 in 2013, where the most important indicator is the decline in the number of grave injuries to zero reported in 2013.

Number of injuries



Our employees

Recruitment

O'KEY is an equal opportunities employer that aims to recruit the most qualified candidate for each position, while taking account of diversity. In 2012 we introduced an officially authorised Recruitment Policy that prohibits any discrimination on the grounds of race, age, sex or religion. In 2013 we have continued to implement and monitor compliance with this policy across our operations and have also increased awareness by running diversity workshops and seminars to the management teams across the organisation.

We continue to develop our Graduate Recruitment and Development Programme for talented graduates who are interested in building a career in retail. Last year we recruited 45 newly-qualified graduates to our one-year learning and development programme across the country. In 2013 we launched the programme in every location where we operate.

In addition, we ran over 100 short-term internship programmes at local colleges and universities last year as well as career days and professional seminars and workshops to the students who take retail related courses as their majors to enrich their capabilities with real business environment examples.

Retention

Retention rates varied by department in 2013. We continued to roll out our Talent Management system, which aims to assess and develop talented managers across all departments. With assessment of over 2,500 managers completed, we have improved our understanding of our staff's capabilities, aspirations and performance and put in place individual development plans in order to build a succession pipeline within almost all departments.

Motivation

Leveraging the full potential of our workforce has and will be central to meeting our commitments to the customer. With this in mind, our competitive pay and incentive schemes aim to maximise performance. In addition to meeting statutory requirements, O'KEY provides additional benefits to its employees such as medical insurance, access to sports facilities and a provision for one-off fiscal aid for employees in financial difficulties. All employees are also part of a variety of incentive schemes, which are dependent on individual performance. Moreover, we conduct an annual salary review every July, ensuring that salaries reflect performance, responsibility and wider labour trends.

Building trust across the organisation between staff and management is key to maintaining motivation. In order to achieve this, we conduct regular performance appraisals for employees in which performance objectives are set, monitored and evaluated against management's quarterly targets. To ensure appraisals are conducted fairly, our HR department monitors this process and makes recommendations as necessary. In 2013 we expanded our "Social Committees" which aim to resolve any labour related issues arising between management and employees as early as possible and ensure that the O'KEY team is pulling together and heading in the same direction. In the last year, we ran 30 Social Committee meetings.

Training and development

We aim to provide training to develop the skills of our employees and offer opportunities for them to progress within the Group by recruiting internally wherever possible. Our sales department set the highest standard across the Company with almost 90% of all managerial vacancies filled internally in existing stores.

We also run training programmes for our management teams. Our 30 most senior managers participate in the Top Team Development Programme. Adhering to the principals of constant learning and growth, the programme focusses on strategic vision and leadership qualities. As opposed to a one-off box ticking exercise, the programme is held throughout the year including modules on personal executive coaching and business simulation. For middle and junior management, we run a Retail Excellence Programme (REX) and REX Light which over 1,700 managers now attend. Aimed at developing managerial skills with a retail focus, the uptake and feedback from this scheme has been overwhelmingly positive.

Gender diversity

We believe gender diversity is important for any business, and are particularly proud of our performance in this area: in 2013 women made up over 60% of store directors, 70% of the Company's entire workforce and 45% of senior management positions.

Employee engagement

In what is rapidly becoming an O'KEY tradition, we held anniversary celebrations for all employees in 2013. Held at every store, a variety of events were staged for employees and their families.

In addition, in 2013, we also brought some changes to our corporate magazine by adding new columns and sections to make it more attractive and user friendly.

Community work

We strongly believe that the long-term economic success of any organisation is closely related to the Company's involvement in the local community and its contribution to the social and economic development of the regions where it operates.

Community work is a key area of focus for O'KEY. Our initiatives are focused on the Leningrad Region in the North West, where our Company has its roots; however we are also expanding our presence to the other geographies in which we are currently operating.

Our charity partners include Rodniychok, an orphanage for disabled children, the Neuropsychiatric Orphanage, the Centre for Children with Special Needs №16 in St. Petersburg and the Social Rehabilitation Centre for Disabled Children in the Central district of St. Petersburg, amongst many others.

We continue to work closely with major charities such as the Red Cross, Caritas (a Catholic charity offering social and medical support and rehabilitation programmes and assistance for young people in need, the homeless, the addicted and the unemployed) and RETOHope, a Moscow-based association.

Financial Overview

Our 2013 financial results can be summarised as follows:

- Total revenue grew to RUB 139.5 billion
- Gross margin increased by 0.4% to 23.9%
- Net profit reached RUB 5.0 billion

Revenue

Revenue for the year ended 31 December 2013 increased by 18.9% year-on-year to RUB 139,460.4 million, compared to RUB 117,333.2 million in 2012. The increase was driven by higher levels of selling space and like-for-like revenue growth .

Like-for-like (LFL) revenue grew by 8.0% y-o-y and was driven by a 7.5% increase in the LFL basket. In addition, the LFL number of transactions increased by 0.5% y-o-y in 2013, demonstrating growth through the majority of the year. Both LFL basket growth and the increase in the number of transactions were supported by very successful promotional campaigns during 2013.

Selling space increased by 14.3% after eight hypermarkets and three supermarkets were opened.

Cost of goods sold and gross profit

The cost of goods sold increased by 18.3% y-o-y in 2013 to RUB 106,124.4 million. This was largely caused by higher volumes of trading stock sales as a result of new store openings and expansion in LFL revenue.

RUB million, unless otherwise indicated	2013	2012	Year-on-year change
Revenue	139,460.4	117,333.2	18.9%
Gross profit	**33,336.0**	**27,627.0**	**20.7%**
Gross margin	23.9%	23.5%	0.4 p.p.

