

O'Key Group S.A.

**Condensed Consolidated Interim Financial
Statements
for the six months ended 30 June 2015**



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To the Shareholders of
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Report of the Réviseur d'Entreprises agréé on the review of condensed consolidated interim financial information

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of O'Key Group S.A. as at 30 June 2015, the related condensed consolidated interim statements of profit and loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial statements"). The Board of Directors is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2015 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, August 17, 2015

KPMG Luxembourg Société coopérative
Cabinet de révision agréé



Jean-Manuel Sérís

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Condensed Consolidated Interim Statement of Financial Position as at 30 June 2015

'000 RUB	Note	30 June 2015	31 December 2014
ASSETS			
Non-current assets			
Investment property	14	550 126	548 500
Property, plant and equipment	12	42 450 437	40 006 546
Construction in progress	12	8 019 257	7 180 792
Intangible assets	13	504 264	539 435
Deferred tax assets	16	556 548	1 144 855
Other non-current assets	15	9 478 979	11 004 304
Total non-current assets		61 559 611	60 424 432
Current assets			
Inventories	17	10 593 325	12 859 297
Trade and other receivables	18	6 319 106	6 207 273
Prepayments		1 449 655	1 277 663
Cash and cash equivalents		1 106 639	5 810 182
Total current assets		19 468 725	26 154 415
Total assets		81 028 336	86 578 847

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2015

'000 RUB	Note	30 June 2015	31 December 2014
EQUITY AND LIABILITIES			
Equity	19	24 629 631	24 197 143
Non-current liabilities			
Loans and borrowings	21	19 739 390	19 655 016
Deferred tax liabilities	16	680 618	835 550
Other non-current liabilities		102 598	78 044
Total non-current liabilities		20 522 606	20 568 610
Current liabilities			
Loans and borrowings	21	14 750 786	12 425 527
Trade and other payables	22	20 838 284	29 098 249
Current income tax payable		287 029	289 318
Total current liabilities		35 876 099	41 813 094
Total liabilities		56 398 705	62 381 704
Total equity and liabilities		81 028 336	86 578 847

Condensed Consolidated Interim Statement of Profit and Loss and Other Comprehensive Income for the six months ended 30 June 2015

For the six months ended 30 June

'000 RUB	Note	2015	2014
Revenue	7	75 884 906	72 672 468
Cost of goods sold		(57 801 276)	(55 131 460)
Gross profit		18 083 630	17 541 008
General, selling and administrative expenses	8	(15 224 308)	(14 155 044)
Other operating income and expenses	9	(269 855)	20 250
Operating profit		2 589 467	3 406 214
Finance income		45 899	13 247
Finance costs		(1 728 696)	(701 943)
Foreign exchange losses		(77 330)	(74 400)
Profit before income tax		829 340	2 643 118
Income tax expense	11	(208 105)	(948 443)
Profit for the period		621 235	1 694 675
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss:</i>			
Exchange differences on translating to presentation currency		(12 903)	93 544
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Change in fair value of hedges and reclassification from hedging reserve		(219 805)	49 497
Income tax on other comprehensive income	11	43 961	(9 899)
Other comprehensive income for the period, net of income tax		(188 747)	133 142
Total comprehensive income for the period		432 488	1 827 817
Earnings per share			
Basic and diluted earnings per share (RUB)	20	2.3	6.3

The condensed consolidated interim statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 32.

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2015

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2014		119 440	10 597	8 903 606	-	12 187 055	178 687	21 399 385
Total comprehensive income for the period								
Profit for the period		-	-	-	-	1 694 675	-	1 694 675
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	93 544	93 544
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	49 497	-	-	49 497
Income tax on other comprehensive income	11	-	-	-	(9 899)	-	-	(9 899)
Total other comprehensive income		-	-	-	39 598	-	93 544	133 142
Total comprehensive income for the period		-	-	-	39 598	1 694 675	93 544	1 827 817
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	19	-	-	-	-	(2 122 548)	-	(2 122 548)
Total contributions by and distributions to owners		-	-	-	-	(2 122 548)	-	(2 122 548)
Balance at 30 June 2014		119 440	10 597	8 903 606	39 598	11 759 182	272 231	21 104 654

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 32.

