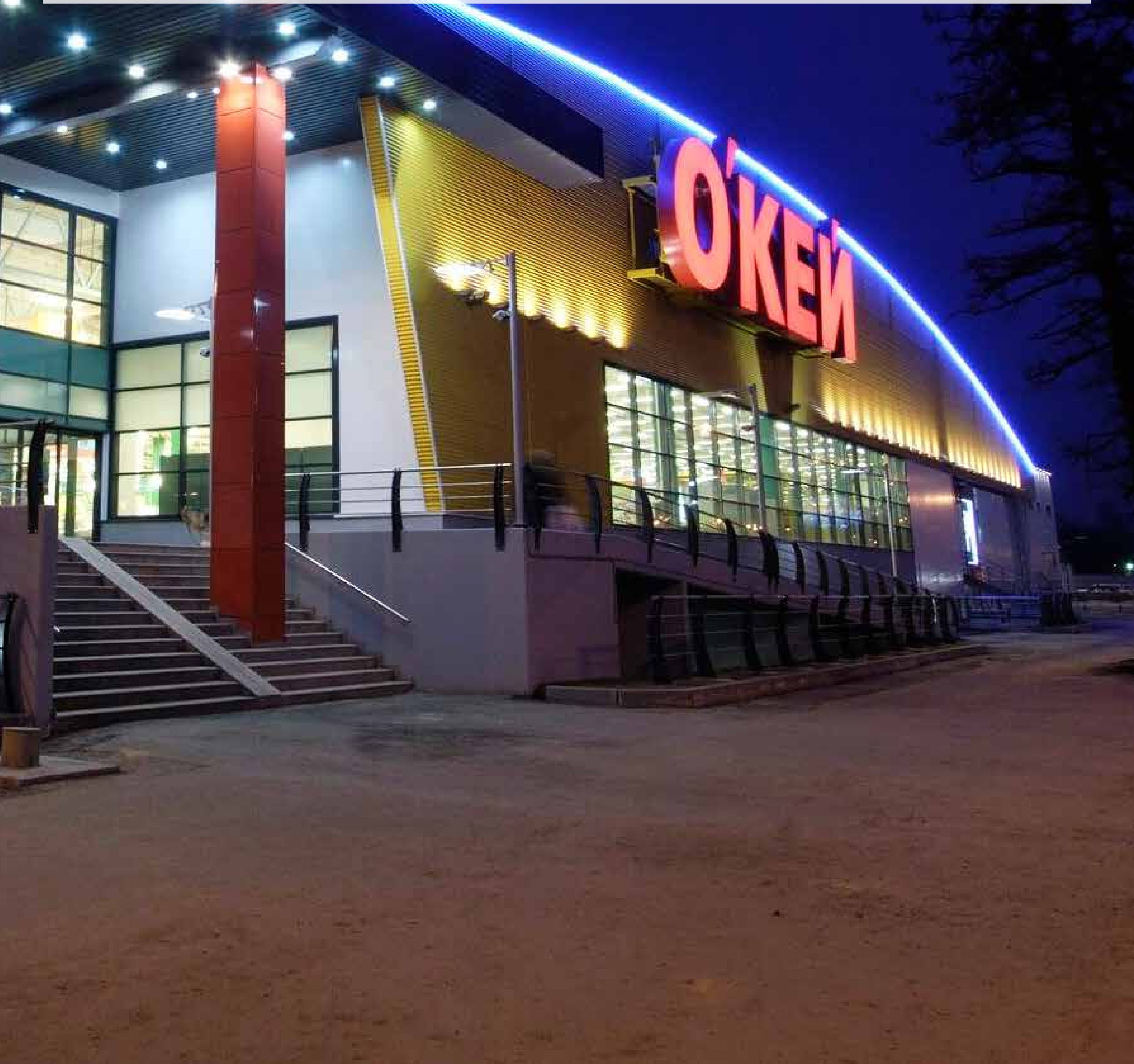
O'KEY Group S.A. Annual Report 2014

O'KEY group

Building Russia's Leading Quality Family Retailer



“At O’KEY we are committed to delivering maximum value and quality for all our stakeholders while growing sustainably as one of the leaders of the long-term development of the Russian retail sector. We believe that being a quality-driven company is not just about selling quality goods, but providing an outstanding shopping experience, while never losing focus on our Customer Value Proposition of providing Quality for the Whole Family.”

Operational Highlights

552k

552,000m² of selling space vs. 489,000m² in 2013

108

total stores, up from 94 in 2013

28

presence in 28 cities across Russia

20.9%

increase in number of loyalty card holders

970 RUB

average basket value in our hypermarkets

+4.2%

growth in like-for-like average ticket

9%

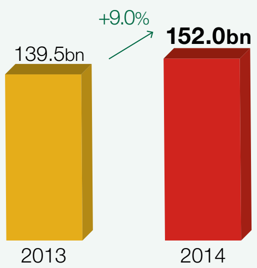
growth of retail revenue

-4.2%

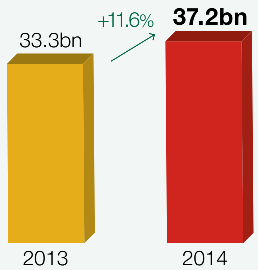
fall in like-for-like average traffic

Financial Highlights

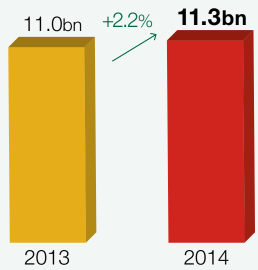
Revenue (RUB)



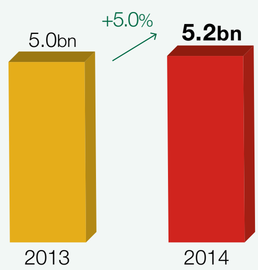
Gross profit (RUB)



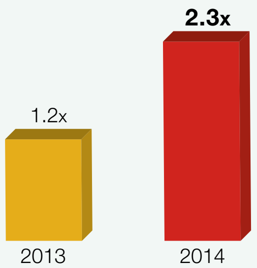
EBITDA (RUB)



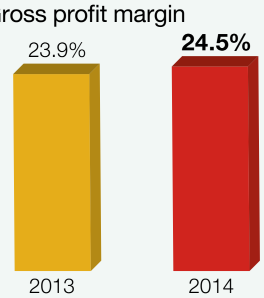
Net profit (RUB)



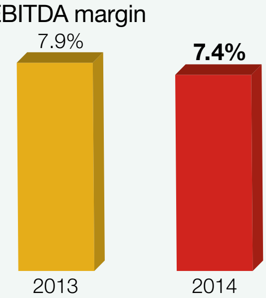
Net debt to EBITDA



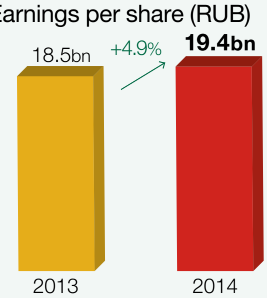
Gross profit margin



EBITDA margin



Earnings per share (RUB)



Delivering Quality for the Whole Family

Outstanding Shopping Experience

for more information see pages

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Compelling Product Range

for more information see pages

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Competitive Pricing

for more information see pages

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O'KEY Group at a Glance

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

- Headquartered in Moscow
- Global depositary receipts (GDRs) listed on the London Stock Exchange
- 108 stores in 28 Russian cities, employing 26,000 people as at 31 December 2014

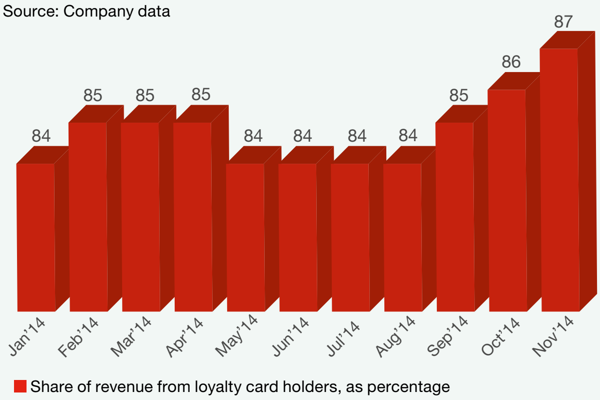
What we do:

Our Customer Value Proposition is to deliver Quality for the Whole Family and the customer is at the centre of everything we do.

- Provide a convenient shopping experience for the entire family
- Offer a good selection of quality products
- Well trained personnel, amicable and ready to help
- Multiple services facilitating purchase
- Purchase experience is easy and intuitive

High level of customer loyalty

Source: Company data



Our History:

2001-2002
- Founding of O'KEY Group
- First O'KEY hypermarket opened in St Petersburg