In the following table, we provide further detail of our cost of goods sold in the years ended 31 December 2013 and 2012:

	2013	Percentage of revenue 2013	2012	Percentage of revenue 2012	Change, %
Revenue	139,460	100,0%	117,333	100,0%	
Cost of goods sold	(106,124)	76,1%	(89,706)	76,5%	(0,4%)
Cost of trading stock (less supplier bonuses)	(103,372)	74,1%	(87,404)	74,5%	(0,4%)
Inventory shrinkage	(1,552)	1,1%	(1,381)	1,2%	(0,1%)
Logistic costs	(517)	0,4%	(296)	0,3%	0,1%
Packaging and labelling costs	(682)	0,5%	(625)	0,5%	0,0%
Gross profit	**33 336**	**23,9%**	**27 627**	**23,5%**	**0,4%**

Gross profit increased by 20.7% to RUB 33,336.0 million in 2013, compared to RUB 27,627.0 million in 2012. The gross margin for 2013 expanded by 0.4 p.p. to 23.9%, following an improvement in purchasing conditions driven by our growing purchasing power.

3 LFL analysis included 80 stores.

General, selling and administrative expenses

	Year ended 31 December 2013 (RUB millions)	Percentage of revenue (%)	Year ended 31 December 2012 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Personnel costs	(12,686.8)	9.1	(10,235.9)	8.7	0.4
Depreciation and amortisation	(2,513.2)	1.8	(2,149.9)	1.8	0.0
Operating leases	(3,081.7)	2.2	(2,298.0)	2.0	0.2
Communication and utilities	(2,326.4)	1.7	(1,812.4)	1.6	0.1
Security expenses	(825.7)	0.6	(707.3)	0.6	0.0
Advertising and marketing	(1,132.4)	0.8	(990.3)	0.8	0.0
Materials and supplies	(302.7)	0.2	(258.8)	0.2	0.0
Operating taxes	(562.2)	0.4	(497.6)	0.4	0.0
Insurance and bank commission	(597.6)	0.4	(505.8)	0.4	0.0
Repairs and maintenance costs	(597.9)	0.4	(452.2)	0.4	0.0
Legal and professional expenses	(277.9)	0.2	(306.1)	0.3	(0.1)
Other costs	(36.2)	0.0	(149.6)	0.1	(0.1)
Total general, selling and administrative expenses	**(24,940.8)**	**17.9**	**(20,363.9)**	**17.4**	**0.5**

The Group's general, selling and administrative expenses grew by 22.5% y-o-y to RUB 24,940.8 million in 2013, mainly due to O'KEY's expanded operations and increased personnel, operating leases and utilities costs. As a percentage of revenue, the Group's general, selling and administrative expenses increased by 0.5 p. p. to 17.9% in 2013.

Personnel costs
Personnel costs grew by 23.9% y-o-y to RUB 12,686.8 million in 2013. This was mainly a result of an approximately 12.0% increase in average headcount and by a 7.0% indexation of salaries that took place in July 2013. A further 2% increase came from recruiting, training and travel expenses that starting 2013 are reclassified into personnel expenses from other costs.

Operating leases
Operating leases increased to RUB 3,081.7 million in 2013, a 34.1% increase from RUB 2,298.0 million in 2012. The main catalyst for this increase was the seven rented stores, or 21% of rented space, which were added in 2012 and had their first full operational year in 2013. The second major element of this growth is related to the expenses of nine rented stores opened during 2013, which account for 20% of additional rented space. Operating leases for stores opened prior to 2012 increased by around 10%, which was driven by growing sales and the weakening of the Rouble exchange rate.

Communications and utilities
Costs relating to communications and utilities increased by 28.4% y-o-y in 2013 to RUB 2,326.4 million, mostly as a result of adding new stores and increased tariffs. Revision of utility tariffs in 2013 led to a 10% increase in this expense.

Other operating income and expenses
Net other operating income and expenses resulted in a RUB 519.0 million loss for the year ended 31 December 2013. The largest items within this loss are expenses related to an accident in one of our stores, provision for the write-off of receivables and impairment of non-current assets. In 2013, the Company had other operating expenses of RUB 231.6 million and a revaluation loss of RUB 92.5 million, which was associated with the accident at one of its stores. Large part of provision for the write-off of receivables relates to RUB 100.0 million of advance payment as part of a construction contract at one of O'KEY's stores where a subcontractor started an insolvency process. Impairment of non-current assets amounts to RUB 164.7 million and mostly relates to a legal dispute around land lease rights that the Company had previously acquired and also to the closure of one of its supermarkets in Volgograd. All the expenses described above are non-recurring and are not expected to have any further impact on future periods.

Operating profit
O'KEY reported a 7.5% increase in operating profit to RUB 7,876.2 million in 2013 from RUB 7,326.2 million in 2012.

Finance costs
Finance costs increased by 10.1% y-o-y to RUB 1,139.8 million for the full year ended 31 December 2013, mainly due to the Group's higher average loan portfolio. O'KEY's weighted average interest rate for 2013 decreased to 8.9% in 2013 from 9.4% in 2012 driven by improving market conditions.

Financial Overview (continued)

Profit before income tax
Profit before income tax increased by 5.9% y-o-y to RUB 6,851.7 million in 2013, with the improvement of operating profit being partially offset by growing finance costs.

Total income tax expense grew by 4.8% y-o-y to RUB 1,875.3 million in 2013, primarily due to increased profit before income tax.

Profit for the year
As at 31 December 2013, net profit rose by 6.4% y-o-y to RUB 4,976.4 million with a net profit margin of 3.6%.

Cash flows and working capital

(RUB millions)	2013	2012
Net cash from operating activities	7,908.5	8,937.7
Net cash used in investing activities	(10,534.1)	(8,491.0)
Net cash used in financing activities	1,083.5	1,135.7
Net increase/(decrease) in cash and cash equivalents	(1,542.0)	1,582.3
Effect of exchange rate fluctuations on cash and cash equivalents	13.0	11.4

Cash flows from operating activities
Net cash from operating activities decreased to RUB 7,908.5 million in 2013, due to a lower contribution from working capital. Cash from operating activities before changes in working capital increased in line with operating profit growth.

Contribution from working capital amounted to RUB 388.1 million in 2013, a decrease of RUB 1,974.6 million compared to 2012. This was primarily due to growing trade and other receivables, which have offset the increase in trade payables. Key elements of growth in trade and other receivables are the increases in VAT receivable and bonuses receivable from suppliers.

