OJSC Dixy Group

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2014

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Contents

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улучшаем мир

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Report on review of interim condensed consolidated financial statements

To the Board of Directors of OJSC Dixy Group

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Dixy Group and its subsidiaries (the "Group"), comprising the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the-six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

28 August 2014

OJSC Dixy Group

Interim consolidated statement of financial position

At 30 June 2014

(in thousands of Russian roubles, unless otherwise indicated)

	Note	30 June 2014 (unaudited)	31 December 2013 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	33,799,640	34,061,088
Capital advances		1,503,036	987,283
Goodwill		17,665,526	17,665,526
Other intangible assets		2,818,813	2,877,612
Operating lease deposits		1,036,915	941,906
Initial lease costs		86,234	108,565
Loans		147,480	139,314
Deferred tax asset		386,172	428,532
Available-for-sale investments		37,530	-
		57,481,346	57,209,826
Current assets			
Inventories	7	11,035,128	10,102,566
Trade and other receivables		8,029,123	6,039,855
Taxes recoverable and prepayments		1,346,308	1,814,778
Income tax prepayments		560,659	452,284
Loans		3,334	3,156
Initial lease costs		25,547	27,242
Cash and cash equivalents	8	4,196,421	4,397,044
		25,196,520	22,836,925
Total assets		82,677,866	80,046,751
Equity and liabilities			
Equity attributable to equity holders of the Parent			
Share capital	9	1,248	1,248
Additional paid-in capital		20,443,341	20,443,341
Treasury shares		(554)	(554)
Retained earnings		9,048,575	7,083,876
		29,492,610	27,527,911
Non-controlling interest		354	357
Total equity		29,492,964	27,528,268
Non-current liabilities			
Borrowings	10	24,264,101	28,560,115
Finance leases		-	2,535
Unfavourable operating lease agreements		57,555	76,451
Deferred tax liability		699,460	851,691
		25,021,116	29,490,792
Current liabilities			
Trade and other payables		24,138,054	21,468,165
Borrowings	10	2,656,935	327,808
Finance leases		26,592	47,012
Advances from customers		236,400	307,023
Tax liability, other than income taxes		1,031,278	793,827
Income taxes payable		28,639	34,808
Unfavourable operating lease agreements		40,125	43,285
Provisions for liabilities and charges		5,763	5,763
		28,163,786	23,027,691
		53,184,902	52,518,483
Total equity and liabilities		82,677,866	80,046,751

Signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 28 August 2014

Fedor Rybasov,
General Director

Irina Kobyakina,
Head of IFRS Reporting

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

OJSC Dixy Group

Interim consolidated statement of comprehensive income

For the six months ended 30 June 2014

(in thousands of Russian roubles, unless otherwise indicated)

	Note	For the six months ended 30 June 2014	2013
		(unaudited)	
Revenue		106,963,034	87,386,326
Cost of sales		(74,486,432)	(61,247,482)
Gross profit		**32,476,602**	**26,138,844**
Selling, general and administrative expenses		(28,147,008)	(23,207,560)
Operating profit		**4,329,594**	**2,931,284**
Finance income		86,647	7,455
Finance costs		(1,803,718)	(1,664,152)
Foreign exchange loss, net		(39,712)	(74,070)
Profit before income tax		**2,572,811**	**1,200,517**
Income tax expense	11	(608,115)	(497,062)
Profit for the period		**1,964,696**	**703,455**
Total comprehensive income for the year		**1,964,696**	**703,455**
Attributable to:			
Equity holders of the Parent		1,964,699	703,326
Non-controlling interest		(3)	129
		1,964,696	**703,455**
Profit per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)		**15.75**	**5.64**

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

OJSC Dixy Group

Interim consolidated statement of cash flows

For the six months ended 30 June 2014

(in thousands of Russian roubles, unless otherwise indicated)