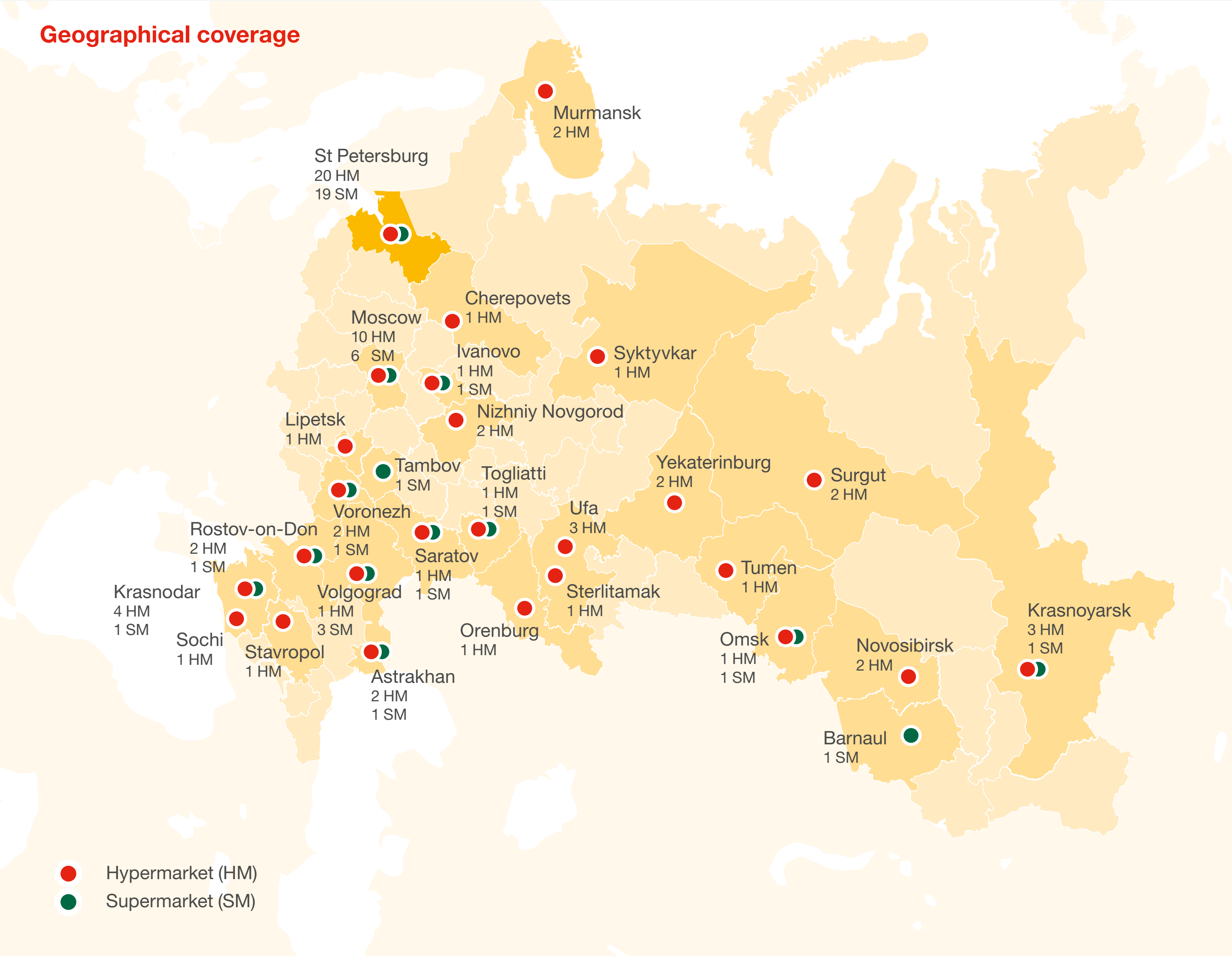
2003-2006
- Strategy of establishing regional market leadership
- Further 8 hypermarkets and 2 supermarkets opened in St Petersburg
- Total selling space increased from 6,000m² to 87,000m²

2007-2008
- Focus on expansion in Russia's regions
- Stores opened in 6 new regions
- Total stores reaches 37, selling space doubled to >190,000m²
- O'KEY enters into ranks of Russia's top-10 retailers by revenue

2009-2013
- Emergence as a leading national Russian retailer
- O'KEY breaks into top-5 food retailers by revenue
- Expansion in Moscow market
- IPO on the London Stock Exchange
- Total stores reaches 94, selling space reaches 489,000m²

2014
- Re-focus on quality and Customer Value Proposition
- Appointment of a new team of seasoned professionals
- Growth sustained in face of strong macro-economic headwinds
- Total stores reaches 108, selling space reaches 552,000m²

Geographical Coverage



Our Stores

69
hypermarkets

39
supermarkets

35,000
average SKUs per hypermarket

12,000
average SKUs per supermarket

17.4%
CAGR retail revenue in RUB terms (2009-14)

Strategic Report

Strategic Report

Letter from Chairman of the Board of Directors and Chief Executive Officer

"I feel proud to be at the helm of the founder of the modern day trade format in Russia."

Dear Customers, Investors, Colleagues and Partners,

The year 2014 was an eventful and challenging year for O'KEY and the Russian retail sector as a whole.

I was appointed Chairman of the Board of Directors at the end of 2013, but it soon became obvious that the company needed my day-to-day involvement and executive management. I was appointed as Chief Executive Officer at the end of January 2014 with a clear mandate to deliver change.

I feel proud to be at the helm of the founder of the modern day trade format in Russia. When O'Key opened its first European-style hypermarket in St Petersburg in 2002, it heralded the beginning of a major change in Russia's food retail landscape. What O'Key offered was unique, not only in the quality and the range of products, but also in shop layouts, superior service and immaculate presentation.

At the same time, having become the Chief Executive Officer of a large country-wide group, I felt the company needed substantial structural reforms, a faster decision making process and more thorough execution.

Our main areas of focus in 2014 have been expanding our footprint, providing the correct product offering at the right price points, enhancing our supply chain and optimising information systems and business processes. To deliver on the above I brought in four new directors with responsibility for development, commercial policy, supply chain and information technology.

In 2014, we delivered on our store-opening plans with nine hypermarkets and five supermarkets. Our total store number stood at 108 at the end of the year, giving us a 13% trading space increase to more than 500,000 m^2.

We expanded our footprint with particular emphasis on increasing our presence in Moscow and the Moscow region. The Group remains committed to expansion, albeit at a level that is sustainable and not requiring us to engage in substantial new borrowings in the current challenging market conditions.

Tony Maher
Chairman of the Board of Directors
and Chief Executive Officer

Strategic Report (continued)

We have also been exploring additional format options and we are now happy to say that our new discounter format Da! is ready for launch in 2015. Da! is a unique proposition for the Russian market, where the discounter format has all too often come to mean a lower quality shopping experience.

Our vision is very different. Da! stands for excellent quality at a lower price in a very pleasant atmosphere. Efficiency, innovative marketing solutions and product management are the core features of the format. With 1,400 SKUs per shop and an extensive array of carefully developed private-label products, Da! aims to focus on efficient and effective in-store operations. The stores, which will open in the first few years in Moscow and the Moscow region, will get their deliveries from our state-of-the-art distribution centre, which was completed in 2014.

It is no secret that 2014 has been one of the toughest years for the Russian economy. We came under pressure from some internal challenges and external circumstances, including strong competition. In the second half of the year, we began to see changing customer behaviour driven by worsening macroeconomic conditions, compounded by the special economic measures introduced by the Russian government in August 2014. Customers have become more price sensitive and consequently have reduced non-discretionary spending and started to buy fewer items per visit. Our unique customer proposition has always been based on a wider than average assortment, a substantial part of which consisted of products from the European Union. O'KEY was hit particularly hard by the sanctions on food imports, which immediately resulted in a decline in traffic and average ticket in the third and fourth quarters of 2014.

During the year we carried out a strategic review which carefully examined our customer value proposition (CVP). Following extensive research we have defined our mission as "Quality for the Whole Family" while at the same time ensuring competitive prices. We are also putting additional emphasis on original offerings that set us apart and bring customers into our stores time and time again, such as our in-house produced delicatessen assortment, fresh bakery products, a large assortment of fresh fish and meat, in-store café and in-store children's play area.

Implementing our CVP across the board is a central project, which has grown out of 2014 and will continue into 2015 and beyond. It requires excellence and outstanding execution by our entire team across the value chain, from our work with suppliers and supply-chain management, to information technology, category management and in-store delivery every moment of every day.

Despite a challenging economic environment the Group delivered a solid financial performance in 2014. Revenue increased 9.0% year-on-year to RUB 151,983 million. Retail like-for-like revenue was virtually flat, declining 0.2% while like-for-like traffic fell 4.2% and items per visit declined 3.4%.

"Despite a challenging economic environment the Group delivered a solid financial performance in 2014."

Nevertheless, we were able to preserve profitability. We delivered a 2.2% increase in EBITDA. Our operating margin grew 8.8% for the year and net profit increased by a solid 5% to reach RUB 5,226 million. We maintained a sustainable debt level, which was an accomplishment given the slide in the ruble against the US dollar and the euro. Our gearing, as measured by the net debt to EBITDA ratio, stood at 2.3x at the end of 2014.

As the marketplace evolves, our 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 discounter division, ready to be launched in 2015, present a valuable opportunity to review our existing practices, pay particular attention to internal efficiency and management effectiveness. We understand that all of the above are critical to our future success and we are committed to making these the key features of our continuing growth.

We also understand that none of the above would be possible without our people. I truly believe that we have an inspired and dedicated team of employees, some of the best in their field. I would like to thank them all for taking care of our customers, for putting smiles on their faces and for making them feel welcome in our stores. I also want to acknowledge the increased level of engagement we enjoy with our leading suppliers who are working closer than ever with us to bring our quality assortment and better value to our loyal customers.

Yours truly,

Tony Maher
Chairman of the Board of Directors
and Chief Executive Officer

Our Strategy

Our strategy is designed to deliver on our unique Customer Value Proposition of Quality for the Whole Family at our existing hypermarkets and supermarkets and our new discounter format, ready for launch, while expanding sustainably in Russia's attractive regional markets.

Expand our footprint

- Further penetrate the Russian market, focusing on regions undersupplied by hypermarkets
- Grow sustainably beyond our 28 locations without requiring additional borrowing
- Ensure that all new locations and store plans fit our CVP of Quality for the Whole Family

Provide a broad product offering

- Develop category management to ensure a truly "one-stop-shop experience"
- Cooperate with local suppliers to meet customer expectations and universal high standards 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
- 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 expansion and execution
- Implement innovative retailing solutions to ensure a convenient experience for the entire family
- Introduce best practices into existing business processes across the supply chain

Our Business Model

Since opening our first store in 2002, O'KEY has developed a differentiated business model built on developing customer loyalty through delivering a superior customer experience. Today we are committed to delivering on our CVP of Quality for the Whole Family through superior execution in every aspect of our business.

In store experience

We have built a loyal customer base and seek to retain and expand it by delivering top quality and value-for-money for our customers.

Assortment

We have been successful in St Petersburg, one of Russia's most competitive food retail markets and have continued to expand into attractive regional markets using our modern, European hypermarket, our core format, and supermarkets, a satellite format, providing a better fit for residential areas. We are also in the process of launching our discounter project, the business model of which will be unique for the Russian market. This format will give us a significant footprint in Moscow and the Moscow region.