Cash flows from investing activities
Net cash used in investing activities increased to RUB 10,534.1 million in 2013 and was mainly used to purchase property, plant and equipment required for fitting out new stores that were opened during 2013 and constructing future stores. In 2013 additions to construction in progress increased four times compared to 2012 and amounted to RUB 4,172.9 million.

Cash flows from financing activities
Net cash from financing activities generated a cash inflow of RUB 1,083.5 million. During 2013, the Group raised additional financing in the form of bonds and long-term loans to optimise the structure and costs of its credit portfolio.

Working capital
O'KEY's primary sources of liquidity are cash derived from operating activities and debt financing. As of 31 December 2013, the Group's working capital, defined as current assets (excluding cash and cash equivalents and short-term investments) less current liabilities (excluding short-term loans), was a negative RUB 9,606.4 million. Working capital figures in the food retail industry are usually negative, and the Group intends to maintain a negative working capital position.

O'KEY considers the net debt/EBITDA ratio as the principal means for evaluating the impact of the total size of the Group's borrowings on its operations. As at 31 December 2013, O'KEY's net debt/EBITDA ratio was 1.2x.

RUB million	2013	2012
Total debt	16,754	13,690
Short-term debt	2,313	3,826
Long-term debt	14,442	9,864
Less cash and equivalents	(3,007)	(4,536)
Net debt	13,748	9,154
Net debt/EBITDA	1.2	1.0

Research and Development
In the period under review, and as of the date of this report, while the Company was not involved in any material research and development activities, O'KEY does monitor market trends on an ongoing basis to identify additional areas of opportunity and ensure the Company has the flexibility to respond to the needs of its customers and the potential of all its local market places.

Risk Management

Risk management plays an integral part in how we plan and execute our business strategies. Our risk management process aims to enable us to pursue our strategy of sustainable growth while ensuring risks to the business are minimised and managed at an appropriate level. It also provides assurance to our shareholders, employees, customers and suppliers.

Risk management at O'KEY follows a comprehensive and management-oriented approach. This approach aims to identify, evaluate and respond to those risks and opportunities that could materially affect the achievement of our business objectives as early as possible. The Group maintains a Group risk register which sets out the key strategic, operational, financial and compliance risks faced by the Group. Risks are identified, analysed and rated in a consistent manner. For every risk, we develop, initiate and monitor the appropriate response measures. Our operational directors review and consider the Group risk register once a year within the framework of the Risk Committee meeting.

Below we describe the key risks that could have a material adverse effect on our business, our financial and operational performance, and, as a result, could impact our share price and our reputation. Additional risks not known to us or those risks that we currently consider immaterial may also impair our business operations.

We do not expect to incur any risks that may jeopardise the continuity of our business.

Principle Risks

Strategic Risks

Name of Risk	Definition and Potential Impact	Mitigating Actions
Economic outlook	Our business is affected by uncertainties associated with changing economic conditions, particularly in the current environment of global economic instability. Therefore we may face reduced customer demand as the income and purchasing power of our customers decreases.	We closely monitor the changes in the macroeconomic environment, income levels, consumer confidence index and other indicators. Therefore, if significant unfavourable developments occur, we are ready to take corrective steps and adjust our business model.
Competition risk	The retail sector in Russia is highly competitive. We face strong competition from other retailers (Russian and international), some of which are larger and have greater resources. Retail chains compete mainly for store locations, product assortment, price, service and store conditions. Some competitors might be more effective and faster in capturing certain market opportunities, which in turn may negatively impact our market share and our ability to achieve our performance and expansion targets.	We maintain and further develop our key differentiators that create loyalty and uniqueness to our offering. We constantly monitor our customers' perception of O'KEY and our main competitors to ensure we can respond appropriately. Our pricing policy, based on the price matching concept, is there to guarantee the competitiveness of core assortment.
Political risk	Political developments may adversely impact the macroeconomic environment and the market in which our company operates. Although political stability in Russia has improved, Russia is still a state whose political, economic and financial systems are rapidly developing and changing.	Although these risks are outside the control of the Company, O'KEY monitors political developments closely and maintains strong relationships with various national industry bodies.
Regulatory risk	Our operations are subject to various government regulations and industry specific legislation with respect to quality, packaging, health and safety, labeling, distribution and other standards. Some regulations are still being developed in Russia. Current and future government regulations or changes thereto may require us to change the way we run our operations and could result in cost increases. Failure to comply with regulations can also lead to reputational damage.	We aim to ensure compliance with all applicable regulations by monitoring regulatory developments and changes, and following up and responding to changes in regulations and standards in a timely manner. We participate in the regulatory development of Russian retail through The Retail Companies Association (ACORT). Monitoring results in a timely update of relevant internal policies/bylaws and, consequently, the Company's business processes.

Risk Management (continued)

