Consolidated financial statements

***OJSC Dixy Group and its subsidiaries***

for the year ended 31 December 2014

*with independent auditor's report*

## Contents

Совершенствуя бизнес,
улучшаем мир

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# Independent auditor's report

To the Shareholders and the Board of Directors of OJSC Dixy Group

We have audited the accompanying consolidated financial statements of OJSC Dixy Group and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Management's responsibility for the consolidated financial statements***

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

***Auditor's responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. 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 audit procedures selected depend on the auditor's judgment, 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 auditor considers internal control relevant to the 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 management, 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.

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### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC Dixy Group and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

P.F. Seregin
Partner
Ernst & Young LLC

2 April 2015

***Details of the audited entity***

Name: OJSC Dixy Group
Record made in the State Register of Legal Entities on 5 January 2003, State Registration Number 1037704000510.
Address: Russia 119361, Moscow, Ochakovskaya B., 47A, building 1.

***Details of the auditor***

Name: Ernst & Young LLC
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Ernst & Young LLC is a member of self-regulatory organization of auditors Non Profit partnership "Russian Audit Chamber" ("SRO NP APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

OJSC Dixy Group

# Consolidated statement of financial position as at 31 December 2014

*(in thousands Russian roubles, unless otherwise indicated)*

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 36,823,389 | 34,061,088 |
| Capital advances | | 291,612 | 987,283 |
| Goodwill | 6 | 17,665,526 | 17,665,526 |
| Other intangible assets | 7 | 2,887,930 | 2,877,612 |
| Operating lease deposits | | 1,204,183 | 941,906 |
| Initial lease costs | | 205,049 | 108,565 |
| Loans | 4 | 254,030 | 139,314 |
| Deferred tax asset | 19 | 178,747 | 428,532 |
| Available-for-sale investments | | 37,530 | - |
| | | 59,547,996 | 57,209,826 |
| **Current assets** | | | |
| Inventories | 9 | 14,867,080 | 10,102,566 |
| Trade and other receivables | 10 | 6,856,906 | 6,039,855 |
| Taxes recoverable and prepayments | 8 | 3,078,887 | 1,814,778 |
| Income tax prepayments | | 1,157,507 | 452,284 |
| Loans | 4 | 3,908 | 3,156 |
| Initial lease costs | | 58,522 | 27,242 |
| Cash and cash equivalents | 11 | 2,749,989 | 4,397,044 |
| | | 28,772,799 | 22,836,925 |
| **Total assets** | | 88,320,795 | 80,046,751 |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the Parent** | | | |
| Share capital | 12 | 1,248 | 1,248 |
| Additional paid-in capital | | 20,443,341 | 20,443,341 |
| Treasury shares | | (554) | (554) |
| Retained earnings | | 11,574,738 | 7,083,876 |
| | | 32,018,773 | 27,527,911 |
| Non-controlling interest | | 125 | 357 |
| **Total equity** | | 32,018,898 | 27,528,268 |
| **Non-current liabilities** | | | |
| Borrowings | 13 | 25,155,011 | 28,560,115 |
| Finance leases | | - | 2,535 |
| Unfavourable operating lease agreements | | 44,782 | 76,451 |
| Deferred tax liability | 19 | 655,227 | 851,691 |
| | | 25,855,020 | 29,490,792 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 26,449,398 | 21,468,165 |
| Borrowings | 13 | 2,646,724 | 327,808 |
| Finance leases | | 1,445 | 47,012 |
| Advances from customers | | 224,890 | 307,023 |
| Tax liability, other than income taxes | 15 | 1,043,797 | 793,827 |
| Income taxes payable | | 49,049 | 34,808 |
| Unfavourable operating lease agreements | | 31,574 | 43,285 |
| Provisions for liabilities and charges | 21 | - | 5,763 |
| | | 30,446,877 | 23,027,691 |
| | | 56,301,897 | 52,518,483 |
| **Total equity and liabilities** | | 88,320,795 | 80,046,751 |

Signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 2 April 2015

Fedor Rybasov, General Director

Irina Kobyakina, Head of IFRS Reporting

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

# OJSC Dixy Group

## Consolidated statement of comprehensive income

## For the year ended 31 December 2014

*(in thousands of Russian roubles, unless otherwise indicated)*

| | Note | 2014 | 2013 |
|---|---|---|---|
| Revenue | 16 | 228,985,059 | 180,504,463 |
| Cost of sales | 17 | (159,499,909) | (125,134,620) |
| **Gross profit** | | **69,485,150** | **55,369,843** |
| Selling, general and administrative expenses | 18 | (59,213,042) | (47,811,799) |
| **Operating profit** | | **10,272,108** | **7,558,044** |
| Finance income | | 157,051 | 19,154 |
| Finance costs | | (4,093,571) | (3,416,551) |
| Foreign exchange loss, net | | (627,694) | (70,242) |
| **Profit before income tax** | | **5,707,894** | **4,090,405** |
| Income tax expense | 19 | (1,217,264) | (1,034,734) |
| **Profit for the year** | | **4,490,630** | **3,055,671** |
| **Total comprehensive income for the year** | | **4,490,630** | **3,055,671** |
| **Attributable to:** | | | |
| Equity holders of the parent | | 4,490,862 | 3,055,542 |
| Non-controlling interest | | (232) | 129 |
| | | 4,490,630 | 3,055,671 |
| Profit per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share) | 20 | 36.00 | 24.51 |