	Note	For the six months ended 30 June 2014	2013
		(unaudited)	
Cash flows from operating activities			
Profit before income tax		2,572,811	1,200,517
Adjustments for:			
Depreciation of property, plant and equipment	6	2,904,641	2,262,646
Amortisation of intangible assets		165,653	132,743
Amortisation of initial lease costs		19,126	16,568
Amortisation of unfavourable lease commitments		(22,056)	(28,055)
Gains less losses on disposals of property, plant and equipment and intangible assets		5,572	147,248
Increase/(decrease) in provision for impairment of taxes recoverable and prepayments		62,403	(16,699)
Increase/(decrease) in provision for impairment of trade and other receivables		37,724	(12,888)
Write down/(reversal of write down) of inventory to net realizable value		58,731	(6,428)
Finance costs		1,803,718	1,664,152
Finance income		(86,647)	(7,455)
Unrealised foreign exchange losses		39,712	74,070
Operating cash flows before working capital changes		**7,561,388**	**5,426,419**
Increase in trade and other receivables		(2,061,745)	(1,593,911)
(Increase)/decrease in inventories		(991,294)	758,983
Increase in operating lease deposits		(95,009)	(225,318)
Decrease in taxes recoverable and prepayments		341,249	1,103,154
Increase/(decrease) in trade and other payables		2,626,528	(920,375)
Increase in tax liability, other than income tax		237,451	287,055
Decrease in advances from customers		(70,624)	(31,327)
Cash generated from operations		**7,547,944**	**4,804,680**
Income tax paid		(832,530)	(654,660)
Interest paid		(1,786,938)	(1,402,956)
Net cash from operating activities		**4,928,476**	**2,747,064**
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,145,672)	(3,172,613)
Purchase of non-controlling interest in subsidiary	9	-	(505)
Proceeds from sale of property, plant and equipment		98,184	69,698
Proceeds from sale of intangible assets		24,351	-
Initial lease costs paid		-	(14,144)
Loans repaid		-	857
Interest received		81,958	2,965
Purchases of intangible assets		(126,260)	(84,934)
Purchase of available-for-sale investments		(37,530)	-
Net cash used in investing activities		**(3,104,969)**	**(3,198,676)**
Cash flows from financing activities			
Proceeds from loans and borrowings		-	7,895,506
Repayment of loans and borrowings		(2,001,176)	(8,377,180)
Finance lease payments		(22,954)	(17,496)
Net cash used in financing activities		**(2,024,130)**	**(499,170)**
Net decrease in cash and cash equivalents		**(200,623)**	**(950,782)**
Cash and cash equivalents at the beginning of the period	8	**4,397,044**	**3,646,067**
Cash and cash equivalents at the end of the period	8	**4,196,421**	**2,695,285**

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity

For the six months ended 30 June 2014

(in thousands of Russian roubles, unless otherwise indicated)

	Note	Attributable to equity holders of the Parent						
		Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2013 (audited)		1,248	20,437,555	(27,039)	4,028,421	24,440,185	646	24,440,831
Total comprehensive income for the period		-	-	-	703,326	703,326	129	703,455
Buy-out of minorities	9	-	-	-	(87)	(87)	(418)	(505)
At 30 June 2013 (unaudited)		1,248	20,437,555	(27,039)	4,731,660	25,143,424	357	25,143,781
At 1 January 2014 (audited)		1,248	20,443,341	(554)	7,083,876	27,527,911	357	27,528,268
Total comprehensive income for the period		-	-	-	1,964,699	1,964,699	(3)	1,964,696
At 30 June 2014 (unaudited)		1,248	20,443,341	(554)	9,048,575	29,492,610	354	29,492,964

1. Corporate information

CJSC "Company Uniland Holding" (the "Company") was incorporated in January 2003 in Moscow, Russian Federation, for the purpose of consolidation and reorganization of entities under common control. In March 2007 the Company was reorganized into an Open Joint Stock Company and renamed to "Dixy Group".