Value for money

O'KEY delivers on key qualities for our customers:

- Takes care of quality and freshness
- Caters to the entire family
- Takes care of you and your loved ones
- Cares about you
- Provides new, bright ideas and inspires you

Supply chain

By delivering superior results in key areas:

- Location and store size
- Store plan and merchandising
- Assortment policy
- Pricing policy
- In-store services
- Branding and marketing

Customer satisfaction & loyalty

- Our bottom line: we are committed to delivering on our CVP of Quality for the Whole Family by making the customer the focus of everything we do and delivering an outstanding shopping experience.

Key Performance Indicators

Strategic KPIs

	2014	Definition
Outstanding Shopping Experience		
Number of loyalty card holders (million)	7.9mn	Number of individual customers who hold an O'KEY loyalty card and shop regularly in our stores. We track this number as loyal customers who shop with us more frequently and spend more per visit.
Number of annual purchases (million)	193.5mn	Total number of annual purchases made in our stores per annum, reflects our ability to attract new customers.
Compelling Product Range		
Share of fresh products in sales in hypermarkets	46%	Proportion of products in a typical basket that are fresh or prepared on-site. This sought-after category drives customer traffic in our stores.
Number of SKUs consistently sold in our hypermarkets	35,000 units	Number of SKUs regularly available in stores. A wide choice of products is one of O'KEY's key differentiators.
Competitive Pricing		
Share of revenue from loyalty cards	85%	Share of revenue made up by purchases made using O'KEY loyalty cards. Metric shows how efficiently we address the needs of existing customers.
Size of average purchase in hypermarkets (in RUB)	970	Size of an average purchase in our hypermarkets. Evaluates the impact of inflation and other drivers on the spending of our customers.
Average number of items per basket	12	Number of items in an average basket of our shoppers. Metric indicates changes in consumption due to either external or internal factors.


О'КЕЙ
гипермаркет

Our Marketplace

"Russia is the largest consumer market in Europe and its retail sector has grown at double-digit rates in recent years."

Overview

With 143.5 million people, Russia is the largest consumer market in Europe and its retail sector has grown at double-digit rates in recent years. Russia's grocery market is the fifth largest in the world. Both food and non-food retail have grown rapidly as modern format chain retailers have driven consolidation in Russia's regional markets, a process expected to continue to at least 2020.

Between 2007 and 2013, Russia's retail segment grew by a CAGR of 13%, reaching a value of RUB 21.4 trillion.[1] A rapid slowdown in overall economic growth in 2014 put the brakes on retail growth and 2015 is expected to be the toughest year for retailers since the global financial crisis in 2008, due to a host of external market factors, including higher inflation and continued sanctions on food imports from the European Union.

Despite these short to medium-term pressures, Russia's retail market is forecast to regain growth momentum by 2016, with CAGR predicted to reach double digits by 2020. The market is continuing to undergo a transformation from traditional formats and markets to modern, European-style shopping formats, and this "retail revolution" continues to penetrate Russia's regional marketplaces.

In keeping with this trend, modern retail formats are expected to account for 74% of total selling space by 2020, approaching levels in many European Union countries, with the share of the top-5 largest players rising from around 20% to as high as 70%.[2] Both supermarket and hypermarket segments are predicted to grow by double-digit CAGR through 2020.

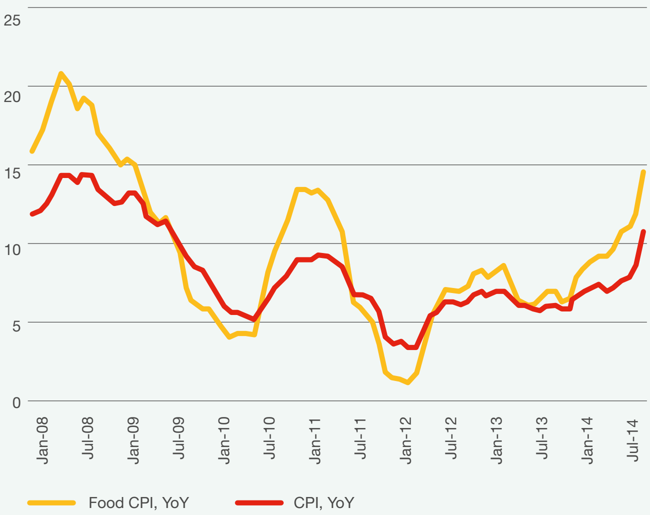
The key difference between the hypermarket and supermarket segment will continue to be a higher degree of consolidation in the former segment and greater fragmentation in the supermarket segment, although consolidation is expected to increase through 2020 and beyond.

Russia unemployment rate, %

Source: Rosstat

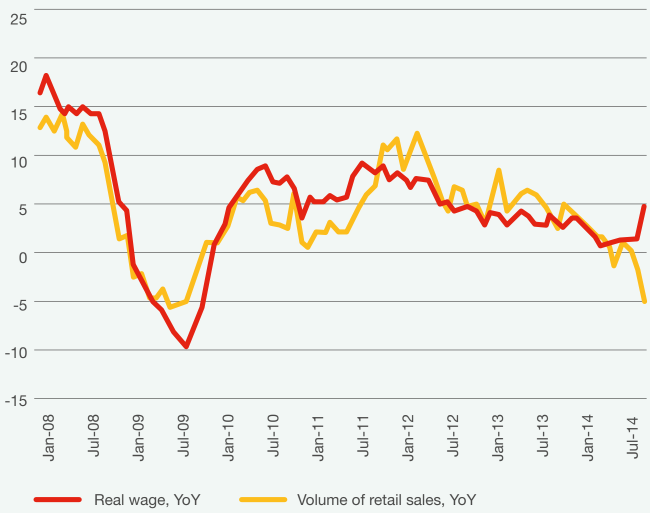
Consumer Price Index - Food vs Non-Food ('08-'14)

Source: Rosstat



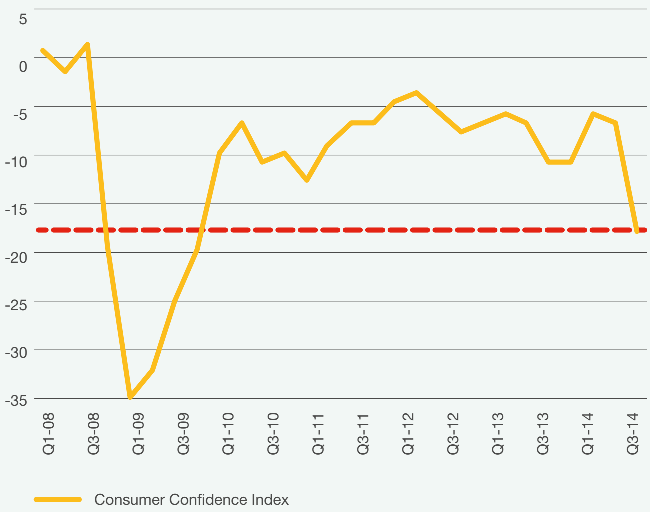
Real Wage & Retail Wage Growth ('08-'14)

Source: Rosstat



Russian Consumer Confidence ('08-'14)

Source: Rosstat



Growth Drivers

The chief growth driver for Russia's retailers has been strong consumer spending. Since 2000, low unemployment, strong wage growth and moderate inflation have been key drivers for this market, aided by rising rates of car ownership and consumer preference for modern retail formats compared to traditional shops and open markets. For many years, strong growth lifted all players, while today we are seeing the beginning of process of market saturation. As competition for consumers and markets grows, retailers will require clear brand differentiation to maintain market share, long-term growth and profitability.

During the challenging economic times seen in 2014, research shows that Russian consumers have not sacrificed quality for price. Rather, we see that consumers seek competitive pricing, tasty super-fresh and fresh products, competitive private-label options and a quick and convenient shopping and checkout experience, all accompanied by high levels of service.

We believe our long-term success is built on maintaining and growing traffic and average ticket on the basis of long-term drivers in the Russian marketplace. As we describe elsewhere in this report, we have reshaped our Customer Value Proposition around Quality for the Whole Family, and we believe our long-term growth will be built on adapting our existing and new stores and service offering around this vision.

In the short to medium term, we expect to see higher unemployment and inflation rates until the Russian economy passes through current headwinds. But in line with most analysts, we expect the Russian consumer sector and retail market to regain momentum, albeit in an environment of consolidation. We believe our combination of quality and price will make us one of the leaders in a maturing market that will continue to lead Europe.

1 Source: Data from Rosstat, Euromonitor and Candean; analysis by BCG.
2 Source: BCG analysis.

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.

Delivering an outstanding shopping experience clearly differentiated from other retailers is critical to delivering on our Customer Value Proposition of Quality for the Whole Family. An outstanding experience means consistent execution for our customers from the moment they approach our stores through checkout and getting their shopping home. In our nearly 14 years in business we have drawn upon international best practices and unmatched local knowledge to deliver the right experience for our customers in our more than 100 locations.

One of O'KEY's competitive advantages is to provide customers with an outstanding shopping experience offering modern stores in convenient locations for busy families. Our stores are well designed and intuitive and have the right mix of food and non-food products, including a top selection of fresh delicatessen and bakery products under one roof.

In choosing the location, we look for places that are reachable by multiple modes of transport and have, where possible, dedicated onsite parking. Our supermarkets are situated in densely populated residential areas, within a walkable distance for local residents. We have a Group-level director who leads the process of buying or leasing property and facilities and overseeing construction and outfitting of every new store.

Our store layout is another area where O'KEY stands out from the competition. Our stores are designed to be bright, airy and well signed with low shelves to make sure all products are within easy reach. Unlike many of our competitors, we do not operate "warehouse" style hypermarkets and do not use forklifts in customer areas. We restock individual SKUs from inventories kept out of sight in our stock rooms.

In addition, we work with carefully selected partners to offer additional services in shop for our customers. These include pharmacies, dry cleaners, banking services, toy stores and food courts.

Most importantly, we invest considerable time and resources in training and monitoring our customer service delivery. After all, our service offering is integral to our CVP and a clear differentiator between O'KEY and other retailers. We have Quality Managers out in the field to make sure we deliver the highest level of customer service in every store, every day.