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2015

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

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 32.

Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2015

'000 RUB	Note	For six months ended 30 June 2015	For six months ended 30 June 2014
	3 a		Restated
Cash flows from operating activities			
Cash receipts from customers		87 014 472	82 997 307
Other cash receipts		143 092	64 904
Interest received		38 252	13 247
Cash paid to suppliers and employees		(87 007 427)	(80 522 952)
Operating taxes		(332 972)	(285 040)
Other cash payments		(114 978)	(36 667)
VAT (paid to budget)/received from budget		833 797	(225 134)
Recovery of input VAT from investing activities		(1 085 100)	(992 957)
Income tax paid		(338 296)	(1 126 151)
Net cash used in operating activities		(849 160)	(113 443)
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease (including VAT)		(5 045 607)	(6 705 646)
Purchase of other intangible assets (including VAT)		(31 521)	(40 942)
Recovery of input VAT from investing activities		1 085 100	992 957
Proceeds from sales of property, plant and equipment and intangible assets (including VAT)		566	1 596
Net cash used in investing activities		(3 991 462)	(5 752 035)
Cash flows from financing activities			
Proceeds from loans and borrowings		10 138 000	8 768 853
Repayment of loans and borrowings		(7 967 441)	(1 500 000)
Interest paid		(2 120 399)	(963 410)
Dividends paid		-	(2 122 548)
Other financial proceeds		84 259	(7 555)
Net cash from financing activities		134 419	4 175 340
Net decrease in cash and cash equivalents		(4 706 203)	(1 690 138)
Cash and cash equivalents at beginning of the period		5 810 182	3 006 730
Effect of exchange rate fluctuations on cash and cash equivalents		2 660	65 805
Cash and cash equivalents at end of the period		1 106 639	1 382 397

1 Background

(a) Organisation and operations

The O'Key Group S. A. (the "Company") is incorporated and domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. These condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as the "Group"). The main part of the Group is located and conducts its business in the Russian Federation.

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

As at 30 June 2015 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs).

Related party transactions are detailed in Note 27.

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

The Group's principal business activity is operation of retail chain in Russia under brand name "O'KEY". At 30 June 2015 the Group operated 113 stores (31 December 2014: 108 stores) in major Russian cities, including but not limited to Moscow, St.Petersburg, Murmansk, Nizhniy Novgorod, Rostov-on-Don, Krasnodar, Lipetsk, Volgograd, Ekaterinburg, Novosibirsk, Krasnoyarsk, Ufa, Astrakhan and Surgut.

(b) Business environment

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

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

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

(c) Seasonality

The Group experiences seasonal fluctuations in its operations, such as an increase in sales during December, prior to Christmas and the New Year period, and May holidays and a decrease in sales in August, September and February, which follow the summer and winter holiday seasons, respectively. The sale of seasonal products, such as school-related non-food products in August, New Year decorations and gifts in December, household appliances for summer houses from April to September affects the Group's interim results.

In the middle of the year Group's stock levels and payables to suppliers decrease compared to year-end.

2 Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2014 which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 17 August 2015.

(b) Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2014.

3 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2014. Adoption of new standards and interpretations effective as of 1 January 2015 did not have significant effect of financial position and performance of the Group.

(a) Presentation of the consolidated statement of cash flows

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

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

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

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

The following table summarises the impact of changes in accounting policy on aggregate cash-flows from operating, investing and financing activities for the six months ended 30 June 2014:

'000 RUB	<u>Six months ended 30 June 2014 as previously reported</u>	<u>Effect of change in accounting policy</u>	<u>Six months ended 30 June 2014 restated</u>
Net cash from operating activities	633 582	(747 025)	(113 443)
Net cash used in investing activities	(7 468 734)	1 716 699	(5 752 035)
Net cash from financing activities	5 146 305	(970 965)	4 175 340
Net decrease in cash and cash equivalents	(1 688 847)	(1 291)	(1 690 138)
Effect of exchange rate fluctuations on cash and cash equivalents	64 514	1 291	65 805

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. In these condensed consolidated interim financial statements the fair values have been determined based on the principles, which are consistent with those applied in the consolidated financial statements for the year ended 31 December 2014.