Since 24 May 2007 shares of OJSC Dixy Group are listed on the Russian Stock Exchange.

As at 30 June 2014 and 31 December 2013 the OJSC Dixy Group and its subsidiaries ("the Group") were controlled by Dixy Holding Limited (Cyprus), which as at 30 June 2014 owned 54.42% (31 December 2013: 54.42%) in OJSC Dixy Group.

As at 30 June 2014 and as at 31 December 2013 Dixy Holding Limited (Cyprus) was 18% owned by Megapolis Holdings (Overseas) Ltd and 82% owned by Dixy Retail Limited (BVI), which in its turn was 100% owned by Megapolis Holdings (Overseas) Ltd. Megapolis Holdings (Overseas) Ltd is a part of the Mercury Group. Mercury Group is ultimately controlled by Mr. Igor Kesaev.

These interim condensed consolidated financial statements of the Company were signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 28 August 2014.

2.1 Basis of preparation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new Standards and Interpretation listed below.

2.1 Basis of preparation and accounting policies (continued)

Significant accounting policies (continued)

Adoption of new standards and interpretation

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

- *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

- *Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36*

These amendments remove the unintended consequences of IFRS 13 Fair *Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended 31 December 2013.

- *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

- *Interpretation 21 Levies (IFRIC 21)*

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Seasonality of operation

Due to the seasonal nature of the Group's operations, higher revenues in all operating segments (Note 4) are usually expected in the second half of the year. Higher sales during the fourth quarter are mainly attributable to the increase in customer demand for food and beverages during the peak holiday season (Christmas and New Year eve period).

4. Segment information

For management purposes, the Group is organised into business units based on format of its stores and has seven reportable operating segments as follows:

- Kvartal – Kaliningrad – representing retail sales through a chain of neighbourhood stores in Kaliningrad and Kaliningrad region;
- Victoria – Kaliningrad – representing retail sales through a chain of compact hypermarkets in Kaliningrad and Kaliningrad region;
- Victoria – Moscow – representing retail sales through a chain of compact hypermarkets in Moscow;
- Dixy – Moscow – representing retail sales through a chain of neighbourhood stores, which are present in Central Region (comprising Moscow and Moscow region, Yaroslavl region, Ryazan region, Tula and Kaluga);
- Dixy – St.Petersburg – representing retail sales through a chain of neighbourhood stores, which are present in North-West Region (comprising Saint-Petersburg and neighbouring towns);
- Dixy – Chelyabinsk – representing retail sales through a chain of neighbourhood stores, which are present in Chelyabinsk Region;
- Megamart – representing retail sales through chains of compact hypermarkets and economy supermarkets (Minimart), which are present in Ural Region.

Starting 2011 the number of the Group's segments increased by Kvartal-Kaliningrad, Victoria-Kaliningrad and Victoria-Moscow as a result of acquisition of OJSC GK Victoria in June 2011. Neighbourhood stores located in Moscow and St. Petersburg acquired through acquisition of OJSC GK Victoria were included in Dixy – Moscow and Dixy – St. Petersburg reporting segments.

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. The Group corporate expenses are managed on a group basis and are not allocated to operating segments.

Corporate expenses include payroll of head office employees, amortisation and depreciation of corporate assets and other expenses related to general management of the Group. Corporate non-current assets include trademarks, software and other non-current assets used for general management of the Group.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. During the six months ended 30 June 2014 and 30 June 2013 there were no material transfers between reportable operating segments.