Operational Risks

Name of Risk	Definition and Potential Impact	Mitigating Actions
Changing customer expectations	We strive to provide our customers with a wide range of goods and services, at competitive prices. However, we recognise that our customers' shopping habits and expectations are influenced by the economic environment and will change over time.	We are constantly assessing and reviewing our business processes to ensure that we follow the evolving customer expectations. To maximise the efficiency and relevance of such assessments, we monitor internal and external reports on retail market development and changes in O'KEY positioning. We are developing IT solutions, particularly a Client Relationship Management (CRM) system, that will enable us to understand better and react quicker to changes in consumer behaviour.
Employee recruitment and retention	Competition for highly qualified management and store personnel remains intense in Russia. To meet our expansion plans we need highly skilled employees. Our future success depends in part on our continued ability to hire, and retain new employees. We understand that any inability to attract and retain highly qualified employees and key personnel in the future could have a material adverse effect on our business.	To improve motivation we have developed a system of Performance Appraisal that is conducted on a regular basis and rewards employees based on their individual results. We also promote internal opportunities for career development via trainings and special programs. Additionally, to facilitate adaptation of new employees, we organise introductory courses and coaching in stores.
Supply chain risk	Our financial performance depends in part on reliable and effective supply chain management. We rely on third parties to supply us with merchandise and services. The third parties that supply us with merchandise and services also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Shortages and delays could materially harm our business. Unanticipated increases in prices could also adversely affect our performance. Furthermore, we may be exposed to risk of delays and interruptions to our supply chain as a consequence of natural disasters, in case we are unable to identify alternative sources of supply in a timely manner.	To minimise the impact of potential disruptions in deliveries, we form a short list of suppliers for every product in every city. This ensures that if one supplier is unable to fulfill an order, an alternative supplier can provide it. We also have systematised standards and requirements for warehouse operators, and conduct regular checks for compliance. This allows us to promptly change the warehouse operator in the case of service quality deterioration.
Development of IT platform	Execution of our strategic targets requires adaptation of current IT infrastructure to the changing business needs. As the business grows the complexity of processes supporting it and diversity of tasks around such growth are increasing. Delayed or inappropriate decisions on development of the infrastructure can lead to failures in meeting Company goals and impede attainment of longer-term goals.	We are putting plans in place to enhance our existing systems and are considering further development of our IT platform to ensure that we are well supported for the future growth.
Managing store opening process	The achievement of our expansion strategy depends upon our ability to locate and acquire locations for future stores, manage counterparties involved in the construction process and obtain all necessary permits. There are several factors which may affect our ability to open new stores: – Availability of locations that meet our investment criteria; – Ability of subcontractors to deliver results in a timely manner; – Risks associated with developers' ability to execute projects; – Regulatory system and permitting process run by local administrations; and – Local community action opposed to the location of specific stores at specific sites. These factors alone or in combination may negatively impact our store opening process and result in significant opening delays.	We aim to maintain a large portfolio of approved and secured projects for future development to cover more than two years of expansion. We also conduct regular performance reviews for our subcontractors to ensure sufficient control over construction process. Finally, we maintain active and constructive dialogue with local authorities in accordance with the law to resolve emerging issues.
IT security threats	We are observing an increase in IT security threats and higher levels of professionalism in computer crime. Our systems and solutions, as well as those of our counterparties remain potentially vulnerable to attacks. Depending on their nature and scope, such attacks could potentially lead to the leakage of confidential information, improper use of our systems, manipulation and destruction of data, sales downtimes and supply shortages, which in turn could adversely affect our reputation, competitiveness, and business, financial and operational performance.	We employ a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems such as firewalls and virus scanners in attempt to reduce the threats to our IT security.

Financial Risks

Name of Risk	Definition and Potential Impact	Mitigating Actions
Providing sufficient level of financing	Recent changes in the macroeconomic situation might result in a liquidity squeeze and tightening of lending policies by Russian banks. Given the intensive expansion program in the coming periods, issues with availability of external financing or significant changes in its cost can negatively impact our Company's ability to execute its expansion program.	We maintain available lines of credit to close potential liquidity gaps. We diversify and enlarge the list of partnering banks to increase our control over the availability and cost of financing. We have issued a bond prospectus that allows us to draw up to 25 billion Roubles in bonds, subject to market conditions. Our securities are listed on the London Stock Exchange that allows us to utilise secondary placement of shares as an alternative way of financing.
Tax regulations	Russian tax law has complex tax rules which may be interpreted in different ways and tax rules are subject to frequent changes. Examinations by tax authorities and changes in tax regulations could adversely affect our business, and financial and operational performance. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities.	Our tax and legal specialists review compliance with applicable tax regulations, current interpretations issued by the authorities and judicial precedents resulting from tax disputes. This work is conducted on a regular basis and in a consistent manner and ensures we are aware of any changes that we may need to enforce.
Changes in working capital	Inability to control and manage elements of the working capital can result in negative changes for the operating cash flow and lead to liquidity gaps and excessive reliance on external financing.	We exercise constant control over the working capital which is detailed in our monetary policy. The aim of this policy is to minimise prepayment balances and control of overdue receivables. We are also taking steps to improve stock management efficiency by establishing and monitoring KPIs and organising trainings for store employees.

Board of Directors

In 2013 O'KEY consolidated the progress previously made in creating a professional, visionary Board of Directors with the appointment of Tony Maher as Chairman of the Board of Directors.

Members of the Board of Directors of OKEY Group S.A. as at 31 December 2013

Dmitrii Troitckii
Director

Appointment: Dmitrii was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010, and re-elected on 28 October 2013, with effect from 28 October 2013.

Committee membership: Remuneration

Skills and experience: From 2005 until 2007, Dmitrii served as a member of the Board of Directors of the Ochakovo Dairy Plant. He also serves as a member of the Supervisory Board of Bank Saint-Petersburg, a position he has held since December 2005, and as Development Director of Neva-Rus, a position he has held since 2005. He graduated from Leningrad Shipbuilding Institute, currently known as the State Marine Technical University of Saint Petersburg, and holds a degree in engineering. Dmitrii indirectly owns 24.91% of the shares of O'KEY Group S.A.

Dmitry Korzhev
Director

Appointment: Dmitry was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010, and re-elected on 28 October 2013, with effect from 28 October 2013.

Committee membership: Audit

Skills and experience: From 2005 until April 2010, Dmitry served as a member of the Supervisory Board of Bank Saint-Petersburg. He graduated from Leningrad Shipbuilding Institute, currently known as the State Marine Technical University of Saint Petersburg, and holds a degree in engineering. Dmitry indirectly owns 24.91% of the shares of O'KEY Group S.A.

Boris Volchek
Director

Appointment: Boris was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010, and re-elected on 28 October 2013 with effect from 28 October 2013.

Committee membership: Remuneration, Audit

Skills and experience: Boris has also served as President of the Union Group of companies since 1995. In addition, since 2000 he has served as General Director of Saint Petersburg Automobile Museum. He graduated from the Leningrad Institute of Railway Engineers, currently known as the Saint Petersburg State University of Communications, and holds a degree in engineering. Boris indirectly owns 25,001% of the shares of O'KEY Group S.A.