5 Operating segments

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

The Group identified its operating segments in accordance with the criteria set in IFRS 8 *Operating Segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources within the Group.

The Group's chief operating decision maker has been determined as the CEO. In May 2015 the Group announced decision to appoint Heigo Kera as the Group's Chief Executive Officer instead of Tony Maher. Tony Maher will remain Chairman of the Board of Directors.

The Group operating segments represent individual retail stores. Due to similar economic characteristics (refer below) they were aggregated in one reportable segment.

Within the reportable segment all business components demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the Group manages its operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the Group's activities are mainly limited to Russia which has a uniform regulatory environment.

The CEO assesses the performance of the operating segment based on adjusted earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for one-off items. EBITDA is a non-GAAP measure. Other information provided to the CEO is measured in a manner consistent with that in the condensed consolidated interim financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements.

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

'000 RUB	2015	2014
Revenue	75 884 906	72 672 468
EBITDA	4 702 097	4 870 618

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

For six months ended 30 June

'000 RUB	2015	2014
EBITDA	4 702 097	4 870 618
(Loss)/gain from disposal of non-current assets	(200 128)	2 359
(Impairment of receivables)/Reversal of impairment of receivables	(10 962)	3 731
Depreciation and amortisation	(1 833 620)	(1 470 494)
Finance income	45 899	13 247
Finance costs	(1 728 696)	(701 943)
Foreign exchange losses	(77 330)	(74 400)
Other	(67 920)	-
Profit before income tax	829 340	2 643 118
Income tax expense	(208 105)	(948 443)
Profit for the period	621 235	1 694 675

6 Subsidiaries

Details of the Company's significant subsidiaries at 30 June 2015 and 31 December 2014 are as follows:

Subsidiary	Country of incorporation	Nature of operations	30 June 2015	31 December 2014
			Ownership/ voting	Ownership/ voting
LLC O'Key	Russian Federation	Retail	100%	100%
CJSC Dorinda	Russian Federation	Real estate	100%	100%
Axus Financial Ltd	BVI	Financing	100%	100%
LLC O'Key Group	Russian Federation	Managing Company	100%	100%
LLC O'Key Logistics	Russian Federation	Import operations	100%	100%
LLC Fresh Market	Russian Federation	Retail and real estate	100%	100%

7 Revenue

For six months ended 30 June

'000 RUB	2015	2014
Sales of trading stock	71 341 967	68 129 712
Sales of self-produced catering products	3 537 919	3 563 006
Subtotal of retail revenue	74 879 886	71 692 718
Rental income	758 385	748 110
Revenue from advertising services	246 635	231 640
Total revenues	75 884 906	72 672 468

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

8 General, selling and administrative expenses**For six months ended 30 June**

'000 RUB	Note	2015	2014
Personnel costs	10	(7 100 799)	(7 182 506)
Operating leases		(2 213 115)	(1 843 640)
Depreciation and amortization	12, 13, 15	(1 833 620)	(1 470 494)
Communication and utilities		(1 482 615)	(1 318 049)
Advertising and marketing		(630 520)	(604 124)
Security expenses		(350 994)	(444 282)
Insurance and bank commission		(349 843)	(323 887)
Repairs and maintenance costs		(425 292)	(312 716)
Operating taxes		(345 765)	(297 003)
Legal and professional expenses		(331 640)	(186 236)
Materials and supplies		(141 036)	(157 419)
Other costs		(19 069)	(14 688)
		(15 224 308)	(14 155 044)