4. Segment information (continued)

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2014 and 30 June 2013 is set out below:

	Dixy – Moscow	Dixy – St.Petersburg	Dixy – Chelyabinsk	Megamart	Victoria – Kaliningrad	Victoria – Moscow	Kvartal – Kaliningrad	Adjustments	Group
Six months ended 30 June 2014 (unaudited)									
Total segment revenue	62,963,605	18,106,254	2,993,484	8,279,470	3,925,850	8,307,415	2,386,956	-	**106,963,034**
Profit before taxation	4,009,480	472,377	93,399	1,007,042	501,820	250,228	258,802	(4,020,337) (A)	**2,572,811**
Depreciation and amortisation	1,909,629	539,246	81,052	97,912	78,390	251,700	36,904	75,461 (B)	**3,070,294**
Other non-cash expenses									
Amortisation of initial lease costs and unfavourable lease rights	(6,329)	2,037	1,165	-	14	2,879	(2,696)	-	**(2,930)**

(A) Segment profit before taxation does not include corporate expenses of 2,263,554, finance costs of 1,803,718, finance income of 86,647 and net foreign exchange loss of 39,712;

(B) Segment depreciation and amortisation do not include depreciation and amortisation of corporate assets.

	Dixy – Moscow	Dixy – St.Petersburg	Dixy – Chelyabinsk	Megamart	Victoria – Kaliningrad	Victoria – Moscow	Kvartal – Kaliningrad	Adjustments	Group
Six months ended 30 June 2013 (unaudited)									
Total segment revenue	48,312,829	16,109,449	2,537,893	7,756,920	3,661,882	6,669,737	2,337,616	-	**87,386,326**
Profit before taxation	1,613,876	992,747	134,682	966,269	641,167	182,799	142,774	(3,473,797) (A)	**1,200,517**
Depreciation and amortisation	1,386,227	422,127	80,851	106,322	74,027	223,765	50,356	51,714 (B)	**2,395,389**
Other non-cash expenses									
Amortisation of initial lease costs and unfavourable lease rights	(12,953)	(371)	310	-	-	4,156	(2,629)	-	**(11,487)**

(A) Segment profit before taxation does not include corporate expenses of 1,743,030, finance costs of 1,664,152, finance income of 7,455 and net foreign exchange loss of 74,070;

(B) Segment depreciation and amortisation do not include depreciation and amortisation of corporate assets.

5. Balances and transactions with related parties

Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify, account and properly disclose transactions with related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the six-month period ended 30 June 2014 and 30 June 2013 or had significant balances outstanding at 30 June 2014 and 31 December 2013 are detailed below:

	30 June 2014 (unaudited)	31 December 2013 (audited)
Trade receivables (entities under common control)	79,169	19,612
Prepayments (entities under common control)	-	283
Other receivables (entities under common control)	4,916	4,801
Capital advances (entities under common control)	35,866	-
Loans receivable (entities under common control) – current	3,334	3,156
Loans receivable (entities under common control) – non-current	147,480	139,314
Trade and other payables (entities under common control)	569,697	1,032,962

The income and expense items with related parties for the six months ended 30 June 2014 and 30 June 2013 were as follows:

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Interest income (entities under common control)	4,540	4,030
Proceeds from sale of property, plant and equipment (entities under common control)	122,192	-
Transportation expenses (entities under common control)	30,186	-
Maintainance of software (entities under common control)	26,139	-

Loans issued to parties under common control

As at 30 June 2014 and 31 December 2013 the Group had several loans issued to parties under common control of the Group's ultimate shareholder. These loans are payable on demand and are mainly denominated in US dollar. The interest rate on these loans is 11.5% (2013: 11.5%). These loans are not secured.

Purchase of goods

During the six months ended 30 June 2014 and 30 June 2013 the Group purchased goods for resale in the normal course of business in the amount of 2,239,270 and 2,088,282, respectively, from entities under control of its controlling shareholder Megapolis Holdings (Overseas). The Group's controlling shareholder operates in the wholesale business specializing in distribution of tobacco goods.

5. Balances and transactions with related parties (continued)

Purchase of property, plant and equipment

During the six months ended 30 June 2014 and 30 June 2013 the Group purchased trucks in the normal course of business in the amount of 362,279 and nil, respectively, from entities under control of its controlling shareholder Megapolis Holdings (Overseas).