Heigo Kera
Independent Director

Appointment: Heigo was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010, and re-elected on 28 October 2013, with effect from 28 October 2013.

Committee membership: Remuneration (Chair), Audit

Skills and experience: Heigo is the owner and, since 2008, a member of the Board of Directors of Silverko Consult OU, an Estonian consulting company specialising in providing consulting services in different countries. Since 2008 he has been working as a Retail Projects Manager with HT Project Management OU and is responsible for starting a gourmet supermarket in Ukraine. Prior to that, from 2002 until 2008, he provided private consulting services, including research on retail markets in Belarus, Kazakhstan and China. He was employed by O'KEY management to provide consultation on the development of a hypermarket format concept in Russia from 1998 until 2002. Heigo is a graduate of the Tallinn Technical University (Estonia) and holds a degree in economics.

Tony Maher
Director,
Chairman of the Board

Appointment: Tony was elected as independent Chairman of the Company's Board of Directors on 28 October 2013, his effective date of appointment being 28 October 2013. In addition to this role, on 21 February 2014 Tony succeeded Patrick Longuet as the Company's Chief Executive Officer and at this point he was no longer considered independent.

Skills and experience: Tony Maher has almost 30 years of experience in the international food and beverage sector. Mr. Maher was born in Ireland and over the course of his career has worked in a variety of senior roles in Western, Central and Eastern European markets within the Coca-Cola system. Tony was Chief Executive Officer of Wimm-Bill-Dann Foods OJSC from April 2006 to May 2011, where he oversaw the transformation of the company into a world class, multinational food and beverage player. In December 2010, Mr. Maher oversaw the sale of Wimm-Bill-Dann to PepsiCo in a transaction that valued the company at US$5.8 billion and which delivered a 33% premium to shareholders of the NYSE-listed company. Following the successful completion of the transaction, Mr. Maher stepped down as CEO of the company in May of 2011.

Senior Management

O'KEY firmly believes that the experience, expertise and enthusiasm of our management team drive our success. We have recruited within Russia and internationally to ensure we have the best people, who are able to bring a global perspective on the business combined with in-depth knowledge of the local environment and tastes. Their success is evidenced not just by our financial results, but by the look and feel of our stores and, most importantly, by levels of customer satisfaction.

Tony Maher
CEO and Chairman of the Board of Directors

Please refer to Board of Directors on page 28 for further details.
- More than 30 years of experience in the international food and beverage sector
- One of Europe's most experienced CEOs in FMCG industry, with a variety of senior roles in Western, Central and Eastern European markets within the Coca-Cola system
- Previous experience as CEO of Wimm-Bill-Dann Foods where he had completed the transformation of the company into a world class player at multinational food and beverage sector

Dmitry Pryanikov
CFO

- 12 years at O'KEY, been with the Company since it started its operations
- Now responsible for financial management, treasury, internal audit, reporting and accounting. After several years of serving as the CFO of O'KEY LLC, he was promoted to CFO of O'KEY Group LLC
- He held various positions in the Bank St. Petersburg and other privately-held companies between 1995 and 2001
- Mr. Pryanikov graduated from the St. Petersburg State Institute of Technology with a degree in economics and management

Vladislav Kurbatov
Operations Director of O'KEY Hypermarkets

- 12 years at O'KEY, been within the Company since it started its operations
- Now responsible for providing general management of hypermarkets' operations
- In charge of sales in O'KEY Group since 2004 - prior to that held positions as Sales Director of O'KEY Group, Administrative Director of O'KEY Group and Director of O'KEY's first hypermarket in St. Petersburg

Jerome Depeille
Expansion and Real estate Director

- 14 years of retail experience
- Responsible for searching and negotiating new store locations for acquisition or rental schemes, construction of new stores, maintenance of existing stores, general fixed asset management
- Companies previously worked for include Auchan Russia as Expansion Director, Spie Batignolles as Regional Development Director, Bouygues Construction in various roles

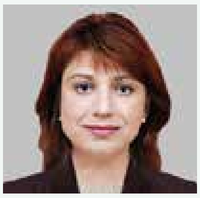
Sergey Shamov
Operations Director of O'KEY Supermarkets

- Five years at O'KEY
- Now responsible for providing general management of supermarkets' operations
- Operations Director of O'KEY Supermarkets since July 2013 – prior to that held the position of Division Director for SPb Hypermarkets
- Previously worked at Coca-Cola, Japan Tobacco International and SmithKlein Beecham

Senior Management (continued)

Vadim Korsunskiy
Commercial Director

- 11 years of retail experience
- Responsible for commercial strategy development, assortment policy, private label and category management
- Previously held various senior positions at TESCO and Metro Cash & Carry



Natalia Potamianos
Supply Chain Director

- Six years at O'KEY
- Ten year of retail experience with responsibilities for sales, audit, logistics, mergers & acquisitions
- Supply Chain Director since June 2012 and in charge of ensuring smart information and product flow to satisfy consumers' needs and business efficiency

Elmira Hadieva
HR Director

- Seven years at O'KEY Extensive experience of HR management in a multinational environment
- Responsible for developing O'KEY's HR strategy and creating an HR-system aimed at supporting the business overall and attracting and retaining talent in the retail industry
- Previously worked in HR for British American Tobacco for 14 years

Vladimir Lobastov
Chief Legal officer

- 19 years of legal experience
- Responsible for managing legal department, government relations, litigation and arbitration, real estate issues, tax planning and optimisation
- Held various senior positions at Law Office, GLAVSTROY LLC and Coca-Cola HBC Eurasia

Corporate Governance

O'KEY Group S.A.'s shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs). We recognise our obligation to our shareholders to adopt appropriate standards of governance and control both at Board level and within our management teams.

We have adopted the following governance structure:
- The Company aims to appoint individuals with relevant skills and experience to our Board of Directors who occupy key positions and participate fully in the most senior level of management in the Company (see page 28 for further information on the members of our Board of Directors).
- The Board is responsible for taking key decisions relating to Company strategy and strategic direction.
- The Board exercises oversight of the Company's internal control and risk management procedures.
- The Company has in place a system of Board committees, which ensures due consideration of key decisions by experienced individuals and provides an appropriate system of checks and balances, including in the areas of remuneration and incentives (further information on the committees, their functions and their membership can be found on pages 31 and 32.