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

OJSC Dixy Group

Consolidated statement of cash flows

For the year ended 31 December 2014

*(in thousands of Russian roubles, unless otherwise indicated)*

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before income tax | | 5,707,894 | 4,090,405 |
| *Adjustments for:* | | | |
| Depreciation of property, plant and equipment | 5 | 5,795,399 | 4,948,302 |
| Amortisation of intangible assets | 7 | 292,678 | 286,513 |
| Amortisation of initial lease costs | 18 | 24,003 | 40,525 |
| Amortisation of unfavourable lease agreements | 18 | (43,380) | (52,685) |
| Loss on disposals of property, plant and equipment and intangible assets | 18 | 60,095 | 329,054 |
| Increase/(decrease) in provision for impairment of taxes recoverable and prepayments | 8, 18 | 9,390 | (20,195) |
| Increase/(decrease) in provision for impairment of trade and other receivables | 10, 18 | 109,367 | (14,340) |
| Write down of inventory to net realisable value | 9 | 259,673 | 30,161 |
| Finance costs | | 4,093,571 | 3,416,551 |
| Finance income | | (157,051) | (19,154) |
| Foreign exchange loss, net | | 627,694 | 70,242 |
| **Operating cash flows before working capital changes** | | **16,779,333** | **13,105,379** |
| Increase in trade and other receivables | | (938,563) | (2,204,110) |
| Increase in inventories | | (5,024,187) | (1,195,982) |
| Increase in operating lease deposits | | (262,277) | (349,102) |
| (Increase)/decrease in taxes recoverable and prepayments | | (1,168,145) | 1,558,896 |
| Increase in trade and other payables | | 4,248,589 | 2,258,843 |
| Increase/(decrease) in tax liability other than income tax | | 249,970 | (99,370) |
| (Decrease)/increase in advances from customers | | (82,133) | 104,819 |
| **Cash generated from operations** | | **13,802,587** | **13,179,373** |
| Income tax paid | | (1,848,545) | (1,129,303) |
| Interest paid | | (4,251,539) | (3,110,109) |
| **Net cash from operating activities** | | **7,702,503** | **8,939,961** |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | | (8,073,942) | (7,838,740) |
| Proceeds from sale of property, plant and equipment | | 150,563 | 323,407 |
| Initial lease costs paid | | (151,766) | (29,343) |
| Disbursement of loans | | (2,000) | - |
| Loans repaid | | 2,000 | 857 |
| Interest received | | 146,532 | 10,216 |
| Purchases of intangible assets | | (323,840) | (163,259) |
| Purchase of investments | | (37,530) | - |
| **Net cash used in investing activities** | | **(8,289,983)** | **(7,696,862)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from loans and borrowings | | 27,727,713 | 7,890,650 |
| Repayment of loans and borrowings | | (28,739,188) | (8,377,180) |
| Proceeds from sale of treasury shares | 12 | - | 32,271 |
| Purchase of non-controlling interest in subsidiary | 12 | - | (505) |
| Finance lease payments | | (48,100) | (37,358) |
| **Net cash used in financing activities** | | **(1,059,575)** | **(492,122)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1,647,055)** | **750,977** |
| **Cash and cash equivalents at the beginning of the year** | 11 | **4,397,044** | **3,646,067** |
| **Cash and cash equivalents at the end of the year** | 11 | **2,749,989** | **4,397,044** |

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

OJSC Dixy Group

Consolidated statement of changes in equity

For the year ended 31 December 2014

*(in thousands of Russian roubles, unless otherwise indicated)*

| | | Attributable to equity holders of the Parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Additional paid-in capital | Treasury shares | Retained earnings | Total | Non-controlling interest | Total equity |
| **At 31 December 2012** | | **1,248** | **20,437,555** | **(27,039)** | **4,028,421** | **24,440,185** | **646** | **24,440,831** |
| Total comprehensive income for the year | | - | - | - | 3,055,542 | **3,055,542** | 129 | **3,055,671** |
| Buy-out of non-controlling interest in a subsidiary | 12 | - | - | - | (87) | **(87)** | (418) | **(505)** |
| Sale of treasury shares | 12 | - | 5,786 | 26,485 | - | **32,271** | - | **32,271** |
| **At 31 December 2013** | | **1,248** | **20,443,341** | **(554)** | **7,083,876** | **27,527,911** | **357** | **27,528,268** |
| Total comprehensive income for the year | | - | - | - | 4,490,862 | **4,490,862** | (232) | **4,490,630** |
| **At 31 December 2014** | | **1,248** | **20,443,341** | **(554)** | **11,574,738** | **32,018,773** | **125** | **32,018,898** |

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

## 1 Corporate information

CJSC "Company Uniland Holding" was incorporated in January 2003 in Moscow, Russian Federation for the purpose of consolidation and reorganization of entities under common control. In March 2007 CJSC "Company Uniland Holding" was reorganized into an Open Joint Stock Company and renamed to "Dixy Group" (the "Company"). The address of the Company's registered office is Russia, Moscow, Ochakovskaya B., 47A, building 1.

The OJSC Dixy Group and its subsidiaries (the "Group") operate in the retail sales business. The Group's principal activities include trading of consumer goods through stores within the Russian Federation.

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

As of 31 December 2014 and 2013 the Group is controlled by Dixy Holding Limited (Cyprus), which as of 31 December 2014 and 2013 owned 54.42 % in OJSC Dixy Group.

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

These consolidated financial statements of the Group were signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 2 April 2015.

## 2.1 Basis of preparation

The Group's companies maintain their accounting records and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular Group company is resident. The financial statements are based on the statutory accounting records with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The functional currency of the Group's companies was determined on an entity by entity basis. In 2014 and 2013 the functional currency of all of the Group's operating companies was determined to be Russian roubles.

The consolidated financial statements are presented in Russian roubles and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.1 Basis of preparation (continued)

### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

### Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014 and for the year then ended.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

As at 31 December 2014 and 31 December 2013 the principal operating and holding consolidated subsidiaries of OJSC Dixy Group were:

| | | | Ownership (%) | |
|---|---|---|---|---|
| **Company** | **Country** | **Nature of operations** | **2014** | **2013** |
| Timefield Trading & Investments Ltd | Cyprus | Financial company | 100% | 100% |
| CJSC DIXY Yug | Russia | Retailing | 100% | 100% |
| LLC Victoria Baltiya | Russia | Retailing | 100% | 100% |
| LLC Kopilka | Russia | Real estate | 100% | 100% |
| CJSC Megamart | Russia | Retailing | 100% | 100% |
| OJSC YarTorgOdezhda | Russia | Real estate | 100% | 100% |
| LLC Dixy Finance | Russia | Financing company | 0% | 0% |

## 2.1 Basis of preparation (continued)

### Basis of consolidation (continued)

LLC Dixy Finance satisfied the criteria of IFRS 10 Consolidated financial statements and accordingly is consolidated in these consolidated financial statements (refer to Note 2.3).

## 2.2 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2014 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 Interpretations.

### Adoption of new standards

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- *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.

## 2.2 Changes in accounting policy and disclosures (continued)

### Adoption of new standards (continued)

- *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.

- *Annual Improvements 2010-2012 Cycle*

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

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

## 2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

### Judgements

*Consolidation of structured entity*

In 2005 the immediate shareholder of the Company founded a wholly-owned subsidiary LLC Dixy Finance. The objective of LLC Dixy Finance is to obtain external financing and provide loans to operating companies of the Group and to pay a remuneration to the Group’s management. Having analysed the criteria set out in IFRS 10, management concluded that in substance LLC Dixy Finance represents a consolidated structured entity controlled by the Group and is therefore consolidated in these consolidated financial statements.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## 2.3 Significant accounting judgments, estimates and assumptions (continued)

### Estimates and assumptions (continued)

*Impairment of non-financial assets*

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing.

*Goodwill*

Goodwill is tested for impairment annually as at 30 September and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## 2.3 Significant accounting judgments, estimates and assumptions (continued)

### Estimates and assumptions (continued)

*Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 September either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

*Useful lives of items of property, plant and equipment and intangible assets*

The Group assesses the remaining useful lives of items of property, plant and equipment and intangible assets at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

*Allowance for trade and other receivables*

The Group maintains an allowance for trade and other receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for trade and other receivables, management bases its estimates on the ageing of trade and other receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2014 allowances for trade and other receivables have been created in the amount of 203,964 (2013: 94,597).

*Inventory valuation*

The Group determines the amounts to be written-down for obsolete or slow moving items of inventories based on their expected future use and realisable value. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Selling prices and costs to sale are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

*Litigations*

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

## 2.3 Significant accounting judgments, estimates and assumptions (continued)

### Estimates and assumptions (continued)

*Current taxes*

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods (refer to Note 21).

*Deferred tax assets*

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss (refer to Note 19).