Compensation to key management personnel

During the six months ended 30 June 2014 compensation paid to six (during the six months ended 30 June 2013: six) directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results, all of which represent short-term employee benefits as defined in IAS 19, *Employee Benefits*. Total compensation to key management personnel included in selling, general and administrative expenses in the interim consolidated statement of comprehensive income for the six months ended 30 June 2014 and 30 June 2013 amounted to 156,188 and 186,519, respectively.

6. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment during the six-months ended 30 June 2014 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2013 (audited)	**802,809**	**21,124,191**	**9,283,482**	**16,356,524**	**125,092**	**47,692,098**
Additions	9,322	-	-	-	2,742,571	**2,751,893**
Transfers	(2,061)	243,133	900,453	1,487,361	(2,628,886)	**-**
Disposals	-	(5,913)	(69,362)	(210,654)	(217)	**(286,146)**
At 30 June 2014 (unaudited)	**810,070**	**21,361,411**	**10,114,573**	**17,633,231**	**238,560**	**50,157,845**
Accumulated depreciation and impairment						
At 31 December 2013 (audited)	**-**	**2,579,154**	**3,832,592**	**7,219,264**	**-**	**13,631,010**
Disposals	-	(1,384)	(12,988)	(163,074)	-	**(177,446)**
Depreciation charge	-	357,490	1,078,463	1,468,688	-	**2,904,641**
At 30 June 2014 (unaudited)	**-**	**2,935,260**	**4,898,067**	**8,524,878**	**-**	**16,358,205**
Net book value						
At 31 December 2013 (audited)	**802,809**	**18,545,037**	**5,450,890**	**9,137,260**	**125,092**	**34,061,088**
At 30 June 2014 (unaudited)	**810,070**	**18,426,151**	**5,216,506**	**9,108,353**	**238,560**	**33,799,640**

7. Inventories

	30 June 2014 (unaudited)	31 December 2013 (audited)
Goods for resale (net of write-down to net realizable value of 298,294 (31 December 2013: 239,563)	11,016,816	10,090,894
Raw materials and operating supplies (at cost)	18,312	11,672
Total inventories at the lower of cost or net realisable value	**11,035,128**	**10,102,566**

Inventory write-down due to shrinkages identified during the physical inventory counting during the six months ended 30 June 2014 and 30 June 2013 comprised 2,480,000 and 1,597,024, respectively. No inventory was pledged as at 30 June 2014 and 31 December 2013.

8. Cash and cash equivalents

	30 June 2014 (unaudited)	31 December 2013 (audited)
Cash on hand – Russian roubles	569,919	690,533
Russian rouble denominated bank balances due on demand	830,020	532,407
US$ denominated bank balances due on demand	693	516
Russian rouble denominated time deposits	2,091,164	1,972,166
Cash in transit – Russian roubles	704,625	1,201,422
Total cash and cash equivalents	**4,196,421**	**4,397,044**

9. Share capital and equity

Issued and additional paid-in capital

As at 30 June 2014 the Group had 124,750,000 (31 December 2013: 124,750,000) authorized ordinary shares of which 1,500 (31 December 2013: 1,500) ordinary shares were held as treasury stock. All ordinary shares are fully paid. Ordinary shares have par value of 0.01 Russian rouble per share. The shares rank equally. Each share carries one vote.

Dividends paid and proposed

No dividends were paid during the six months ended 30 June 2014 and 30 June 2013.
No dividends were declared or paid subsequent to 30 June 2014 up to the date of authorization of these interim condensed consolidated financial statements for issue.