Every employee receives training and our hypermarkets maintain a customer service and information desk with dedicated employees to provide prompt and attentive service to our customers. Finally, we aim to provide both a friendly and expedited checkout experience so our customers can finish their shopping and get on with their busy days. In 2015, we plan to rollout e-commerce solutions to provide our customers with additional convenient ways to shop, pick up and pay for their goods.

7.9 million

Unique loyalty card holders

193.5 million

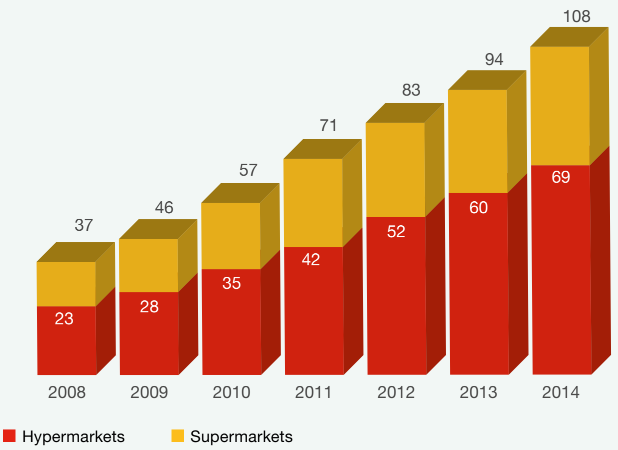
Customer transactions

2.7

Brand equity in St. Petersburg

*Nielsen 2014, St. Petersburg Brand Leadership 2005-14

Number of stores by format 2008-2014



Compelling Product Range

Our loyal customers keep returning to O'KEY for the quality of our products, as well as our prices.

Another clear differentiator for O'KEY is its compelling product range, including outstanding super fresh and fresh offerings that ensure our loyal customers keep returning to O'KEY for the quality of our products, as well as our prices.

We have developed our product assortment over the years to meet the standards of quality demanded by our customers. In 2014, we faced a major challenge when sanctions on food products imported from the European Union had a major impact on our ability to source many popular products, affecting traffic and average ticket. However, we rose to the challenge and by the end of the year had replaced most of these products.

Our stores stock a minimum of 35,000 SKUs year round and our product selection represents a well-balanced portfolio to meet customer expectations and needs as well as fit into different household budgets. We offer a balanced selection of food and non-food products to ensure our hypermarkets and supermarkets are a one-stop shop for the entire family.

Our selection of fresh food and delicatessen items prepared in every hypermarket, and fresh offerings in our supermarkets, have become a signature of O'KEY and a driver of customer traffic. Fresh foods not only bring back customers, but they also have a higher value-added component and rotate inventory. At the same time we have also developed our private label offerings that combine the high quality promised by the O'KEY brand with lower prices.

While we ensure that all of our stores carry a consistent assortment of products, we also cater to local tastes and source many regionally made products. Our local sourcing, wherever possible, limits our carbon footprint and contributes to the local economies of the regions where we operate. We aim wherever possible to stock Russian products to support local manufacturers and limit our foreign currency exposure. For some of the imported products, we manage the process ourselves to reduce costs and maximise product quality.

We take quality control very seriously and a dedicated department and monitoring units maintain constant oversight to guarantee freshness and food safety. We carry out regular training on food storage, preparation and cleaning. We also carry out regular spot inspections of food preparation areas and medical checks of our staff to make sure all of our stores adhere to the highest standards of quality and safety.

35,000

Average SKUs on offer all year round

47%

Share of fresh products in sale

77%

Share of food in the revenue

Competitive Pricing

Our Customer Value Proposition is built around the quality of our products and services.

Our convenient locations, attractive formats and one-stop shop assortment are key differentiators for the O'KEY brand. Equally, we are committed to making sure our products are competitively priced so our customers don't have to look elsewhere when shopping for their families.

In the face of macroeconomic headwinds, Russian consumers faced increased demands on their pocketbooks in 2014 and economic pressures are expected to remain well into 2015 with increasing inflation. In response, we made changes to our product assortment to ensure we have the right products at the right price, without sacrificing quality. Increased domestic and local sourcing limits price volatility.

We carefully monitor our competitors' prices, including special offers, on the local and national level. We operate a price-matching policy, which means we align our prices on a carefully chosen selection of comparable items to our competitors' lowest regular prices. We carry out price matching on a daily basis for our top 30 SKUs and on a weekly basis for a much more extended range of goods.

When our products do not have a comparable competitive match, or our prices are already the lowest in the market we have gross margin limits to limit prices and guarantee our customers get the best possible deal. In addition to direct price reductions, customers are offered promotions and catalogues containing special discounts.

Our private-label range allows us to offer our customers additional, top-quality products at a reduced price. We carefully track our private-label prices to give our customers the best possible deal.

We are committed to providing our customers with the best value offer every day that takes into account both quality and price.

12

Items per basket on average

70%

of purchases made with loyalty cards

970 RUB

Average value of basket in our hypermarkets

Corporate Social Responsibility

Overview

At O'KEY Group, we are committed to meeting the highest standards in Corporate Social Responsibility (CSR) at every level of our business. We firmly believe that sustainable growth is crucial to our long-term success and see it as our duty to our employees and external stakeholders. Our CSR efforts are focused on four priority areas: anti-corruption, health and safety, employee recruitment and retention and work with our local communities.

Anti-Corruption Measures

We have established clear policies to combat corruption and conflicts of interest. O'KEY Group has a "zero tolerance" policy towards corruption that we apply rigorously to our internal processes and relationships with suppliers. Our managers adhere to strict policy regarding gifts and discounts. We provide and promote the use of a whistle-blower e-mail address for reporting potential problems to our internal audit and security departments.

We established our Supplier Policy in 2010 as part of our efforts to ensure transparency and fairness throughout our supply chain. It establishes strict guidelines designed to identify and eliminate potential conflicts of interest when choosing a supplier. Under the policy, we conduct an open tender process to ensure that all potential suppliers are judged on their merits. A committee approves all tender outcomes.

Since 2012, once we have selected a supplier, our contract conditions now include an addendum stipulating that the supplier will inform the Group about any known cases of corruption. In particular, our partners take on the obligation to report any instances of a Group employee soliciting an unauthorised payment or bribe. These reporting requirements provide us with an additional level of security.

In 2013, we strengthened our procedures still further, enacting specific requirements for the selection of service providers for security and construction services. We implemented expert committees with members chosen from a range of departments, including finance legal, to ensure a fair and informed decision-making process.

During 2014, we continued to provide managers and employees at all levels with anti-corruption training and ensure they have the appropriate support and resources for reporting their concerns.

Health and Safety

At O'KEY Group, we take responsibility for providing our 26,000 employees with safe working conditions and our customers with a safe shopping environment.

As part of the monitoring process, we conduct regular assessments of our work sites to ensure they are in full compliance with Russian legislation governing workplace safety. We support these assessments with a reporting system introduced in 2013. We have also developed and implemented integrated systems for regular tracking of working conditions and all accidents and injuries.

We have a systematic approach for investigating any accidents involving our employees or customers.

Recruitment

Our success is built on recruiting and retaining top talent while embracing diversity. We recognise that we need to be an employer of choice in the Russian labour market to ensure we hire top quality people to support our continued growth. Embracing diversity is not only our moral obligation, it is a policy that ensures we find top talent and provide a workplace open to people of all backgrounds.

We are particularly proud of our efforts to promote gender equality in the workplace. We believe gender diversity is important for any business, and are particularly proud of our performance in this area, although we still see room for further progress. In 2014, women made up almost 70% of store directors, more than 75% of the Group's overall workforce and 45% of senior management positions.

Our Recruitment Policy expressly prohibits any discrimination on the grounds of race, age, gender or religious persuasion. In 2014, we continued to conduct workshops to raise awareness of diversity and its positive impact on our business. We remain convinced that embracing diversity makes us stronger and allows us to recruit the best and the brightest.

We held career days and professional seminars for students with a demonstrated interest in pursuing a career in the retail sector to share our vision and values, as well as practical experience.

Retention

We see retention as a bellwether of our success in being an Employer of Choice. In 2014, we continued to roll out our Talent Management system, designed to assess and develop talented managers across all departments. Our programme has already included hundreds of managers and we have used the results to develop incentives to ensure we keep our valued talent in the organisation, not least by showing them a clear pathway to future growth within the Group and the ability to achieve their ambitions within O'KEY.

Motivating our people is not only critical to retaining talent but also for ensuring our employees are driven to delivering world-class service to our customers. Our salary and incentive programmes are designed to maximise performance. Beyond requirements under Russian legislation, O'KEY provides additional benefits such as supplementary medical insurance, access to gym and sports facilities and, should one of our people find themselves in need, emergency financial aid.

We conduct an annual performance appraisal each year to provide 360-degree feedback on the performance of the employee and their perception of the organisation, align future goals and reward excellence. We closely monitor the appraisal process for fairness. In the event of a dispute between employees and management, we maintain Social Committees to adjudicate any conflicts in a transparent manner.

In addition, we reach out to every employee through proactive internal communications, including our in-house magazine. We celebrate work anniversaries at every store for our people and their families.

Development and Training

We believe that the key to retaining the best people is to provide the resources needed for them to reach their full potential within O'KEY Group. We run training programmes for managers at various levels of seniority throughout the Group. For our 30 most senior managers, we run the Top Team Development Programme. It is designed to reinforce leadership qualities and help our top people develop their strategic vision. It is a rolling programme aimed at real-world situations and makes use of personal coaching and simulations to achieve real results.

We also run the Retail Excellence Programme (REX) and REX Light for our mid-level and junior management. This programme helps foster managerial skills with a retail focus. More than 2,000 managers have successfully gone through this programme since its inception.

Working in Our Communities

At O'KEY we believe that we should do our utmost to improve the life of the cities and towns we have our stores in, especially when it comes to local kindergartens, schools and recreation areas. We are committed to the long-term presence in the local communities, and our success is part of their well being.

Our Group began its life and grew into a leading retailer in St Petersburg, the surrounding Leningrad Region and the broader North West Federal District. So our community outreach is most developed in this part of Russia, although we are quickly catching up in other regions as we continue to expand our business.