## 2.4 Summary of significant accounting policies

### Current versus non-current classification

The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

## 2.4 Summary of significant accounting policies (continued)

### Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 22.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Property, plant and equipment

The Group’s property, plant and equipment, except for assets acquired prior to 1 January 2003, are stated at historical cost less accumulated depreciation and any impairment in value. Property, plant and equipment acquired before 1 January 2003 is stated at cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 2002, less accumulated depreciation and any impairment in value.

## 2.4 Summary of significant accounting policies (continued)

### Property, plant and equipment (continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Group companies estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised for an asset in previous years is reversed if there is any indication that impairment loss may no longer exist or may have decreased.

After initial recognition property, plant and equipment is measured at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria is met.

Depreciation is calculated using the straight-line basis over the useful life of the asset as follows:

| | Useful lives in years |
|---|---|
| Buildings | 30 |
| Renovation of stores | 5 |
| Equipment | 3-8 |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is derecognised.

Renewals and permanent improvements to leased premises are capitalised and depreciated over the expected lease term but not exceeding their useful lives. Management expects that all short term lease agreements can be prolonged. This group of assets is depreciated from the month of store opening.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

## 2.4 Summary of significant accounting policies (continued)

### 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 initial lease costs) are charged to profit or loss on a straight-line basis over the period 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.

### Finance lease liabilities

Where the Group is a lessee in a lease, which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between settlement of outstanding liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The interest cost is charged to the profit or loss over the lease term so as to produce constant periodic rate of interest on remaining balance of the liability. The assets acquired under finance leases are depreciated over the shorter of their useful life or lease term.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually. These calculations require the use of estimates as further detailed in Note 6. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

### Other intangible assets

All Group's other intangible assets except "Kvartal" trademark have definite useful lives and primarily include capitalised computer software, trademarks and favourable operating lease agreements.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

## 2.4 Summary of significant accounting policies (continued)

Intangible assets are amortised using the straight-line method over their useful lives:

| | Useful lives in years |
|---|---|
| Software licenses | 5-10 |
| Favourable lease agreements – over the lease term | 5-10 |

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least annually at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

### Capital advances

Capital advances include amounts prepaid for property, plant and equipment and are measured at cost. Payments for purchases of property, plant and equipment are presented net of VAT in the cash flow statement.

### Initial lease costs

Initial lease costs include lump sum amounts paid to the lessors under operating leases of stores and warehouses either for the right to conclude the lease or to finance construction and repair works on the leased assets. Initial lease costs are capitalised and charged to profit or loss on a straight-line basis over the period of lease.

### Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. A liability is also recorded for any uncertain tax positions for which tax obligation is considered to be probable. This liability is released to profit or loss after three years. A provision for taxes, other than on income, is set up and recorded within selling, general and administrative expenses.

## 2.4 Summary of significant accounting policies (continued)

### Income taxes (continued)

Deferred income tax is provided using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

### Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

### Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, reconsiders this designation at each financial year-end. Currently Group has only loans receivable and trade and other receivables.

*Loans receivable*

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition loans receivable are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans receivable are derecognised or impaired, as well as through the amortisation process.

## 2.4 Summary of significant accounting policies (continued)

### Investments and other financial assets (continued)

*Available for sale (AFS) financial assets*

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

*Trade and other accounts receivable*

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. Trade and other receivables mainly comprise receivables from vendors for volume bonuses and marketing services.

*Impairment of financial assets carried at amortised cost*

The Group assesses at each reporting date whether a financial asset or group of financial assets are impaired.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

## 2.4 Summary of significant accounting policies (continued)

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash transferred from stores to bank but not yet credited to bank accounts as of the reporting date is recorded as cash in transit.

### Derecognition of financial assets and liabilities

*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

### Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction from the proceeds.

### Additional paid-in capital

Additional paid-in capital represents accumulated contributions made by shareholders and share premium for new shares issue transactions. Additional contributions of shareholders other than proceeds from issue of the Company's equity instruments are recorded at the fair value of the contributions received.

### Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital.

### Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

## 2.4 Summary of significant accounting policies (continued)

### Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable upon collection of documents required for tax deduction. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

### Borrowings

Borrowings are recognised initially at fair value (which is the present value of the proceeds received determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. The borrowing costs incurred on qualifying assets are capitalised and amortised over useful life of qualifying asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

### Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

If the effect of the time value of money is material, 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### Foreign currency translation

The consolidated financial statements are presented in Russian roubles, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recognised in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

## 2.4 Summary of significant accounting policies (continued)

### Foreign currency translation (continued)

All resulting differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At 31 December 2014 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 56.2584 (2013: US$ 1 = RR 32.7292) and EUR 1 = RR 68.3427 (2013: EUR = RR 44.9699).

### Employee benefits

Employee benefits for the services provided during a reporting period are recognised as an expense in that reporting period. All employee benefit plans represent defined contribution plans.

*State pension plan*

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognised in the profit and loss as incurred.

*Bonuses*

For each year the Group's management establishes bonus programs for middle and senior management. Bonuses are generally dependent on the achievement of certain financial performance criteria of individual business units and the Group as a whole and are calculated and accrued in the period in which the related services are rendered.

*Other costs*

The Group incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to selling, general and administrative expenses.

### Revenue recognition

Revenue is recognised when risks and rewards of ownership related to goods are transferred to the customer, provided that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised net of value added tax and discounts.

Rental income is recognised on a straight-line basis over the lease term.

## 3 Segment information

Since the second half of 2014 management has changed structure of components used to make decisions about operating matters, and the main profit measure used for the purposes of allocating resources to these components and measuring their performance. As part of this realignment, the previous Dixy-Moscow, Dixy-St.Petersburg, Dixy-Chelyabinsk segments have been aggregated into the Dixy segment and Victoria-Kaliningrad, Victoria-Moscow and Kvartal-Kaliningrad segments have been aggregated into the Victoria segment. The segment information for earlier periods has been restated to conform with these changes.

New segments have similar format of their stores which is described below:

- Dixy – representing retail sales through a chain of neighbourhood stores, which are present in Central, North-West and Chelyabinsk region.
- Megamart – representing retail sales through chains of compact hypermarkets and economy supermarkets (Minimart), which are present in Ural region.
- Victoria – representing retail sales through a chain of compact hypermarkets and neighbourhood stores in Kaliningrad and Moscow region.

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 years ended 31 December 2014 and 2013 there were no material transfers between reportable operating segments.

## 3 Segment information (continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2014 and 2013 is set out below:

| | Dixy | Megamart | Victoria | Adjustments | Group |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Total segment revenue | 181,183,381 | 17,328,524 | 30,473,154 | - | 228,985,059 |
| Segment results | 10,301,264 | 2,194,013 | 1,999,792 | (8,787,175)[(A)] | 5,707,894 |
| Depreciation and amortisation | 4,903,295 | 207,314 | 814,958 | 162,510[(B)] | 6,088,077 |
| **Other non-cash expenses:** | | | | | |
| Amortisation of initial lease costs and unfavourable lease rights | (20,657) | - | 1,280 | - | (19,377) |

(A) Total segment results differ from Group's profit before tax as they do not include corporate expenses of 4,222,961, finance costs of 4,093,571, finance income of 157,051 and net foreign exchange loss of 627,694.