Composition of the Board of Directors
The General Meeting of Shareholders appoints Board members by a simple majority of votes cast, for a period not exceeding six years or until their successors are elected. As at 31 December 2013, the Board of Directors consisted of five members, including two Independent Directors.

During the year, we made a number of changes to the composition of our Board to reflect the Company's development. In October we appointed Tony Maher, an experienced executive with almost 30 years of experience in the international food and beverage sector, to Chairman of the Board of Directors. Heigo Kera, our previous Chairman, became an Independent Director and Mykola Buinyckyi stood down from the Board of Directors in order to maintain the current level of Board membership.

After the year end on 29 January 2014, O'KEY announced its decision to appoint Tony Maher to succeed Patrick Longuet as Chief Executive Officer in addition to his role as Chairman of the Board of Directors and he took up this position on 21 February 2014. At this point he was no longer considered independent.

Role of the Board
Our Board of Directors is responsible for the Company's overall strategic development, ensuring that the strategy leaves O'KEY well positioned to take maximum advantage of a developing market and sector and ultimately for ensuring that O'KEY achieves long-term growth for its shareholders. The Board generally holds two meetings per year, during which the Board reviews the Company's financial reporting, the Company's strategic performance and proposed new initiatives and monitors the Company's internal control and risk management procedures. The Board held two scheduled Board meetings during 2013, with attendance of 80% at each meeting.

Board committees
There are two committees of the Board, the Audit committee and the Remuneration committee. The Board's committees conduct an initial review and discussion of the issues for which they are responsible, before making recommendations to the full Board.

Composition and the key responsibilities of the Board's committees are described below:

Audit Committee
Members

Mykola Buinyckyi	Chairman
Boris Volchek	Member, Director
Dmitriy Korzhev	Member, Director
Heigo Kera	Member, Independent Director
Ilya Ilin	Member, non-director Appointed April 2013
Sergey Eganov	Member, non-director Appointed April 2011

Corporate Governance (continued)

In October 2013 Mykola Buinyckyi stood down from the Board of Directors of O'KEY but he nonetheless remains Chair of the Audit Committee. Mr. Buinyckyi's qualifications and extensive experience in international financial management with major companies in Moscow, London, Paris, Brussels, Prague, Vilnius and Lagos is extremely valuable and we believe his membership of the Audit Committee will continue to benefit the Group.

The Audit Committee has responsibilities for overseeing the integrity of the Company's financial statements, including periodically reporting to the full Board of Directors on its activities and on the adequacy of internal control systems over financial reporting. The committee also makes recommendations regarding the appointment, compensation, retention and supervision of the external auditors, and monitors their independence. The committee performs such other duties as are imposed by applicable laws and regulations of the regulated market or markets on which the Company's shares or global depositary receipts may be listed, as well as any other duties entrusted to it by the Board of Directors. The ultimate responsibility for preparing the annual report and accounts and the half-yearly reports remains with the full Board of Directors.

Remuneration Committee
Members

Heigo Kera	Chairman, Independent Director
Boris Volchek	Member, Director
Dmitrii Troitckii	Member, Director
Alvidas Brusokas	Member, non-director Appointed April 2011
Ilya Ilin	Member, non-director Appointed August 2012

The responsibilities of the remuneration committee include reviewing compensation policy, making proposals to the full Board regarding the remuneration of Executive Directors and management, and advising on any benefit or incentive schemes. The remuneration and any bonuses paid to the Chief Executive Officer of O'KEY Group LLC are determined by the Board.

Board of Directors and Management Remuneration
In 2013, management of O'KEY Group were paid an aggregate amount of RUB 381 million remuneration and other compensation.

Members of the Board of Directors of OKEY Group S.A. and the Audit Committee of OKEY Group SA were paid a net fee of US$242,868. No more than US$300,000 is to be paid per year in compensation to the entire Board.

Dividend
In 2013, O'KEY Group paid a total of US$51 million in dividends.

Legal & Ownership Structure

Legal and Ownership Structure

20.959%
BoNY (Nominees)

25.001%
GSU Ltd

54.04%
NISEMAX Co Ltd

O'KEY Group S.A. (Luxembourg)

O'Key Group LLC
– Retail operations
– Employer of all store personnel

O'Key Group LLC
– Employer for senior management
– Management company for Dorinda JSC and O'KEY Group LLC

Dorinda JSC
– Owner of real estate and long-term lease rights

Mir Torgovil CJSC
– Holder of short-term lease rights

O'Key Logistics LLC
– Import operations
– Supplier of non-food products, non-branded and private label goods

Fresh Market LLC
– employer for personnel and owner of assets for a project of a new retail chain under "Da!" trademark

Management & Directors Responsibility Statement

We confirm, to the best of our knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of O'KEY Group S.A. and the undertakings included in the consolidation taken as a whole, and that the consolidated Directors' report includes a fair review of the development and performance of the business and the position of O'KEY Group S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Luxembourg, April 2014

Member of the Board of Directors

Chairman/CEO
Tony Maher

Member of the Board of Directors

Financial Director
Dmitry Pryanikov

Consolidated Financial Statements
for the year ended 31 December 2013

(with the report of the Réviseur d'Entreprises Agréé thereon)