Our charity partners include: Rodniychok, an orphanage for disabled children; the Neuropsychiatric Orphanage; the Number 16 Centre for Children with Special Needs in St Petersburg; and the Social Rehabilitation Centre for Disabled Children in the Central district of St Petersburg, among many others. We also continue to work closely with major charities such as the Red Cross and Caritas, the latter a 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 Review

RUB millions	2014	2013	Year-on-year change, %
Revenue	151,983	139,460	9.0
Gross profit	37,205	33,336	11.6
Gross margin	*24.5%*	*23.9%*	*0.6 pp*
EBITDA	11,270	11,032	2.2
EBITDA margin	*7.4%*	*7.9%*	*(0.5 pp)*
Operating profit	8,566	7,876	8.8
Net Profit	5,226	4,976	5.0

Revenue

Revenue for the year ended 31 December 2014 increased 9.0% year-on-year (y-o-y) to RUB 151,983 million, compared to RUB 139,460 million in 2013. The rise was primarily driven by increased selling space.

Like-for-like (LFL) retail revenue was virtually flat, declining 0.2%. LFL revenue has come under pressure since the beginning of 2014 as a result of strong macroeconomic headwinds, external competition and internal challenges.

In the second half of the year, the results were also affected by changing customer behaviour driven by worsening macroeconomic conditions and special economic measures introduced by the Russian government in August. Customers have become more price sensitive and, consequently, have reduced non-discretionary spending and are buying fewer items per visit. The combination of these factors resulted in a 4.2% decline in LFL traffic. The average ticket grew by 4.2% due to inflation.

Selling space rose 13.0% after the opening of nine hypermarkets and five supermarkets and reached 552 thousand m^2 in 2014.

Sales Performance	Retail revenue growth, %	Traffic growth, %	Av. Ticket growth, %
Trade revenue FY 2014	8.9	4.3	4.3
Trade revenue LFL FY 2014	(0.2)	(4.2)	4.2

Cost of goods sold and gross profit

The cost of goods sold increased 8.2% in 2014 to RUB 114,779 million. In the table below, we provide further detail about the cost of goods sold in 2013 and 2014:

RUB million	2014	Percentage of revenue 2014	2013	Percentage of revenue 2013	Change, p.p.
Revenue	151,983	100.0	139,460	100.0	
Cost of goods sold, including	(114,779)	75.5	(106,124)	76.1	(0.6)
Cost of trading stock (less supplier bonuses)	(110,048)	72.4	(102,284)	73.3	(0.9)
Inventory shrinkage	(2,213)	1.5	(1,552)	1.1	0.4
Logistic costs	(1,797)	1,2	(1,606)	1,2	0.0
Packaging and labelling costs	(721)	0.5	(682)	0.5	0.0
Gross profit	**37,205**	**24.5**	**33,336**	**23.9**	**0.6**

3 LFL analysis included 80 stores.

Gross profit increased 11.6% to RUB 37,205 million in 2014, compared to RUB 33,336 million in 2013. In 2014, gross margin expanded by 0.6 pp to 24.5%, following an improvement in purchasing conditions facilitated by our strengthened purchasing power.

General, selling and administrative expenses

RUB millions	Year ended 31 December 2014	Percentage of revenue (%)	Year ended 31 December 2013	Percentage of revenue (%)	Change, p.p.
Personnel costs	(13,929)	9.2	(12,687)	9.1	0.1
Operating leases	(3,873)	2.5	(3,082)	2.2	0.3
Depreciation and amortisation	(3,056)	2.0	(2,513)	1.8	0.2
Communication and utilities	(2,687)	1.8	(2,326)	1.7	0.1
Advertising and marketing	(1,823)	1.2	(1,132)	0.8	0.4
Security expenses	(833)	0.5	(826)	0.6	(0.1)
Repairs and maintenance costs	(726)	0.5	(598)	0.4	0.1
Insurance and bank commission	(661)	0.4	(598)	0.4	0.0
Operating taxes	(633)	0.4	(562)	0.4	0.0
Legal and professional expenses	(517)	0.3	(278)	0.2	0.1
Materials and supplies	(345)	0.2	(303)	0.2	0.0
Other costs	(34)	0.0	(36)	0.0	0.0
Total general, selling and administrative expenses	**(29,117)**	**19.2**	**(24,941)**	**17.9**	**1.3**

The Group's general, selling and administrative expenses grew 16.7% y-o-y to RUB 29,117 million in 2014, primarily attributable to an increase of payroll, lease costs and marketing expenses. As a percentage of revenue, the Group's general, selling and administrative expenses increased by 1.3 pp to 19.2% in 2014.

Personnel costs

Personnel costs grew 9.8% y-o-y to RUB 13,929 million in 2014. This was mainly a result of a 9.0% increase in average headcount and a 7.0% indexation of salaries that took place in July 2013, which impacted personnel costs in 1H 2014.

RUB millions	2014	2013	Year-on-year change
Wages and salaries	8,814	7,383	19.4%
Social security contributions	2,796	2,559	9.3%
Employee benefits and bonuses	1,219	1,678	(27.4%)
Other staff costs	1,100	1,067	3.1%
Total payroll	**13,929**	**12,687**	**9.8%**

In 2Q 2014, the Group launched a staff optimisation programme in its stores and offices, the results of which already started to come through in 2H 2014. Personnel costs went down to 8.5% of revenue in 2H 2014 compared to 8.8% in 2H 2013. The Group expects to see further results of this optimisation throughout 2015.

Operating leases

A 25.7% y-o-y increase in lease costs in 2014 was primarily attributable to the opening of 8 stores in 2013 and 10 stores in 2014 (contributing 15% to the increase) and spending more on contracts linked to the US dollar and euro (contributing 6% to the increase).

Communications and utilities

Costs related to communications and utilities increased by 15.5% y-o-y in 2014 to RUB 2,687 million, mostly as a result of adding new stores and increased tariffs.

Advertising and marketing

Marketing costs saw a 61.0% increase in 2014. During the year, the Group conducted several large-scale promotional actions to maintain traffic dynamics in the face of a turbulent macroeconomic environment and strong competition.

Operating profit

The Group reported an 8.8% increase in operating profit to RUB 8,566 million in 2014 from RUB 7,876 million in 2013. The growth of operating income in 2014 was primarily attributable to the gain from the disposal of non-current assets. These amounted to RUB 743 million and represent the difference between the carrying amount of land plots transferred and the carrying amount of premises received. This was partially offset by an impairment charge of RUB 200 million, which mainly relates to the leasehold improvements in two loss-making stores.

Financial Review (continued)

Financing costs
Financing costs increased by 39.3% to RUB 1,588 million in 2014, mainly due to the higher value of the Group's average loan portfolio (consolidated debt stood at RUB 32,081 million on 31 December 2014; it was RUB 16,755 million on 31 December 2013). The Group's weighted average interest rate in 2014 increased to 9.4% from 8.9% in 2013, driven by worsening market conditions.

Profit before income tax
Profit before income tax decreased 7.8% to RUB 6,314 million in 2014 from RUB 6,852 million in 2013. The key factor influencing the decrease was a foreign exchange loss of RUB 688 million. This expense mostly relates to a US dollar loan from a related party. Another factor affecting profit before income tax was a RUB 448 million increase in financing costs.

Income tax expense in 2014 fell by 41.9% y-o-y to RUB 1,089 million as a result of a tax reimbursement of RUB 955 million, previously paid for the years 2010-2013. This reimbursement relates to the expenses, which the Group treats as deductible since 2014.

Profit for the year
During 2014, net profit rose by 5.0% y-o-y to RUB 5,226 million with a net profit margin of 3.4%.

Cash flows and working capital

RUB millions	2014	2013 (restated)
Net cash from operating activities	9,837	9,749
Net cash used in investing activities	(16,746)	(11,159)
Net cash used in financing activities	9,583	(128)
Net increase/(decrease) in cash and cash equivalents	2,674	(1,538)
Effect of exchange rate fluctuations on cash and cash equivalents	129	9

Cash flows from operating activities
There were no significant changes of EBITDA and working capital in 2014 compared to 2013 thus we can see flat dynamics of operating cash flows. Net cash from operating activities increased to RUB 9,837 million, nearly the same result as in 2013. Cash receipts from customers grew by 8.8%, in line with revenue increases.

Cash flows used in investing activities
Net cash flow from investing activities increased by RUB 5,587 million and reached RUB 16,746 million in 2014, driven by investments during the year in store openings and our future expansion. In 2014, the balance of construction in progress increased 42%. Prepayments for PPE almost doubled and reached RUB 4,867 million.

Cash flows from financing activities
In conjunction with its investing activity, the Group attracted new borrowing in 2014. Proceeds from new loans and borrowing less the repayments reached RUB 14,835 million. In addition, the Group increased the level of dividend payments from RUB 1,538 million in 2013 to RUB 2,929 million in 2014.

Working capital
As of 31 December 2014, 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 9,043 million, compared to negative RUB 9,606 million at the end of 2013. Working capital figures in the food retail industry are usually negative, and the Group intends to maintain a negative working capital position.

The Group considers the net debt/EBITDA ratio as the principal means for evaluating the impact on its operations of the size of the Group's borrowings. As of 31 December 2014, O'KEY's net debt/EBITDA ratio was 2.3x.

RUB million	2014	2013
Total debt	32,081	16,755
Short-term debt	12,426	2,313
Long-term debt	19,655	14,442
Less cash and equivalents	(5,810)	(3,007)
Net debt	26,271	13,748
Net debt/EBITDA	2.3	1.2

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 on-going 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.

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. Internal Audit assists the Group's Audit Committee its oversight role. 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.

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.

Principal 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 lend 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, aims to guarantee the competitiveness of the 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 Group, 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, labelling, 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 Group'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 our 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 fulfil 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.
IT platform Development	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 Group 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 expansion programme in the coming periods, issues with availability of external financing or significant changes in its cost can negatively impact our Group'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. 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 training sessions for store employees.
Risk of misstatements in financial statements	We face exposure to risks relating to failures in proper financial reporting and the classification of accounting entries, and risks of making inaccurate accounting estimates.	We regularly test internal controls over financial reporting to prevent misstatements in financial statements. We have a qualified team of finance professionals preparing our financial statements and we are currently implementing a new accounting system that will help us improve automation during the preparation of our consolidated IFRS financial statements. For a description of financial risks and exposure calculation please refer to the note 27 in the Group Consolidated Financial Statements.