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

| | Dixy | Megamart | Victoria | Adjustments | Group |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Total segment revenue | 138,136,548 | 16,062,590 | 26,305,325 | - | 180,504,463 |
| Segment results | 6,252,808 | 2,008,407 | 1,961,212 | (6,132,022)[(A)] | 4,090,405 |
| Depreciation and amortisation | 4,188,498 | 210,845 | 719,802 | 115,670[(B)] | 5,234,815 |
| **Other non-cash expenses:** | | | | | |
| Amortisation of initial lease costs and unfavourable lease rights | (13,936) | - | 1,776 | - | (12,160) |

(A) Total segment results differ from Group's profit before tax as they do not include corporate expenses of 2,664,383, finance costs of 3,416,551, finance income of 19,154 and net foreign exchange gain of 70,242.

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

## 4 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 or had significant balances outstanding at 31 December 2014 and 31 December 2013 are detailed below:

| | Entities under common control | |
|---|---|---|
| | 2014 | 2013 |
| Trade receivables | 48,697 | 19,612 |
| Prepayments | – | 283 |
| Other receivables | 79 | 4,801 |
| Loans receivable – current | 3,908 | 3,156 |
| Loans receivable – non-current | 254,030 | 139,314 |
| Trade and other payables | 1,000,764 | 1,032,962 |

## 4 Balances and transactions with related parties (continued)

Except for loans receivable outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2014 the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2013: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The income and expense items with related parties for 2014 and 2013 were as follows:

| | Entities under common control | |
|---|---|---|
| | 2014 | 2013 |
| Interest income | 12,703 | 8,328 |
| Profit from disposal of fixed assets | 95,286 | 42,200 |
| Transportation expenses | (66,413) | – |
| Maintainance of software | (51,668) | – |
| Other expenses | (5,512) | – |

There were no transferes under finance arrangements in 2014 and 2013.

### Directors' compensation

Compensation paid to six (2013: six) directors for their services in full or part time executive management positions is made up of a contractual salary, share-based compensation and a performance bonus depending on operating results. Total directors' compensation included in selling, general and administrative expenses in profit or loss amounted to 595,314 (2013: 139,105), out of which nil (2013: 11,428) related to share-based compensation accrued in accordance with cash-settled share-based payment program.

### Loans issued to parties under common control

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

### Purchase of goods

During 2014 and 2013 the Group purchased goods for resale in the normal course of business in the amount of 5,710,006 (2013: 4,756,427) from entities under control of its controlling shareholder Megapolis Holdings (Overseas) Ltd. The Group's controlling shareholder operates in the wholesale business specializing in distribution of tobacco goods.

## 5 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment in 2014 were as follows:

| | Land | Buildings | Renovation of stores | Equipment | Assets under construction and uninstalled equipment | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 31 December 2013** | **802,809** | **21,124,191** | **9,283,482** | **16,356,524** | **125,092** | **47,692,098** |
| Additions | 95,816 | - | - | - | 8,651,698 | **8,747,514** |
| Transfers | (2,061) | 1,917,503 | 2,185,758 | 4,466,718 | (8,567,918) | **-** |
| Disposals | - | (7,039) | (76,783) | (644,885) | (216) | **(728,923)** |
| **At 31 December 2014** | **896,564** | **23,034,655** | **11,392,457** | **20,178,357** | **208,656** | **55,710,689** |
| **Accumulated depreciation and impairment** | | | | | | |
| **At 31 December 2013** | **-** | **2,579,154** | **3,832,592** | **7,219,264** | **-** | **13,631,010** |
| Disposals | - | (4,747) | (50,301) | (484,061) | - | **(539,109)** |
| Depreciation charge | - | 728,880 | 1,982,538 | 3,083,981 | - | **5,795,399** |
| **At 31 December 2014** | **-** | **3,303,287** | **5,764,829** | **9,819,184** | **-** | **18,887,300** |
| **Net book value** | | | | | | |
| **At 31 December 2014** | **896,564** | **19,731,368** | **5,627,628** | **10,359,173** | **208,656** | **36,823,389** |
| **At 31 December 2013** | **802,809** | **18,545,037** | **5,450,890** | **9,137,260** | **125,092** | **34,061,088** |

Movements in the carrying amount of property, plant and equipment in 2013 were as follows:

| | Land | Buildings | Renovation of stores | Equipment | Assets under construction and uninstalled equipment | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 31 December 2012** | **708,326** | **20,505,033** | **6,789,217** | **13,481,611** | **730,813** | **42,215,000** |
| Additions | 94,483 | - | - | - | 7,465,120 | **7,559,603** |
| Transfers | - | 1,044,002 | 2,888,008 | 3,901,822 | (7,833,832) | **-** |
| Disposals | - | (424,844) | (393,743) | (1,026,909) | (237,009) | **(2,082,505)** |
| **At 31 December 2013** | **802,809** | **21,124,191** | **9,283,482** | **16,356,524** | **125,092** | **47,692,098** |
| **Accumulated depreciation and impairment** | | | | | | |
| **At 31 December 2012** | **-** | **1,906,674** | **2,401,846** | **5,301,987** | **113,663** | **9,724,170** |
| Disposals | - | (2,765) | (112,154) | (812,880) | (113,663) | **(1,041,462)** |
| Depreciation charge | - | 675,245 | 1,542,900 | 2,730,157 | - | **4,948,302** |
| **At 31 December 2013** | **-** | **2,579,154** | **3,832,592** | **7,219,264** | **-** | **13,631,010** |
| **Net book value** | | | | | | |
| **At 31 December 2013** | **802,809** | **18,545,037** | **5,450,890** | **9,137,260** | **125,092** | **34,061,088** |
| **At 31 December 2012** | **708,326** | **18,598,359** | **4,387,371** | **8,179,624** | **617,150** | **32,490,830** |

## 5 Property, plant and equipment (continued)

The carrying value of equipment held under finance lease contracts at 31 December 2014 was 26,726 (2013: 74,364).

No additions of equipmet held under finance leases took place during 2014 and 2013. The Group has no title for leased assets and the ownership rights for their transfer to the Group upon the maturity of finance lease contracts.

During the year ended 31 December 2014 the Group capitalised interest of 83,256 (2013: 32,811). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 14.81% (2013: 11.76%).

## 6 Goodwill

Goodwill is allocated to major parts of the reportable segments, which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

Movements in the carrying amount of goodwill in 2014 were as follows:

| | Dixy-Moscow | Dixy-St. Petersburg | Victoria-Kaliningrad | Victoria-Moscow | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 31 December 2012 | 11,129,762 | 2,558,384 | 1,866,415 | 2,157,090 | **17,711,651** |
| At 31 December 2013 | 11,129,762 | 2,558,384 | 1,866,415 | 2,157,090 | **17,711,651** |
| **At 31 December 2014** | **11,129,762** | **2,558,384** | **1,866,415** | **2,157,090** | **17,711,651** |
| | | | | | |
| **Accumulated impairment losses** | | | | | |
| At 31 December 2012 | 46,125 | – | – | – | **46,125** |
| At 31 December 2013 | 46,125 | – | – | – | **46,125** |
| **At 31 December 2014** | **46,125** | **–** | **–** | **–** | **46,125** |
| | | | | | |
| **Net book value** | | | | | |
| **At 31 December 2012** | **11,083,637** | **2,558,384** | **1,866,415** | **2,157,090** | **17,665,526** |
| **At 31 December 2013** | **11,083,637** | **2,558,384** | **1,866,415** | **2,157,090** | **17,665,526** |
| **At 31 December 2014** | **11,083,637** | **2,558,384** | **1,866,415** | **2,157,090** | **17,665,526** |

The recoverable amount of CGUs was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which CGUs operates.