9 Other operating income and expenses**For six months ended 30 June**

'000 RUB	2015	2014
(Loss)/Gain from disposal of non-current assets	(200 128)	2 359
(Impairment of receivables)/Reversal of impairment of receivables	(10 962)	3 731
Sundry income	9 155	14 160
Other	(67 920)	-
	(269 855)	20 250

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

10 Personnel costs

For six months ended 30 June

'000 RUB	2015	2014
Wages and salaries	(4 673 710)	(4 465 074)
Social security contributions	(1 496 579)	(1 500 683)
Employee benefits	(452 972)	(698 165)
Other	(477 538)	(518 584)
Total personnel costs	(7 100 799)	(7 182 506)

11 Income tax expense

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

Income tax recognised in profit and loss

For six months ended 30 June

'000 RUB	2015	2014
Current tax expense	269 231	(938 089)
Deferred tax expense	(477 336)	(10 354)
Total income tax expense	(208 105)	(948 443)

Income tax recognised directly in other comprehensive income**For six months ended 30 June**

'000 RUB	2015			2014		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Exchange differences on translating to presentation currency	12 903	-	12 903	93 544	-	93 544
Change in fair value of hedges and reclassification from hedging reserve	(219 805)	43 961	(175 844)	49 497	(9 899)	39 598
	(206 902)	43 961	(162 941)	143 041	(9 899)	133 142

Reconciliation of effective tax rate:**For six months ended 30 June**

'000 RUB	2015	2014
Profit before income tax	829 340	2 643 118
Income tax at applicable tax rate (20%)	(165 868)	(528 624)
Effect of income taxed at different rates	-	33 664
Inventory shrinkage expenses	(315 481)	(312 837)
Other non-deductible expenses	(44 756)	(27 277)
Adjustments to current income tax for previous periods	318 000	-
Tax withheld on dividends received from subsidiaries	-	(113 369)
Income tax expense for the period	(208 105)	(948 443)

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

12 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Cost or deemed cost</i>						
Balance at 1 January 2014	3 948 145	22 437 166	4 334 777	9 846 112	5 094 522	45 660 722
Additions	772 913	391 588	93 869	804 840	3 054 366	5 117 576
Transfers	424	975 298	181 006	242 078	(1 398 806)	-
Transfers from initial cost of land lease (see note 15)	115 733	-	-	-	-	115 733
Disposals	-	-	(22 085)	(100 089)	(40 848)	(163 022)
Balance at 30 June 2014	4 837 215	23 804 052	4 587 567	10 792 941	6 709 234	50 731 009
Balance at 1 January 2015	6 024 426	29 540 699	5 414 339	11 627 685	7 203 116	59 810 265
Additions	13 146	640 779	378 915	1 019 406	3 197 678	5 249 924
Transfers	-	1 454 624	257 357	487 693	(2 199 674)	-
Disposals	-	(1 220)	(120 418)	(163 720)	(159 539)	(444 897)
Balance at 30 June 2015	6 037 572	31 634 882	5 930 193	12 971 064	8 041 581	64 615 292

Notes to the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2015
(continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2014	-	(2 888 988)	(1 010 208)	(5 960 373)	(22 324)	(9 881 893)
Depreciation for the period	-	(388 856)	(199 623)	(743 269)	-	(1 331 748)
Disposals	-	-	14 726	98 450	-	113 176
Balance at 30 June 2014	-	(3 277 844)	(1 195 105)	(6 605 192)	(22 324)	(11 100 465)
Balance at 1 January 2015	-	(3 693 025)	(1 608 556)	(7 299 022)	(22 324)	(12 622 927)
Depreciation for the period	-	(515 490)	(228 121)	(940 693)	-	(1 684 304)
Disposals	-	-	2 773	158 860	-	161 633
Balance at 30 June 2015	-	(4 208 515)	(1 833 904)	(8 080 855)	(22 324)	(14 145 598)
<i>Net book value</i>						
At 1 January 2014	3 948 145	19 548 178	3 324 569	3 885 739	5 072 198	35 778 829
At 30 June 2014	4 837 215	20 526 208	3 392 462	4 187 749	6 686 910	39 630 544
At 1 January 2015	6 024 426	25 847 674	3 805 783	4 328 663	7 180 792	47 187 338
At 30 June 2015	6 037 572	27 426 367	4 096 289	4 890 209	8 019 257	50 469 694

Depreciation expense of RUB 1 684 304 thousand has been charged to selling, general and administrative expenses (six months ended 30 June 2014: RUB 1 331 748 thousand).