10. Loans and borrowings

Terms and conditions in respect of borrowings are detailed below:

Source of financing	Maturity 30 June 2014 (unaudited)	Maturity 31 December 2013 (audited)	Cur-rency	Interest rate 30 June 2014 (unaudited)	Interest rate 31 December 2013 (audited)	Collateral 30 June 2014 (unaudited)	Collateral 31 December 2013 (audited)	30 June 2014 (unaudited)	31 December 2013 (audited)
Long-term part of syndicated borrowing facility	2015-2017	2015-2017	RUB	MOSPRIME+ 4.45%	MOSPRIME+ 4.45%	-	-	16,396,202	20,685,201
Long-term part of syndicated borrowing facility	2018	2018	RUB	MOSPRIME+ 4.3%	MOSPRIME+ 4.3%	-	-	7,867,899	7,874,914
Short-term part of syndicated borrowing facility	2014-2015	2014	RUB	MOSPRIME+ 4.45%	MOSPRIME+ 4.45%	-	-	2,341,942	38,714
Short-term part of syndicated borrowing facility	2014-2015	2014	RUB	MOSPRIME+ 4.3%	MOSPRIME+ 4.3%	-	-	314,993	289,094
								26,921,036	28,887,923

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its interest rate exposures.

In accordance with terms and conditions of certain borrowing agreements the Group has to maintain certain ratios – maximum level of Total Financial Debt / EBITDA, minimum level of EBITDA/Interest expense, minimum level of EBITDAR/Fixed costs. As of 30 June 2014 and 31 December 2013 the Group was in compliance with externally imposed capital requirements.

11. Income taxes

Income tax expense comprises the following:

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Current income tax charge	717,987	462,904
Deferred income tax (credit charge)/expense	(109,872)	34,158
Income tax expense	**608,115**	**497,062**

12. Contingencies, commitments and operating risks

Russia is continuing economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and on the effectiveness of economic, financial and monetary measures undertaken by the government.

12. Contingencies, commitments and operating risks (continued)

Operating environment of the Group

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Over the past six months economic and political instability in Ukraine has increased significantly. Further escalation of the conflict in Ukraine may lead to more serious sanctions from the United States of America, the European Union and other countries. As a result, the macroeconomic environment in Russia may deteriorate while some Russian companies may face difficulties in obtaining foreign funding and doing business with foreign counterparties. Moreover, low visibility around potential sanctions and the Ukraine situation's development could lead to higher volatility in financial markets and a potential increase in interest rates.

In August 2014, in response to the sanctions from foreign countries, Russia imposed a one-year import ban on certain food and agricultural products if their country of consignment is the United States of America, a European Union country, Canada, Australia or Norway. The new regulation will likely require adjustments to the Group's product range, but management believes that the Group will be able to replace most of the prohibited import products within a reasonable period of time.

Management is taking appropriate actions to support the sustainability of the Group's business in the current circumstances, but an unexpected deterioration of the Russian economy due to foreign countries' sanctions or a further change in the regulatory environment in Russia may negatively affect the Group's results and financial position in a manner not currently determinable.

Tax legislation

The Group's main subsidiaries, from which the Group's income is derived, operates in Russia. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group's subsidiary may be challenged by the relevant regional and federal authorities.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 30 June 2014 and 31 December 2013. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 June 2014 and 31 December 2013 provision for income tax liabilities and provision for taxes other than income tax, indemnifiable from the former shareholders of OJSC GK Victoria comprised 6,381 and 5,763, respectively. Management believes that these provisions will be sufficient to cover any additional tax payments it may need to make in the future.

12. Contingencies, commitments and operating risks (continued)

Tax legislation (continued)

Although historically there have been no significant liabilities arising from tax assessments, the potential for assessments over amounts provided or accrued remains. Management estimates that the order of magnitude as at 30 June 2014 of potential liabilities that have not been provided for because management believes they are less than probable amounts to 1,152,809 (31 December 2013: 1,130,253).

Litigation

During the six months ended 30 June 2014 the Group was involved in litigation with tax authorities in respect of tax claims arisen as a result of tax audits. The Group believes that the risk that they would not be able to defend their position in court is possible and the amount of related tax risks not recognized in these consolidated statements amounted to 30,831 as at 30 June 2014 (31 December 2013: 22,093).

13. Events after the reporting date

There were no significant events after the reporting date.