## 6 Goodwill (continued)

Assumptions for each CGU used for value-in-use calculations to which the recoverable amount is most sensitive were:

| | 2014 | | | |
|---|---|---|---|---|
| | Dixy-Moscow | Dixy-St. Petersburg | Victoria-Kaliningrad | Victoria-Moscow |
| Like-for-like growth within five years | 5.0% | 5.0% | 5.0% | 5.0% |
| EBITDA margin | 5.4% | 5.6% | 14.1% | 5.9% |
| Growth rate beyond five years | 4.9% | 4.9% | 4.9% | 4.9% |
| Pre-tax discount rate | 19.3% | 19.3% | 20.0% | 20.0% |

| | 2013 | | | |
|---|---|---|---|---|
| | Dixy-Moscow | Dixy-St. Petersburg | Victoria-Kaliningrad | Victoria-Moscow |
| Like-for-like growth within five years | 5.0% | 6.0% | 5.0% | 6.0% |
| EBITDA margin | 5.3% | 5.2% | 13.7% | 8.4% |
| Growth rate beyond five years | 3.6% | 3.6% | 3.6% | 3.6% |
| Pre-tax discount rate | 16.9% | 16.9% | 17.6% | 17.6% |

Management determined budgeted EBITDA margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports prepared by reputable analysts. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

With regard to the assessment of value in use of all of the reportable segments, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 7 Other intangible assets

Movements in the carrying amount of intangible assets in 2014 were as follows:

| | Trademarks | Licenses | Favourable operating lease agreements | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 31 December 2013** | **1,326,508** | **769,545** | **1,798,655** | **3,894,708** |
| Additions | - | 323,840 | - | **323,840** |
| Disposals | - | (54,091) | (29,895) | **(83,986)** |
| **At 31 December 2014** | **1,326,508** | **1,039,294** | **1,768,760** | **4,134,562** |
| **Amortisation** | | | | |
| **At 31 December 2013** | **142,517** | **279,363** | **595,216** | **1,017,096** |
| Amortisation charge | - | 162,646 | 130,032 | **292,678** |
| Disposals | - | (35,568) | (27,574) | **(63,142)** |
| **At 31 December 2014** | **142,517** | **406,441** | **697,674** | **1,246,632** |
| **Carrying amount** | | | | |
| **At 31 December 2014** | **1,183,991** | **632,853** | **1,071,086** | **2,887,930** |
| **At 31 December 2013** | **1,183,991** | **490,182** | **1,203,439** | **2,877,612** |

## 7 Other intangible assets (continued)

Movements in the carrying amount of intangible assets in 2013 were as follows:

| | Trademarks | Licenses | Favourable operating lease agreements | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 31 December 2012** | **1,327,739** | **600,002** | **1,899,720** | **3,827,461** |
| Additions | – | 203,167 | – | **203,167** |
| Disposals | (1,231) | (33,624) | (101,065) | **(135,920)** |
| **At 31 December 2013** | **1,326,508** | **769,545** | **1,798,655** | **3,894,708** |
| **Amortisation** | | | | |
| **At 31 December 2012** | **142,691** | **162,089** | **527,717** | **832,497** |
| Amortisation charge | – | 122,993 | 163,520 | **286,513** |
| Disposals | (174) | (5,719) | (96,021) | **(101,914)** |
| **At 31 December 2013** | **142,517** | **279,363** | **595,216** | **1,017,096** |
| **Carrying amount** | | | | |
| **At 31 December 2013** | **1,183,991** | **490,182** | **1,203,439** | **2,877,612** |
| **At 31 December 2012** | **1,185,048** | **437,913** | **1,372,003** | **2,994,964** |

Trademarks represent trademark "Kvartal" acquired through acquisition of OJSC GK Victoria in 2011 and used by the Group for convenience store format in Kaliningrad region. Useful life of "Kvartal" trademark was assessed as indefinite because the Group concluded after analysis of its current market position in Kaliningrad region that it is impossible to determine the period this trademark would benefit the Group. For impairment testing "Kvartal" trademark was allocated to the CGUs Kvartal-Kaliningrad, which is a part of the operating and reportable segment Victoria.

The recoverable amounts of Kvartal-Kaliningrad CGU was determined based on value-in-use calculations using cash flow projections from financial budgets approved by senior management covering a five-year period. In 2014 the pre-tax discount rate applied to cash flow projections was 20.0% (2013: 17.6%), EBITDA margin was 8.5% (2013: 7.9%), like-for-like growth within five years was 5.0% (2013: 5.0%) and cash flows beyond the five-year period were extrapolated using a 4.9% growth rate (2013: 3.6%) that is the same as the long-term average growth rate for the non-food retail industry. As a result of the impairment analysis, management did not identify any impairment for the CGU Kvartal-Kaliningrad to which trademark was allocated. Management determined that key assumptions to which the recoverable amounts are most sensitive were growth rate beyond five years and pre-tax discount rate. However, with regard to the assessment of value in use of Kvartal-Kaliningrad CGU, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 8 Taxes recoverable and prepayments

| | 2014 | 2013 |
|---|---|---|
| VAT recoverable | 1,173,714 | 845,342 |
| Prepayments (net of allowance for impairment of 125,551 (2013: 116,161)) | 1,836,890 | 899,831 |
| Prepaid expenses | 55,220 | 40,093 |
| Taxes prepaid | 13,063 | 29,512 |
| **Total taxes recoverable and prepayments** | **3,078,887** | **1,814,778** |

## 9 Inventories

| | 2014 | 2013 |
|---|---|---|
| Goods for resale (net of write-down to net realisable value of 499,236 (2013: 239,563)) | 14,833,786 | 10,090,894 |
| Raw materials and operating supplies (at cost) | 33,294 | 11,672 |
| **Total inventories at the lower of cost or net realisable value** | **14,867,080** | **10,102,566** |

Inventory write-down due to shrinkages identified during the physical inventory counting in 2014 comprised 5,648,174 (2013: 3,368,745). No inventory is pledged as of 31 December 2014 and 2013.

## 10 Trade and other receivables

| | 2014 | 2013 |
|---|---|---|
| Trade receivables (net of allowance for impairment of trade receivables of 90,414 (2013: 88,100)) | 6,705,183 | 6,018,988 |
| Other receivables (net of allowance for impairment of other receivables of 113,550 (2013: 6,497)) | 151,723 | 20,867 |
| **Total trade and other receivables** | **6,856,906** | **6,039,855** |

Trade and other receivables as of 31 December 2014 and 2013 are denominated mainly in Russian roubles.