Board of Directors

Our current Board of Directors was elected at the Extraordinary General Meeting (EGM) of Shareholders held on 28 October June 2013.

Members of the Board of Directors of OKEY Group S.A. as at 31 December 2014

Dmitrii Troitckii
Director

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

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 St Petersburg, and holds a degree in engineering. Dmitrii indirectly owns approximately 24.14% of the shares of O'KEY Group S.A.

Dmitry Korzhev
Director

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

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 approximately 24.14% of the shares of O'KEY Group S.A.

Boris Volchek
Director

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

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 St Petersburg Automobile Museum. He graduated from the Leningrad Institute of Railway Engineers, currently known as the St 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 Group's Board of Directors on 30 June 2010, with effect from 13 July 2010, and re-elected on 28 October 2013 and effective from the same date.

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 Group with an international client base. Since 2008, he has been working as Retail Projects Manager with HT Project Management OU, and is responsible for launching 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 first employed by O'KEY Group 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
Chairman of the Board of Directors and Chief Executive Officer (CEO)

Appointment: Tony was elected as independent Chairman of the Board of Directors on 28 October 2013. In addition to this role, on 21 February 2014, Tony was named as the Chief Executive Officer of O'KEY Group and at this point he was no longer considered independent.

Skills and experience: Tony has more than 30 years of experience in the Russian and global FMCG sectors. Previously, from 2006 to 2011, he was CEO of NYSE-listed Wimm-Bill-Dann Foods, where he completed the Group's transformation into a world-class food and beverage player. In December 2010, Tony oversaw the sale of Wimm-Bill-Dann to PepsiCo in a transaction that valued the Group at US$5.8 billion and which delivered a 33% premium to shareholders of the NYSE-listed Group. Following the successful completion of the transaction, Tony stepped down as CEO of the Group in May of 2011. Prior to this he served in a variety of senior roles in Western, Central and Eastern European markets within the Coca-Cola system. Tony owns approximately 1.49% of the issued and outstanding share capital of the Group.

Senior Management

At O'KEY Group, we firmly believe that the experience, expertise and enthusiasm of our management team are key to our long-term success. We have recruited top professionals internationally and in the highly competitive Russian marketplace to ensure that we have the best people in the business and who are able to combine global best practices with in-depth local knowledge.

Tony Maher
Chairman of the Board of Directors and Chief Executive Officer (CEO)

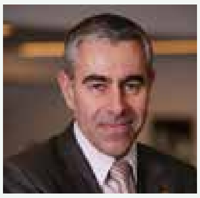
Tony was appointed CEO of O'KEY Group on 21 February 2014. Tony has more than 30 years of experience in the Russian and global FMCG sectors. Previously, from 2006 to 2011, he was CEO of NYSE-listed Wimm-Bill-Dann Foods, where he completed the Group's transformation into a world-class food and beverage player. In December 2010, Tony oversaw the sale of Wimm-Bill-Dann to PepsiCo in a transaction that valued the Group at US$5.8 billion and which delivered a 33% premium to shareholders of the NYSE-listed Group. Following the successful completion of the transaction, Tony stepped down as CEO of the Group in May of 2011. Prior this he served in a variety of senior roles in Western, Central and Eastern European markets within the Coca-Cola system.

Sergey Shamov
Operations Director for O'KEY Supermarkets

Sergey has worked at the Group for six years. He currently oversees operations at our supermarket division. Previously, he was Division Director for our St Petersburg hypermarkets. Before joining us, Sergey worked for Coca-Cola, Japan Tobacco International and SmithKlein Beecham.

Dmitry Pryanikov
Chief Financial Officer (CFO)

Dmitry has worked at the Group since our founding. Today, he oversees financial management, treasury, reporting and accounting. Previously, he served as the CFO of O'KEY LLC for a number of years. Between 2001 and 2005, he held a variety of senior positions at Bank Saint-Petersburg and other private companies. Dmitry graduated from the St Petersburg State Institute of Technology with a degree in economics and management.



Marc Leblond
Supply Chain Director

Marc joined the Group as Supply Chain Director in December 2014. Previously, he served as Supply Chain Director for X5 Retail Group. Prior to this, he worked as IT & Supply Chain Director for Orangina Schweppes. Marc joined Lactalis CIS in 1991 as Supply Chain Director. Marc holds a degree in Transport & Logistics from Val de Marne University, Paris, as well as professional development diplomas in Finance & Accounting.

Vladislav Kurbatov
Operations Director for O'KEY Hypermarkets

Vladislav has worked at the Group since our founding. He currently oversees operations at our hypermarket division. From 2004, he was Director of Sales for O'KEY Group and previously worked as Group Administrative Director and Director of our first hypermarket in St Petersburg.

Senior Management (continued)

Angelo Turati
Commercial Director

Angelo joined O'KEY Group as Commercial Director in October 2014. He previously served as Commercial Director for X5 Retail Group. Prior to this, he worked as Managing Director for Metro Cash & Carry Croatia and Vice President of Metro Cash & Carry International. Angelo joined Metro Cash & Carry in Italy in 1998 as a senior food buyer. Between 2006 and 2011 he was responsible for all food procurement operations for Metro Cash & Carry, Russia. He started his career at Rinascente Retail Group and Auchan, Italy. Angelo holds a degree in Business Economics from Bocconi University, Milan, as well as professional development diplomas from the London Business School and INSEAD.

Vladimir Lobastov
Legal and
Corporate Affairs Director

Vladimir brings two decades of legal experience to the role of Legal and Corporate Affairs Director. His responsibilities include managing the Group's legal department, litigation and arbitration, real-estate issues and tax planning. Previously, he held various senior positions at a leading Russian law firm, Glavstroy LLC and Coca-Cola HBC Eurasia.

Elmira Hadieva
Human Resources (HR)
Director

Elmira has worked at the Group for eight years and has extensive experience of HR management in an international environment. As HR Director, she is responsible for developing the Group's HR strategy and creating an HR system designed to support our overall business, while attracting and retaining top talent. Previously, she worked for 14 years at British American Tobacco.

Marina Kagan
Director of Corporate
Communications,
Government and
Investor Relations

Marina joined O'KEY Group in September 2014. She previously served as the Vice President for Corporate Communications in Eastern Europe and Russia at PepsiCo. Prior to this, she worked as Head of Public Affairs at Wimm-Bill-Dann Foods'. From 1998 to 2004, she held various senior positions at Shared Value and Gavin Anderson & Co., international investor and public relations consultancy firms. From 1995 to 1998, Marina worked as a Moscow correspondent for the BBC World Service.

Corporate Governance

Governance System

O'KEY Group S.A.'s shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs). O'KEY Group is committed to managing and conducting its operations in accordance with internationally recognised principles of corporate governance. We recognise our obligation to our shareholders to adopt appropriate standards of governance and control both at Board level and within our management teams.

Key elements of O'KEY Group's corporate governance policy include:

- Appointing 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 Group.
- The Board is responsible for taking key decisions relating to Group strategy and strategic direction.
- The Board exercises oversight of the Group's internal control and risk management procedures.
- The Group 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 below).

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.

During the reporting period, on 29 January 2014, O'KEY announced its decision to appoint Tony Maher to the role of 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.

As at 31 December 2014, the Board of Directors consisted of five members, including one Independent Director.

The rules governing the appointment and replacement of the directors and the amendment of the Articles are set out under the law of 10 August 1915 on commercial companies, as amended, and the Articles (in particular articles 8, 15 and 16).

The consolidated version of the Articles is published under the shareholders section on http://www.okmarket.ru/en/investors/shareholder_documents.

Powers of the Board

The Board is vested with the broadest powers to manage the business of the Company and to authorise and perform all acts of disposal and administration falling within the purposes of the Company.

The Board is not authorised to issue or buy back shares. The validity period of the authorised un-issued share capital expired on December 10, 2010 (article 5 of the Articles). The repurchase by the Company of its own shares is subject to the conditions set out in the Company Law and the Articles.

Board Committees

There are two committees on the Board of Directors, 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 of Directors.

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

Audit Committee

Membership:

Mykola Buinyckyi	Chairman, non-Director
Boris Volchek	Member, Director
Dmitriy Korzhev	Member, Director
Heigo Kera	Member, Independent Director
Ilya Ilin	Member, non-Director
Sergey Eganov	Member, non-Director

Corporate Governance (continued)

Description: The Audit Committee is responsible for overseeing the integrity of the Group'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 Group'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.

Prior to the reporting period, in October 2013, Mykola Buinyckyi stood down from the Board of Directors of O'KEY but he nonetheless remains Chair of the Audit Committee. Mykola'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.

Remuneration Committee
Membership:

Heigo Kera	Chairman, Independent Director
Boris Volchek	Member, Director
Dmitrii Troitckii	Member, Director
Alvidas Brusokas	Member, non-Director
Ilya Ilin	Member, non-Director

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

Board of Directors and Management Remuneration
In 2014, key management personnel of O'KEY Group were paid an aggregate amount of RUB 364 million in remuneration and other compensation. Members of the Board of Directors of OKEY Group S.A. and the Audit Committee of OKEY Group S.A. were paid a net fee of US$241,998. No more than US$300,000 is to be paid per year in compensation to the entire Board and other senior officers of OKEY Group S.A.

Dividends
In 2014, O'KEY Group paid a total of US$81 million in dividends.

Ownership and Shareholder Structure

Legal and Ownership Structure – 25 February 2015

30.4%
BoNY (Nominees)

23.0%
GSU Ltd
(together with GDRs – 25.0%)

46.6%
NISEMAX Co Ltd
(together with GDRs – 52.3%)

O'KEY Group S.A. (Luxembourg)

O'Key LLC

- Retail operations
- Employer of all store personnel

O'Key Group LLC

- Employer for senior management
- Management company for Dorinda JSC and O'KEY LLC

Dorinda JSC

- Owner of real estate and long-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 new retail chain project under "Da!" trademark

Ownership and Shareholder Structure (continued)

Transfer Restrictions

As of December 31, 2014 and the date hereof, to the knowledge of the Company, all the shares in issue in the Company are freely transferable, provided that the transfer formalities set out under Article 6 of the Articles are fulfilled.