Contents
Contents

Report of the Réviseur d'Entreprises Agréé

Report on the consolidated financial statements

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

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

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

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

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

Opinion

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

Report on other legal and regulatory requirements

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

Luxembourg, March 24, 2014

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé
Jean-Manuel Séris

Consolidated Statement of Financial Position

as at 31 December 2013

'000 RUB	Note	2013	2012
ASSETS			
Non-current assets			
Investment property	17	540,000	632,000
Property, plant and equipment	15	30,706,631	25,692,464
Construction in progress	15	5,072,198	1,720,181
Intangible assets	16	550,049	566,595
Deferred tax assets	19	483,156	375,126
Other non-current assets	18	8,101,698	7,905,066
Total non-current assets		**45,453,732**	**36,891,432**
Current assets			
Inventories	20	10,257,942	9,212,315
Trade and other receivables	21	3,502,011	1,917,634
Prepayments		822,558	856,948
Cash and cash equivalents	22	3,006,730	4,535,693
Total current assets		**17,589,241**	**16,522,590**
Total assets		**63,042,973**	**53,414,022**
EQUITY AND LIABILITIES			
Equity	23	**21,399,385**	**18,090,056**
Non-current liabilities			
Loans and borrowings	25	14,441,833	9,863,769
Deferred tax liabilities	19	587,974	667,719
Other non-current liabilities		112,256	1,056,447
Total non-current liabilities		**15,142,063**	**11,587,935**
Current liabilities			
Loans and borrowings	25	2,312,618	3,826,135
Trade and other payables	26	23,714,502	19,613,734
Current income tax payable		474,405	296,162
Total current liabilities		**26,501,525**	**23,736,031**
Total liabilities		**41,643,588**	**35,323,966**
Total equity and liabilities		**63,042,973**	**53,414,022**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 42 to 69.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2013

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

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 42 to 69.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 42 to 69.

Consolidated Statement of Changes in Equity continued

for the year ended 31 December 2013

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 42 to 69.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

'000 RUB	Note	2013	2012
Cash flows from operating activities			
Profit before income tax		6,851,663	6,468,120
Adjustments for:			
Depreciation and amortisation	15,16,18	2,513,189	2,149,949
Loss on disposal of non-current assets	10	7,742	40,267
Loss/(Gain) from revaluation of investment property	17	92,541	(50,350)
Impairment of non-current assets	10	164,748	–
Finance income	12	(46,015)	(11,428)
Finance costs	12	1,139,827	1,035,206
Foreign exchange gain	13	(69,282)	(165,683)
Cash from operating activities before changes in working capital and provisions		**10,654,413**	**9,466,081**
Change in net trade and other receivables		(1,377,637)	(759,441)
Change in inventories		(1,045,627)	(1,294,658)
Change in trade and other payables		2,811,316	4,416,811
Cash flows from operations before income taxes and interest paid		**11,042,465**	**11,828,793**
Interest paid		(1,196,183)	(1,231,380)
Income tax paid		(1,937,735)	(1,659,749)
Net cash from operating activities		**7,908,547**	**8,937,664**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(10,415,773)	(8,350,612)
Purchase of intangible assets		(177,347)	(168,478)
Proceeds from sales of property, plant and equipment and investment property		13,035	16,640
Interest received		46,015	11,428
Net cash used in investing activities		**(10,534,070)**	**(8,491,022)**
Cash flows from financing activities			
Proceeds from borrowings		12,980,000	7,500,000
Repayment of borrowings		(10,358,444)	(5,530,804)
Dividends paid		(1,538,036)	(833,514)
Net cash from financing activities		**1,083,520**	**1,135,682**
Net (decrease)/increase in cash and cash equivalents		**(1,542,003)**	**1,582,324**
Cash and cash equivalents at beginning of year		4,535,693	2,941,947
Effect of exchange rate fluctuations on cash and cash equivalents		13,040	11,422
Cash and cash equivalents at end of year	22	**3,006,730**	**4,535,693**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 42 to 69.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

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

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

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

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

Related party transactions are detailed in note 31.

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

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

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

2 Basis of accounting
(a) Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and were authorised for issue by the Board of Directors on 24 March 2014.

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

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

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

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

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

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

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

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

4 Use of estimates and judgments continued

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

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

5 Determination of fair values

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

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

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

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

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

Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investment property

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

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

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

(b) Non-derivative financial assets

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

(c) Derivatives

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

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

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

6 Operating segments

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

6 Operating segments continued

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 analyse 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 centralised; and
- 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 amortisation (EBITDA) adjusted for one-off items. EBITDA is non-GAAP measure. Other information provided to the CEO is measured in a manner consistent with that in the consolidated financial statements.

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

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

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

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

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

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

7 Subsidiaries

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

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

8 Revenue

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

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

9 General, selling and administrative expenses

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

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

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

10 Other operating income and expenses

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

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

11 Personnel costs

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

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

12 Finance income and finance costs

'000 RUB	2013	2012
Recognised in profit or loss		
Interest income on loans and receivables	42,941	10,784
Other finance income	3,074	644
Finance income	**46,015**	**11,428**
Interest costs on loans and borrowings	(849,955)	(1,014,184)
Reclassification from hedging reserve	(289,872)	(21,022)
Finance costs	**(1,139,827)**	**(1,035,206)**
Net finance costs recognised in profit or loss	**(1,093,812)**	**(1,023,778)**

The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:

Total interest income on financial assets	**46,015**	**11,428**
Total interest expense on financial liabilities	**(1,139,827)**	**(1,035,206)**

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

12 Finance income and finance costs continued

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

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

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

13 Foreign exchange gain

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

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

14 Income tax expense

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

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

Income tax recognised directly in other comprehensive income

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

Reconciliation of effective tax rate:

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

15 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2012	2,864,870	14,193,167	2,526,726	7,122,120	3,136,848	29,843,731
Additions	365,412	2,191,281	826,464	1,369,292	1,085,745	5,838,194
Transfers	–	2,061,994	42,260	353,063	(2,457,317)	–
Transfers to investment property	–	–	–	–	(6,616)	(6,616)
Disposals	–	–	(2,698)	(79,851)	(38,479)	(121,028)
Balance at 31 December 2012	**3,230,282**	**18,446,442**	**3,392,752**	**8,764,624**	**1,720,181**	**35,554,281**
Balance at 1 January 2013	**3,230,282**	**18,446,442**	**3,392,752**	**8,764,624**	**1,720,181**	**35,554,281**
Additions	717,863	3,763,624	576,102	1,433,046	4,172,879	10,663,514
Transfers	–	227,100	366,492	192,180	(785,772)	–
Disposals	–	–	(569)	(543,738)	(12,766)	(557,073)
Balance at 31 December 2013	**3,948,145**	**22,437,166**	**4,334,777**	**9,846,112**	**5,094,522**	**45,660,722**
Depreciation and impairment losses						
Balance at 1 January 2012	–	(1,752,894)	(319,155)	(4,199,727)	–	(6,271,776)
Depreciation for the year	–	(512,673)	(294,997)	(1,131,568)	–	(1,939,238)
Transfers	–	(5,131)	(6,599)	11,730	–	–
Disposals	–	–	101	69,277	–	69,378
Balance at 31 December 2012	**–**	**(2,270,698)**	**(620,650)**	**(5,250,288)**	**–**	**(8,141,636)**
Balance at 1 January 2013	**–**	**(2,270,698)**	**(620,650)**	**(5,250,288)**	**–**	**(8,141,636)**
Depreciation for the year	–	(618,290)	(382,720)	(1,246,004)	–	(2,247,014)
Impairment losses	–	–	(7,358)	–	(22,324)	(29,682)
Disposals	–	–	520	535,919	–	536,439
Balance at 31 December 2013	**–**	**(2,888,988)**	**(1,010,208)**	**(5,960,373)**	**(22,324)**	**(9,881,893)**
Carrying amounts						
At 1 January 2012	**2,864,870**	**12,440,273**	**2,207,571**	**2,922,393**	**3,136,848**	**23,571,955**
At 31 December 2012	**3,230,282**	**16,175,744**	**2,772,102**	**3,514,336**	**1,720,181**	**27,412,645**
At 31 December 2013	**3,948,145**	**19,548,178**	**3,324,569**	**3,885,739**	**5,072,198**	**35,778,829**

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

15 Property, plant and equipment continued

Security

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

16 Intangible assets

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

Amortisation and impairment losses

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

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

17 Investment property

(a) Reconciliation of carrying amount

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

(b) Measurement of fair value

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

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

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

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

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

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

18 Other non-current assets

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

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

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

18 Other non-current assets continued

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

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

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

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

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

19 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

(b) Unrecognised deferred tax liability

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

19 Deferred tax assets and liabilities continued

(c) Movement in temporary differences during the year

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

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

20 Inventories

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

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

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

21 Trade and other receivables

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

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

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

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

22 Cash and cash equivalents

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

Term deposits had original maturities of less than three months.

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

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

23 Equity

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

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

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

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

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

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

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

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

24 Earnings per share

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

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

25 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 27.

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

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

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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

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

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

25 Loans and borrowings continued

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

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

26 Trade and other payables

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

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

27 Financial instruments and risk management

(a) Overview
The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- 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:

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

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

27 Financial instruments and risk management continued

(ii) Trade and other receivables

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Impairment losses

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

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

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

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

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

(iii) Cash and cash equivalents

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

27 Financial instruments and risk management continued

(i) Exposure to liquidity risk

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

2013

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

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

2012

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

There are no payments due after five years.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

(i) Currency risk

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

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

27 Financial instruments and risk management continued

Exposure to currency risk

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

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

The following significant exchange rates applied during the year:

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

Sensitivity analysis

A 10% strengthening of the RUB against USD at 31 December 2013 would have increased equity by RUB 156,746 thousand (2012: RUB 592,405 thousand) and profit or loss by RUB 156,746 thousand (2012: RUB 196,915 thousand). This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

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

(ii) Interest rate risk

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

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

Profile

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

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

27 Financial instruments and risk management continued

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

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

(e) Offsetting of financial assets and financial liabilities

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

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

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

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

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

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

(f) Fair values

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

(g) Fair value hierarchy

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

27 Financial instruments and risk management continued

(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 and 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 capitalised 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 two to three 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 ten years, although some leases may be for longer period. Property leases can be renewed based on mutual agreement of the lessor and the Group. The Group has subleases. Fees payable by the Group for operating leases of stores comprise fixed payments and contingent rent which is determined as excess of 3%-5% of the revenue of related stores over fixed rent rate.

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

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

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

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

Leases as lessor

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

Contingent rent recognised as income amounted to RUB 38,503 thousand for the year ended 31 December 2013 (2012: RUB 28,582 thousand). Contingent rent is determined as excess of 3.5%-25% of the tenant's revenue over fixed rent rate.

29 Capital commitments

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

30 Contingencies

(a) Legal proceedings

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

(b) Taxation contingencies

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

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

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

30 Contingencies continued

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

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

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

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

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

(c) Assets pledged or restricted

The Group has the following assets pledged as collateral:

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

31 Related party transactions

(a) Major shareholders

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

(b) Transactions with management

(i) Management remuneration

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

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

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

31 Related party transactions continued

(c) Transactions with other related parties

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

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

(i) Revenue

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

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

(ii) Expenses

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

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

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

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

(iii) Loans

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

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

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

32 Events subsequent to the reporting date

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

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

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

33 Basis of measurement

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

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

34 Changes in accounting policies

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

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

a. Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
b. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
c. IFRS 13 Fair Value Measurement

The nature and effects of the changes are explained below.

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

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

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

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

35 Significant accounting policies

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

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

(ii) Transactions eliminated on consolidation
Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup 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.

35 Significant accounting policies continued

(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%. 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.

35 Significant accounting policies continued

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; and
– Other fixed assets	2-10 years.

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

35 Significant accounting policies continued

(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; and
– 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.

35 Significant accounting policies continued

(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.

35 Significant accounting policies continued

(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 till.

(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 recognised 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.

35 Significant accounting policies continued

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

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

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

(q) Earnings per share

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

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Value added tax

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

(t) New Standards and Interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early as it is not yet endorsed by the European Union.
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The Group has not yet analysed the likely impact of the amendments on its financial position and performance.
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The amendments are likely to increase the Group's trade and other receivables from and trade and other payables to certain counterparties because it is unlikely that the Group will meet the criteria for offsetting. In particular, the current bankruptcy legislation in Russia does not allow offsetting if this has impact on the succession of settlements determined by the law. However, the impact has not yet been quantified.

Notes

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