As at 31 December 2014 trade receivables at nominal value of 90,414 (2013: 88,100) were individually impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

| | |
|---|---|
| **At 1 January 2013** | **94,203** |
| Reversed | (36,740) |
| Accrued | 30,637 |
| **At 31 December 2013** | **88,100** |
| Reversed | (57,379) |
| Accrued | 59,693 |
| **At 31 December 2014** | **90,414** |

## 10 Trade and other receivables (continued)

At 31 December the ageing analysis of trade receivables was as follows:

| | Carrying amount | Of which neither impaired nor past due on the reporting date | Of which: not impaired on the reporting date and past due in the following periods: between 31 and 90 days | between 91 and 180 days | between 181 and 360 days | More than 360 days |
|---|---|---|---|---|---|---|
| 2014 | 6,705,183 | 3,510,714 | 1,820,699 | 1,041,348 | 312,457 | 19,965 |
| 2013 | 6,018,988 | 3,165,048 | 1,690,792 | 954,050 | 196,103 | 12,995 |

Trade receivables as of 31 December 2014 and 2013 had different payment terms ranging from 5 to 60 days payment period with average payment period of 1 month. Because of different payment terms and significant number of debtors the Group concluded that it is impracticable to provide ageing analysis of trade receivables on individual basis. The Group prepared overdue ageing analysis based on average payment period of 1 month.

As at 31 December 2014 and 2013 other receivables at nominal value of 113,550 (2013: 6,497) were impaired and fully provided for. Movements in the provision for impairment of other receivables were as follows:

| | |
|---|---|
| **At 1 January 2013** | **14,734** |
| Reversed | (12,549) |
| Accrued | 4,312 |
| **At 31 December 2013** | **6,497** |
| Reversed | (979) |
| Accrued | 108,032 |
| **At 31 December 2014** | **113,550** |

At 31 December the ageing analysis of other receivables was as follows:

| | Carrying amount | Of which neither impaired nor past due on the reporting date | Of which: not impaired on the reporting date and past due in the following periods: between 31 and 90 days | between 91 and 180 days | between 181 and 360 days | More than 360 days |
|---|---|---|---|---|---|---|
| 2014 | 151,723 | 61,105 | 38,898 | 40,022 | 9,342 | 2,356 |
| 2013 | 20,867 | 4,429 | 3,528 | 564 | 2,144 | 10,202 |

## 11 Cash and cash equivalents

| | 2014 | 2013 |
|---|---|---|
| Cash on hand – Russian roubles | 872,590 | 690,533 |
| Russian rouble denominated bank balances due on demand | 307,751 | 532,407 |
| US dollars denominated bank balances due on demand | 156 | 516 |
| Russian rouble denominated time deposits | – | 1,972,166 |
| Cash in transit – Russian roubles | 1,569,492 | 1,201,422 |
| | **2,749,989** | **4,397,044** |

Short-term deposits have original maturities of less than one month.

## 12 Share capital and equity

### Share and additional paid-in capital

As at 31 December 2014 the Group had 124,750,000 (2013: 124,750,000) authorized ordinary shares of which 1,500 (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.

On 24 October 2012 the Group bought out 78,140 shares for 26,485.

On 6 November 2013 the Group sold 78,140 shares for 32,271.

### Dividends

No dividends were paid by OJSC Dixy Group in 2014. No dividends were declared or paid subsequent to 31 December 2014 up to the date of authorisation of these consolidated financial statements for issue.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. As of 31 December 2014 and 2013 the Company had 13,205,715 and 4,527,373 of accumulated gain, respectively.

### Non-controlling interest

In March 2013 the Group bought out a 1% interest in LLC Gamma Zvezdnaya from its non-controlling shareholder for a cash consideration of 505.

## 13 Borrowings

The Group's borrowings mature as follows:

| | 2014 | 2013 |
|---|---|---|
| Borrowings due: | | |
| – within 1 year | 2,646,724 | 327,808 |
| – between 1 and 5 years | 25,155,011 | 28,560,115 |
| **Total borrowings** | **27,801,735** | **28,887,923** |

## 13 Borrowings (continued)

Terms and conditions in respect of borrowings are detailed below:

| Source of financing | Maturity date 2014 | Maturity date 2013 | Currency | Interest rate 2014 | Interest rate 2013 | Carrying amount of collateral 2014 | Carrying amount of collateral 2013 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Syndicated loan facility | - | 2017 | RR | - | MOSPRIME +4.45% | - | - | - | 20,723,915 |
| Syndicated loan facility | - | 2018 | RR | - | MOSPRIME +4.3% | - | - | - | 8,164,008 |
| Long term bank loans | 2017-2018 | - | RR | 11.45%-12.15% | - | - | - | 25,155,011 | - |
| Short term part of long term bank loans | 2015 | - | RR | 11.45%-12.15% | - | - | - | 1,715,459 | - |
| Bank overdrafts | 2015 | - | RR | 12.17%-25.90% | - | - | - | 931,265 | - |
| | | | | | | | | 27,801,735 | 28,887,923 |

In the fourth quarter of 2014 the Group prematurely repaid the syndicated loans with floating interest rates and obtained borrowings with fixed iterest rates.

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/Net interest expense, minimum level of EBITDAR/Fixed costs. As of 31 December 2014 and 2013 the Group was in compliance with externally imposed capital requirements.

As at 31 December 2014 and 2013 carrying amount of borrowings approximates their fair value.

## 14 Trade and other payables

| | 2014 | 2013 |
|---|---|---|
| Trade payables | 20,886,115 | 17,409,130 |
| Payables to employees | 1,670,699 | 849,571 |
| Other liabilities and accruals | 3,892,584 | 3,209,464 |
| **Trade and other payables** | **26,449,398** | **21,468,165** |

As of 31 December 2014 and 2013 trade and other payables are denominated in Russian roubles, except for trade and other payables in the amount of 184,049 (2013: 596,338) denominated in euro and trade and other payables in the amount of 1,369,223 (2013: 326,170) denominated in US dollars.

Trade and other payables are normally settled on 30-60 days term.

## 15 Tax liability, other than income taxes

| | 2014 | 2013 |
|---|---|---|
| VAT payable | 182,297 | 519,381 |
| Payroll taxes payable | 861,500 | 274,446 |
| **Tax liability, other than income taxes** | **1,043,797** | **793,827** |

VAT payable and payroll taxes payable are settled normally within 15-90 days after reporting date.