The Company has no information about any agreements between shareholders which may result in restrictions on the transfer of securities or voting rights, as mentioned under Article 11 (1) (g) of the Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

Special Control Rights

All the issued and outstanding shares of the Company have equal voting rights and there are no special control rights attaching to shares of the Company.

The Caraden Shareholder (as defined in the Articles) has, under the condition of holding a minimum amount of shares in the Company, a specific right with respect to the appointment and removal of directors since at least one director (designated as the Caraden Director) must be appointed from a list of candidates proposed from the Caraden Shareholder and may be removed at the initiative of the Caraden Shareholder (additional information may be found under Article 8 of the Articles).

The positive vote of the Caraden Shareholder is required, under certain conditions, to amend the provisions of the Articles relating to (i) the rights and prerogatives of the Caraden Shareholder and (ii) the appointment, removal, replacement, rights, prerogatives and positive vote of the Caraden Director (additional information may be found under Article 16.4 of the Articles).

Voting Rights

Each share issued and outstanding in the Company bears one vote.

The Articles do not provide for any voting restrictions.

In accordance with the Articles, a record date for the admission to a general meeting may be set by the Board (Article 15 of the Articles). Only those shareholders as shall be shareholders of record on any such record date shall be entitled to notice of and to vote at any general meeting and any adjournment thereof, or to give any such consent, as the case may be.

In accordance with the Articles, the Board may determine such other conditions that must be fulfilled by shareholders for them to take part in any meeting of shareholders in person or by proxy (Article 15 of the Articles).

Footnote: for the purposes of Luxembourg law sections 1 through 33 of this Annual report shall be considered the consolidated director's report for the year ended 31 December 2014.

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, 13 March 2015

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 2014

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

Contents

Report of the Réviseur d'Entreprises Agréé

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To the Shareholders of
O'KEY GROUP S.A.
23, rue Beaumont
L-1219 Luxembourg

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O'KEY GROUP S.A., which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. as of December 31, 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

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

Luxembourg, March 13, 2015

KPMG Luxembourg, Société coopérative
Cabinet de révision agréé

Jean-Manuel Séris

Consolidated Statement of Financial Position

as at 31 December 2014

'000 RUB	Note	2014	2013
	34		Restated
ASSETS			
Non-current assets			
Investment property	17	548,500	540,000
Property, plant and equipment	15	40,006,546	30,706,631
Construction in progress	15	7,180,792	5,072,198
Intangible assets	16	539,435	550,049
Deferred tax assets	19	1,144,855	483,156
Other non-current assets	18	11,004,304	8,101,698
Total non-current assets		**60,424,432**	**45,453,732**
Current assets			
Inventories	20	12,859,297	10,257,942
Trade and other receivables	21	6,207,273	5,106,101
Prepayments		1,277,663	822,558
Cash and cash equivalents	22	5,810,182	3,006,730
Total current assets		**26,154,415**	**19,193,331**
Total assets		**86,578,847**	**64,647,063**
EQUITY AND LIABILITIES			
Equity	23	**24,197,143**	**21,399,385**
Non-current liabilities			
Loans and borrowings	25	19,655,016	14,441,833
Deferred tax liabilities	19	835,550	587,974
Other non-current liabilities		78,044	112,256
Total non-current liabilities		**20,568,610**	**15,142,063**
Current liabilities			
Loans and borrowings	25	12,425,527	2,312,618
Trade and other payables	26	29,098,249	25,318,592
Current income tax payable		289,318	474,405
Total current liabilities		**41,813,094**	**28,105,615**
Total liabilities		**62,381,704**	**43,247,678**
Total equity and liabilities		**86,578,847**	**64,647,063**

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 43 to 70.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2014

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

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 43 to 70.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2013		**119,440**	**10,597**	**8,903,606**	**85,625**	**8,748,706**	**222,082**	**18,090,056**
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 43 to 70.

Consolidated Statement of Changes in Equity continued

for the year ended 31 December 2014

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

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 43 to 70.

Consolidated Statement of Cash Flows

for the year ended 31 December 2014

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

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 43 to 70.

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

1 Reporting entity

(a) Organisation and operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union for the year ended 31 December 2014 for O'Key Group S.A. and its subsidiaries (together referred to as the "Group").

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

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

As at 31 December 2014 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs).

Related party transactions are detailed in note 31.

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

The Group's principal business activity is operation of retail chain in Russia under brand name "O'KEY". At 31 December 2014 the Group operated 108 stores (31 December 2013: 94 stores) in major Russian cities, including but not limited to Moscow, St. Petersburg, Murmansk, Nizhniy Novgorod, Rostov-on-Don, Krasnodar, Lipetsk, Volgograd, Ekaterinburg, Novosibirsk, Krasnoyarsk, Ufa, Astrakhan and Surgut.

(b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

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

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of accounting

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and were authorised for issue by the Board of Directors on 9 March 2015.

3 Functional and presentation currency

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

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

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

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

4 Use of estimates and judgments

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

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

4 Use of estimates and judgments continued

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

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

Revenue recognition. The Group has recognised revenue amounting to RUB 149 954 million for sales of goods during 2014 (2013: RUB 137 639 million). According to the Group's policy customers have the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

Determination of net 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 swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

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

(d) Non-derivative financial liabilities

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

6 Operating segments

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

The Group identified its operating segments in accordance with the criteria set in IFRS 8 *Operating Segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to 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;
- 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 2014 is as follows:

'000 RUB	2014	2013
Revenue	151,983,180	139,460,384
EBITDA	**11,269,508**	**11,032,178**

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

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

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

7 Subsidiaries

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

Subsidiary	Country of incorporation	Nature of operations	2014 Ownership/voting	2013 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	2014	2013
Sales of trading stock	142,613,948	130,981,110
Sales of self-produced catering products	7,340,159	6,658,351
Revenue from sale of goods	149,954 107	137,639 461
Rental income	1,501,627	1,300,867
Revenue from advertising services	527,446	520,056
Total revenues	**151,983,180**	**139,460,384**

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

9 General, selling and administrative expenses

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

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

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

10 Other operating income and expenses

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

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

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

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

11 Personnel costs

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

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

12 Finance income and finance costs

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

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	**24,197**	**46,015**
Total interest expense on financial liabilities	**(1,587,734)**	**(1,139,827)**

12 Finance income and finance costs continued

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

Reclassification from hedging reserve to profit and loss includes finance costs in the amount of RUB 289 872 thousand for the year ended 31 December 2013 and foreign exchange gain in the amount of RUB 429 457 thousand for the year ended 31 December 2013.

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

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

13 Foreign exchange (loss)/gain

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

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

14 Income tax expense

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

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

Income tax recognised directly in other comprehensive income

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

Reconciliation of effective tax rate:

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

During the year ended 31 December 2014 tax authorities reimbursed to the Group RUB 764 302 thousand of income tax previously paid for the years 2010-2012. The Group also claimed for reimbursement income tax paid for 2013 in the amount of RUB 190 793 thousand.

Both income tax claimed for reimbursement and already reimbursed were recognised as reduction of income tax expense for 2014 and relate to expenses, which the Group treats as deductible since 2014.

15 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
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**
Balance at 1 January 2014	**3,948,145**	**22,437,166**	**4,334,777**	**9,846,112**	**5,094,522**	**45,660,722**
Additions	2,398,555	4,588,355	820,907	1,683,907	5,293,688	14,785,412
Transfers	424	2,515,178	280,983	335,114	(3,131,699)	–
Transfers from initial cost of land lease	115,741	–	–	–	–	115,741
Disposals	(438,439)	–	(22,328)	(237,448)	(53,395)	(751,610)
Balance at 31 December 2014	**6,024,426**	**29,540,699**	**5,414,339**	**11,627,685**	**7,203,116**	**59,810,265**
Depreciation and impairment losses						
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)**
Balance at 1 January 2014	**–**	**(2,888,988)**	**(1,010,208)**	**(5,960,373)**	**(22,324)**	**(9,881,893)**
Depreciation for the year	–	(804,037)	(413,621)	(1,560,954)	–	(2,778,612)
Impairment losses	–	–	(199,697)	–	–	(199,697)
Disposals	–	–	14,970	222,305	–	237,275
Balance at 31 December 2014	**–**	**(3,693,025)**	**(1,608,556)**	**(7,299,022)**	**(22,324)**	**(12,622,927)**
Carrying amounts						
At 1 January 2013	**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**
At 31 December 2014	**6,024,426**	**25,847,674**	**3,805,783**	**4,328,663**	**7,180,792**	**47,187,338**

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

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

15 Property, plant and equipment continued

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

Security

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

16 Intangible assets

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

Amortisation and impairment losses

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

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

17 Investment property

(a) Reconciliation of carrying amount

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

(b) Measurement of fair value

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

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

The appraisers used income approach for determining the fair value. An estimate was made of annual net operating income for 5 years which is mainly based on annual net rent rate of RUB 8,000 per sq. m. (2013: RUB 6,600) and expected occupancy of 95% (2013: 92%). The annual net operating income was assumed to be constant from year 6 to perpetuity. Discount rate of 19% (2013: 16.3%) was applied to discount future cash flows.

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

18 Other non-current assets

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

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

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

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

19 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

(b) Unrecognised deferred tax liability

As at 31 December 2014 a temporary difference of RUB 24,344,483 thousand (2013: RUB 21,104,158 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

18 Other non-current assets continued

(c) Movement in temporary differences during the year

'000 RUB	1 January 2014	Recognised in profit or loss	Recognised in hedging reserve	31 December 2014
Investment property	36,193	(40,396)	–	(4,203)
Property, plant and equipment	(659,869)	(9,823)	–	(669,692)
Construction in progress	(95,823)	(53,339)	–	(149,162)
Intangible assets	2,630	(17,279)	–	(14,649)
Other non-current assets	10,258	50,398	–	60,656
Inventories	325,198	349,717	–	674,915
Trade and other receivables	106,070	(79,038)	(27,032)	–
Trade and other payables	108,660	139,122	–	247,782
Tax loss carry-forwards	61,865	101,793	–	163,658
	(104,818)	**441,155**	**(27,032)**	**309,305**

'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)**

20 Inventories

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

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 271,679 thousand as at 31 December 2014 (2013: RUB 219,969 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

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

21 Trade and other receivables

'000 RUB	Note	2014	2013
	34		**Restated**
Trade receivables		243,483	202,238
VAT receivable		2,743,875	2,111,674
Prepaid taxes		357,211	270,081
Interest rate swap receivables		135,159	–
Other receivables		2,727,545	2,522,108
		6,207,273	**5,106,101**

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

21 Trade and other receivables continued

Other receivables include RUB 2,281,600 thousand (2013: RUB 2,197,601 thousand) of bonuses receivable from suppliers.