## 16 Revenue

| | 2014 | 2013 |
|---|---|---|
| Sales of goods | 227,162,944 | 178,888,348 |
| Sublease income | 1,822,115 | 1,616,115 |
| **Total revenue** | **228,985,059** | **180,504,463** |

## 17 Cost of sales

| | Note | 2014 | 2013 |
|---|---|---|---|
| Cost of goods sold | | 152,144,156 | 120,277,216 |
| Transportation costs | | 1,707,579 | 1,488,659 |
| Shrinkage of inventories | 9 | 5,648,174 | 3,368,745 |
| **Total cost of sales** | | **159,499,909** | **125,134,620** |

## 18 Selling, general and administrative expenses

| | Note | 2014 | 2013 |
|---|---|---|---|
| Staff costs | | 28,695,807 | 23,133,924 |
| Operating lease expenses | | 13,448,370 | 10,261,118 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 5, 7 | 6,088,077 | 5,234,815 |
| Utilities | | 3,349,880 | 2,568,468 |
| Repair and maintenance costs | | 2,015,468 | 1,857,874 |
| Bank charges | | 1,091,827 | 666,649 |
| Advertising costs | | 1,026,954 | 805,819 |
| Supplies and materials | | 974,693 | 827,160 |
| Information, consulting and other services | | 745,098 | 523,301 |
| Taxes other than income tax | | 593,629 | 607,675 |
| Security services | | 326,019 | 371,281 |
| Transportation and handling costs | | 309,728 | 266,110 |
| Telecommunication expenses | | 234,221 | 214,682 |
| Increase/(decrease) in provision for impairment of trade and other receivables | 10 | 109,367 | (14,340) |
| Loss on disposals of property, plant and equipment and intangible assets | | 60,095 | 329,054 |
| Amortisation of initial lease costs | | 24,003 | 40,525 |
| Increase/(decrease) in provision for impairment of prepayments | 8 | 9,390 | (20,195) |
| Other operating expenses | | 110,416 | 137,879 |
| **Total selling, general and administrative expenses** | | **59,213,042** | **47,811,799** |

## 18 Selling, general and administrative expenses (continued)

Included in staff costs are statutory social security and pension contributions of 5,717,059 (2013: 4,600,027).

Operating lease expenses relate to cancellable and non-cancellable operating leases with terms from 1 to 15 years. Amortisation of unfavourable operating lease agreements included in operating lease expenses in the amount of 43,380 (2013: 52,685).

## 19 Income taxes

Income tax expense comprises the following:

| | 2014 | 2013 |
|---|---|---|
| Current tax | 1,653,651 | 1,235,935 |
| Adjustment in respect of current income tax of previous years | (489,708) | (215,864) |
| Deferred income tax charge – origination and reversal of temporary differences | 53,321 | 14,663 |
| **Income tax expense for the year** | **1,217,264** | **1,034,734** |

In 2013 due to changes in current tax practice in respect of tax deductibility related to certain types of shortages and application of tax credits the Group resubmitted amended tax returns to tax authorities which resulted in adjustment to the previous years' current income tax.

In 2014 the part of claimed tax credits (according to submitted amended tax returns) has been confirmed by tax authorities which resulted in adjustments of current tax.

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

| | 2014 | 2013 |
|---|---|---|
| **Profit before income tax** | **5,707,894** | **4,090,405** |
| Theoretical tax charge at statutory rate of 20% | 1,141,579 | 818,081 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| Non-deductible shrinkage of inventories | 325,045 | 414,290 |
| Adjustment in respect of current income tax of previous years | (489,708) | (215,864) |
| Non-deductible expenses | 240,348 | 18,227 |
| **Income tax expense for the year** | **1,217,264** | **1,034,734** |

Deferred tax balances are computed by applying the statutory tax rate enacted at the reporting date to the differences between the tax base of assets and liabilities and the amounts reported in the consolidated financial statements, and are comprised of the following as of 31 December:

| | 2014 | 2013 |
|---|---|---|
| **Deferred tax assets** | **1,048,133** | **1,246,055** |
| Accounts payable and receivable | 758,475 | 637,436 |
| Tax losses carried forward | 10,533 | 451,320 |
| Inventories | 279,125 | 157,299 |
| | | |
| **Deferred tax liabilities** | **(1,524,613)** | **(1,669,214)** |
| Property, plant and equipment | (978,506) | (1,206,626) |
| Other intangible assets | (546,107) | (462,588) |
| **Net deferred tax liability** | **(476,480)** | **(423,159)** |

## 19 Income taxes (continued)

Reflected in the consolidated statement of financial position as follows:

| | 2014 | 2013 |
|---|---|---|
| Total deferred tax assets | 178,747 | 428,532 |
| Total deferred tax liabilities | (655,227) | (851,691) |
| **Net deferred tax liability** | **(476,480)** | **(423,159)** |

Applicable tax rate is set at 20%; it is based on the income tax rates at the Group companies' jurisdictions. In 2014 and 2013 there were no significant income or loss generated in the companies outside Russian Federation.

Deferred tax assets and liabilities are calculated for all temporary differences under the liability method using the principal tax rate of 20%. Deferred tax assets and liabilities at 31 December 2014 and 2013 were attributable to the following:

| | 31 December 2013 | Credited/ (charged) to profit or loss | 31 December 2014 |
|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences and tax losses carried forward** | | | |
| Accounts payable and receivable | 637,436 | 121,039 | 758,475 |
| Tax losses carried forward | 451,320 | (440,787) | 10,533 |
| Property, plant and equipment | (1,206,626) | 228,120 | (978,506) |
| Other intangible assets | (462,588) | (83,519) | (546,107) |
| Inventories | 157,299 | 121,826 | 279,125 |
| **Net deferred tax liability** | **(423,159)** | **(53,321)** | **(476,480)** |

| | 31 December 2012 | Credited/ (charged) to profit or loss | 31 December 2013 |
|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences and tax losses carried forward** | | | |
| Accounts payable and receivable | 630,784 | 6,652 | 637,436 |
| Tax losses carried forward | 519,951 | (68,631) | 451,320 |
| Property, plant and equipment | (1,205,368) | (1,258) | (1,206,626) |
| Other intangible assets | (399,494) | (63,094) | (462,588) |
| Inventories | 45,631 | 111,668 | 157,299 |
| **Net deferred tax liability** | **(408,496)** | **(14,663)** | **(423,159)** |

Temporary differences in property, plant and equipment represent timing differences due to different useful lives and fair value adjustments on business combinations. Temporary differences in inventories represent timing differences of recognition of cost of goods sold. Temporary differences in accounts payable and receivable represent timing differences of recognition of certain expenses and vendors rebates.

## 19 Income taxes (continued)

Tax losses carried forward recognised by the Group as of 31 December 2014 expire in 2022 in the amount of 10,533. The Group believes that the tax loss is fully recoverable before expiry date because tax losses carried forward have arisen on entities, whose primary source of income are intragroup charges and interest income, which are under control of the Group.

The Group does not expect to sell its investments in subsidiaries in foreseeable future. Starting from 2010 all intragroup dividend payments are tax free in Russia and portion of retained earnings in jurisdictions other than Russian Federation is immaterial. Therefore, the Group did not recognise deferred tax liability in respect of undistributed retained earnings in subsidiaries amounted to 8,171,916 (2013: 3,898,468).

## 20 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share are calculated as follows:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Profit for the year attributable to ordinary shareholders | | 4,490,862 | 3,055,542 |
| Weighted average number of ordinary shares in issue | 12 | 124,750,000 | 124,682,349 |
| **Basic and diluted earnings per ordinary share (expressed in Russian rouble per share)** | | **36.00** | **24.51** |

## 21 Contingencies, commitments and operating risks

### Operating environment of the group

Russia continues economic reforms and 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 the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%.The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

## 21 Contingencies, commitments and operating risks (continued)

### Litigation

During 2014 and 2013 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 related taxes that Group may be required to pay as result of this which is not recognised in these consolidated statements as liability amounted to nil as of 31 December 2014 (2013: 22,093).

Except for the above, in the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

### Capital expenditure commitments

At 31 December 2014 the Group had contractual capital expenditure commitments in respect of property, plant and equipment amounting to 1,210,173 (2013: 580,000).

### Operating lease commitments

The Group leases premises for operation of its stores. Some of these leases are non-cancellable. These leases have remaining terms of between 1 and 15 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rental payments under non-cancellable operating leases as at 31 December were as follows:

| | 2014 | 2013 |
|---|---|---|
| **Committed to pay** | | |
| – within 1 year | 2,928,028 | 2,062,689 |
| – between 1 and 5 years | 1,126,884 | 1,504,587 |
| – more than 5 years | 440,490 | 596,143 |
| **Total non-cancellable operating lease commitments** | **4,495,402** | **4,163,419** |

### Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately as liabilities. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

## 21 Contingencies, commitments and operating risks (continued)

### 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 31 December 2014 and 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 1 January 2013 provision for income tax liabilities and provision for taxes other than income indemnifiable from the former shareholders of OJSC GK Victoria comprised 48,438 and 5,763, respectively.

During 2013 the Group released provision for income tax liabilities and taxes other than income tax in the amount of 42,057 and nil indemnifiable from the former shareholders of OJSC GK Victoria. At the same time the Group also released indemnification asset of 42,057.

During 2014 the Group released provision for income tax liabilities and taxes other than income tax in the amount of 6,381 and 5,763 indemnifiable from the former shareholders of OJSC GK Victoria. At the same time the Group also released indemnification asset of 12,144.

As of 31 December 2014 the Group did not have any tax provisions.

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 31 December 2014 of potential liabilities that have not been provided for because management believes they are less than probable amounts to 382,761 (31 December 2013: 1,130,253).

## 22 Financial risk management

The Group’s principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group’s operations. The Group has trade and other receivables and cash and cash equivalents that arrive directly from its operations. The Group also holds loans receivable. The Group is exposed to market risk, credit risk and liquidity risk. The Group’s senior management oversees the management of these risks.

## 22 Financial risk management (continued)

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

### Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade and other receivables and cash and cash equivalents. The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that credit sales are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The Group holds major portion of its cash including time deposits in banks with credit rating above BBB.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise for the Group two types of risk – foreign exchange risk and interest rates risk. Financial instruments affected by market risk include loans, borrowings, cash and cash equivalents and trade and other payables.

The sensitivity analysis in the following sections relates to the position as at 31 December 2014 and 31 December 2013.

The sensitivity analysis has been prepared on the basis that the amount of the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at 31 December 2014 and 31 December 2013.

### Foreign exchange risk

Foreign currency denominated assets (refer to Note 11) and liabilities (refer to Note 14) give rise to foreign exchange exposure. As of 31 December 2014 the Group does not have significant exposure to foreign exchange risk currently as since 2010 Group borrows the funds in the local currency and is considering to proceed with such strategy further.

## 22 Financial risk management (continued)

### Foreign exchange risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars and euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Increase/(decrease) in exchange rate | Effect on profit before tax |
|---|---|---|
| **2014** | | |
| US$ | (28.54)% | 239,063 |
| EUR | (29.58)% | 26,802 |
| US$ | 28.54% | (239,063) |
| EUR | 29.58% | (26,802) |
| **2013** | | |
| US$ | (10.21)% | 16,647 |
| EUR | (8.63)% | 49,772 |
| US$ | 20.00% | (32,609) |
| EUR | 20.00% | (115,347) |

### Interest rate risk

In 2013 the Company monitored and measured interest rate risk regularly. The Group's exposure to the risk of negative changes in market interest rates was related to the Group's long-term bank loans with floating interest rate (refer to Note 13).

In 2014 the Company fully repaid the loans with floating interest rates and as at 31 December 2014 did not exposed to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in MOSPRIME, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no other impact on the Group's equity.

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Increase/(decrease) in basis points | Effect on profit before tax | Increase/(decrease) in basis points | Effect on profit before tax |
| MOSPRIME | - | - | 0.72 | (208,800) |
| | - | - | (0.72) | 208,800 |

### Liquidity risk

As at 31 December 2014 the Group's current liabilities exceeded the Group's current assets by 1,674,078 (2013: 190,766). Typically the reason for this excess is that the Group uses 1.5-2 times excess of trade and other accounts payable turnover over the inventory turnover for financing of its investing activities.

## 22 Financial risk management (continued)

### Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payments.

| Year ended 31 December 2014 | On demand or less than 1 year | 1 to 5 years | Total |
|---|---|---|---|
| Borrowing facility | 6,264,259 | 30,463,527 | **36,727,786** |
| Finance lease liability | 2,721 | – | **2,721** |
| Trade and other payables | 26,449,398 | – | **26,449,398** |
| | **32,716,378** | **30,463,527** | **63,179,905** |

| Year ended 31 December 2013 | On demand or less than 1 year | 1 to 5 years | Total |
|---|---|---|---|
| Syndicated loan facility | 3,630,008 | 37,847,520 | **41,477,528** |
| Finance lease liability | 59,902 | 2,721 | **62,623** |
| Trade and other payables | 21,468,165 | – | **21,468,165** |
| | **25,158,075** | **37,850,241** | **63,008,316** |

### Capital management

The primary objective of the Group's capital management is to ensure that it continues efforts to reduce cost of capital and maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group's policy is to keep the Total Financial Debt/EBITDA ratio less than 3.5. The Group includes within total financial debt interest bearing loans and borrowings and finance lease liabilities, excluding discontinued operations. EBITDA is calculated as operating profit excluding depreciation of property, plant and equipment, amortisation of intangible assets, amortisation of initial lease costs, amortisation of unfavourable operating lease agreements, provisions for impairment of non-current assets and impairment of goodwill.

In 2014 the Group's Financial Debt/EBITDA ratio amounted to 1.7 (2013: 2.24). The Group is in compliance with externally imposed capital requirements.

### Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the consolidated financial statements.

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Assets** | | | | |
| Loans | 257,938 | 257,938 | 142,470 | 142,470 |
| Available-for-sale investments | 37,530 | 37,530 | – | – |
| **Liabilities** | | | | |
| Borrowings | (27,801,735) | (27,801,735) | (28,887,923) | (28,887,923) |
| Finance leases | (1,445) | (1,445) | (49,547) | (49,547) |

## 22 Financial risk management (continued)

### Fair value of financial instruments (continued)

Fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity. Fair values of the Group's loans issued and borrowings are determined by using DCF method using discount rates that reflects the issuer's borrowing rate as at the end of the reporting period (Level 3 fair value measurement hierarchy – significant unobservable inputs). The fair values of the available for sale investments are derived from use of significant unobservable inputs

## 23 Events after the reporting date

There were no significant events after the reporting date.