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

22 Cash and cash equivalents

'000 RUB	2014	2013
Cash on hand	437,753	362,742
RUB-denominated bank current account	544,109	896,988
USD-denominated bank current account	14,048	8,115
RUB term deposits (interest rate: 2014: 12%-24% p.a.; 2013: 1.5%-6.5% p.a.)	3,517,607	622,444
Cash in transit	1,296,665	1,116,441
Cash and cash equivalents	**5,810,182**	**3,006,730**

Term deposits had original maturities of less than three months.

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

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

23 Equity

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

	Ordinary shares	
Number of shares unless otherwise stated	**2014**	**2013**
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269,074,000	269,074,000
On issue at 31 December, fully paid	**269,074,000**	**269,074,000**

As at 31 December 2014 the Group's subscribed share capital of RUB 119,440 thousand (EUR 2,691 thousand) is represented by 269,074,000 shares with a par value of 0.01 EUR each.
In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During the year ended 31 December 2014 there were no transfers to legal reserve (2013: nil). In 2014 the Group paid interim dividends to shareholders in amount of RUB 2,929,061 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2014 amounted to RUB 10.9 (2013: RUB 5.7).

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

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

24 Earnings per share

The calculation of basic earnings per share at 31 December 2014 was based on the profit attributable to ordinary shareholders of RUB 5,225,719 thousand (2013: RUB 4,976,385 thousand), and a weighted average number of ordinary shares outstanding of 269,074,000, calculated as shown below. The Company has no dilutive potential ordinary shares.

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

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

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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

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

Compliance with loan covenants

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

At 31 December 2014 and during the year then ended the Group complied with all loan covenants.

26 Trade and other payables

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

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

27 Financial instruments and risk management

(a) Overview

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

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(b) Credit risk

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

(i) Exposure to credit risk

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

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

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

(ii) Trade and other receivables

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

27 Financial instruments and risk management continued

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

Impairment losses

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

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

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

'000 RUB	2014	2013
Balance at beginning of the year	46,176	21,477
Impairment loss recognised	–	24,699
Impairment loss reversed	(17,747)	–
Balance at end of the year	**28,429**	**46,176**

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

(iii) Cash and cash equivalents

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

(c) Liquidity risk

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

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

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 3.5;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

(i) Exposure to liquidity risk

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

2014

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

27 Financial instruments and risk management continued

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

2013

'000 RUB	Note	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
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	34	24,312,843	(24,312,843)	(24,312,843)	–	–
		41,067,294	**(44,612,904)**	**(26,519,002)**	**(1,390,568)**	**(16,703,314)**

There are no payments due after 5 years.

(d) Market risk

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

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

(i) Currency risk

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

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

Exposure to currency risk

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

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

The following significant exchange rates applied during the year:

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

Sensitivity analysis

A 20% weakening of the RUB against USD at 31 December 2014 would have decreased equity and profit and loss by RUB 168,968 thousand (2013: RUB 313,492 thousand). This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2013.

27 Financial instruments and risk management continued

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

(ii) Interest rate risk

The Group has material exposure to interest rate risk. As at 31 December 2014, 56% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2013: 30%).

The Group uses swaps to hedge its exposure to variability of interest rates. As at 31 December 2014 the Group had an interest swap agreement with a bank. Under this agreement the Group swaps Mosprime rate for fixed rate. At inception, the swap had a maturity of three years. As at 31 December 2014 fair value of swap was RUB 135,159 thousand (31 December 2013: Nil).

Profile

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

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

Cash flow sensitivity analysis for variable rate instruments

A change of 500 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for 2013.

	Profit or loss		Equity	
'000 RUB	500 bp increase	500 bp decrease	500 bp increase	500 bp decrease
2014				
Variable rate instruments	(553,070)	553,070	–	–
Interest rate swap	76,500	(76,500)	55,628	(56,213)
Cash flow sensitivity (net)	**(476,570)**	**476,570**	**55,628**	**(56,213)**
2013				
Variable rate instruments	(175,000)	175,000	–	–
Interest rate swap	100,000	(100,000)	–	–
Cash flow sensitivity (net)	**(75,000)**	**75,000**	**–**	**–**

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

27 Financial instruments and risk management continued

’000 RUB	Note	Trade and other receivables	Trade and other payables
31 December 2013	34	**Restated**	**Restated**
Gross amounts		533,751	4,170,076
Amounts offset in accordance with IAS 32 offsetting criteria		(739)	(739)
Net amounts presented in the statement of financial position		533,012	4,169,337
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria		(532,689)	(532,689)
Net amount		**323**	**3,636,647**

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

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

(f) Fair values
Basis for determination of fair value of financial assets and liabilities is disclosed in note 5. Fair value of Group’s financial assets and liabilities approximates their carrying amounts, excluding fixed rate loans and borrowings, for which fair value is disclosed in the table below:

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

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

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

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

28 Operating leases

Leases as lessee
The Group has both own and leased land plots. The own land plots are included in property, plant and equipment. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are 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 2-3 years, after which long term operating lease contract is concluded for 49 years.

28 Operating leases continued

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

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

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

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

Future minimum lease payments as at 31 December 2014 include RUB 18,713,753 thousand (31 December 2013: RUB 13,665,445 thousand) in respect of property leases cancellable only with the permission of the lessor. Management believes that the Group is able to negotiate early cancellation of these leases, if necessary.

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2014 RUB 1,501,627 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2013: RUB 1,300,867 thousand). All leases whether the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 52,275 thousand for the year ended 31 December 2014 (2013: RUB 38,503 thousand). Contingent rent is determined as excess of 3,5%-25% of the tenant's revenue over fixed rent rate.

29 Capital commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 8,616 146 thousand as at 31 December 2014 (2013: RUB 11,041,167 thousand). The capital commitments mostly consist of construction contracts of the stores.

30 Contingencies

(a) Legal proceedings

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

(b) Taxation contingencies

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

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

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

The transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

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

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

30 Contingencies continued

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

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

(c) Assets pledged or restricted

The Group has the following assets pledged as collateral:

'000 RUB	Note	2014	2013
Fixed assets (carrying value)	15	2,643,191	–
Total		**2,643,191**	**–**

31 Related party transactions

(a) Major shareholders

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

(b) Transactions with management

(i) Management remuneration

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

'000 RUB	2014	2013
Salaries and bonuses	221,300	111,615
Social security contributions	4,849	2,354
Long-service bonus	137,931	248,711
Share-based payments	–	18,424
	364,080	**381,104**

In addition members of Board of Directors received remuneration in the amount of RUB 15,758 thousand for the year ended 31 December 2014 (2013: RUB 15,073 thousand) which is included in Legal and professional expenses.

(c) Transactions with other related parties

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

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

(i) Revenue

'000 RUB	Transaction value 2014	Transaction value 2013	Trade payables 2014	Trade payables 2013
Services provided:				
Other related parties	44,279	36,857	(5,200)	(3,543)
	44,279	**36,857**	**(5,200)**	**(3,543)**

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.

31 Related party transactions continued

(ii) Expenses

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

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

Outstanding balance for lease of premises as at 31 December 2014 represents net balance of prepayments for rent of hypermarkets for the period until 2017 in the amount of RUB 760,516 thousand (2013: RUB 977,078 thousand) and current liabilities for rent of hypermarkets in the amount RUB 1,799 thousand (2013: RUB 3,137 thousand). Long-term part of prepayments is RUB 511,619 thousand (2013: RUB 735,903 thousand), refer to note 18.

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

(iii) Loans

'000 RUB	Amount loaned 2014	Amount loaned 2013	Outstanding balance 2014	Outstanding balance 2013
Loans received:				
Other related parties	**–**	**–**	**(975,041)**	**(665,433)**

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

(d) Pricing policies
Related party transactions are not necessarily based on market prices.

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

33 Basis of measurement
The consolidated financial statements are prepared on the historical cost basis except for the following:

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

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

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

– The Group decided to report cash flows from operating activities using direct method as described in IAS 7 *Statement of Cash Flows*. Previously cash flows from operating activities were reported using indirect method.
– The Group decided to classify interest paid as financing cash flow. Previously interest paid was classified as operating cash flow. Classifying interest paid as financing cash flow will result in receiving complete information about providing long-term funds to the Group and returning of those funds.
– The Group decided to classify interest received as operating cash flow. Previously interest received was classified as investing cash flow. Interest received includes interest received by depositing money which relates to operating rather than investing activities. This change will help to receive more accurate information based on the nature of transactions.

34 Changes in accounting policies continued

– The Group decided to present cash flows from investing activities including VAT and present recovery of input VAT from investing activities in separate line in the consolidated statement of cash flows. Previously cash-flows relating to VAT paid to suppliers and recovery of input VAT were presented net in operating activities. The Group believes that current presentation better reflects cash flows relating to acquisition of non-current assets.

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

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

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

(b) Offsetting of financial assets and financial liabilities

Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and were applied retrospectively. The effect of retrospective application on the consolidated statement of financial position as at 31 December 2013 was as follows:

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

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

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

35 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

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

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

Foreign currency differences arising in retranslation are recognised in profit or loss.

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 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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

35 Significant accounting policies continued

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

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

(d) Transactions with owners

(i) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Distributions to owners/contributions from owners

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

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;
– 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 amortised 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 cash register.

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

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are 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) Presentation of the statement of cash flows

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

(u) Guarantees

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

(v) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

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

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

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

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

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

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