As at 30 June 2015 the Group performed impairment test for low-performing stores. The Group estimated the recoverable amount of stores being their value in use using income approach and concluded that the recoverable amount exceeds carrying amount. No impairment loss was recognized as at 30 June 2015.

Security

The Group has the following assets pledged as collateral:

'000 RUB	30 June 2015	31 December 2014
Fixed assets (carrying value)	2 617 300	2 643 191
Total	2 617 300	2 643 191

13 Intangible assets

'000 RUB	Software	Lease rights	Other Intangible assets	Total
<i>Cost</i>				
Balance at 1 January 2014	692 872	491 475	43 249	1 227 596
Additions	25 559	-	2 271	27 830
Disposals	-	(87 319)	-	(87 319)
Balance at 30 June 2014	718 431	404 156	45 520	1 168 107
Balance at 1 January 2015	851 771	404 156	49 708	1 305 635
Additions	51 673	-	6 510	58 183
Disposals	76	-	(76)	-
Balance at 30 June 2015	903 520	404 156	56 142	1 363 818
<i>Amortization and impairment losses</i>				
Balance at 1 January 2014	(298 503)	(368 869)	(10 175)	(677 547)
Amortization for the period	(63 319)	(23 555)	(2 230)	(89 104)
Disposals	-	87 319	-	87 319
Balance at 30 June 2014	(361 822)	(305 105)	(12 405)	(679 332)
Balance at 1 January 2015	(420 815)	(328 637)	(16 748)	(766 200)
Amortization for the period	(67 075)	(23 670)	(2 609)	(93 354)
Disposals	6	-	(6)	-
Balance at 30 June 2015	(487 884)	(352 307)	(19 363)	(859 554)
<i>Carrying amounts</i>				
At 1 January 2014	394 369	122 606	33 074	550 049
At 30 June 2014	356 609	99 051	33 115	488 775
At 1 January 2015	430 956	75 519	32 960	539 435
At 30 June 2015	415 636	51 849	36 779	504 264

Amortization and impairment charge

Amortization of RUB 93 354 thousand has been charged to selling, general and administrative expenses (6 months ended 30 June 2014: RUB 89 104 thousand).

14 Investment property

'000 RUB	<u>Investment property</u>
Investment properties at fair value as at 1 January 2014	540 000
Expenditure on subsequent improvements	653
Investment properties at fair value as at 30 June 2014	540 653
Investment properties at fair value as at 1 January 2015	548 500
Expenditure on subsequent improvements	1 626
Investment properties at fair value as at 30 June 2015	550 126

As at 1 January 2014 and 2015 the fair value of investment property has been determined by independent appraisers. The fair value of investment property as at 30 June 2015 and 30 June 2014 was updated by the Group applying income approach (level 3 fair value based on inputs to valuation technique used).

There were no significant changes in assumptions used for determination of fair value of investment property as at 30 June 2015 compared to 1 January 2015.

Fair value of investment property as at 30 June 2015 and 30 June 2014 did not significantly change as compared to 1 January 2015 and 1 January 2014, respectively. Therefore, no fair value gain/ (loss) was recognized as at 30 June 2015 (30 June 2014: Nil).

15 Other non-current assets

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
Initial cost of land lease	4 501 463	4 540 476
Long-term prepayments to entities under control of shareholder group	672 585	511 619
Prepayments for non-current assets	3 398 063	4 866 979
Long-term deposits to lessors	268 342	303 241
Other non-current receivables	638 526	781 989
	9 478 979	11 004 304

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

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2034. Related party transactions are detailed in note 27.

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

'000 RUB	2015	2014
<i>Cost</i>		
Balance at 1 January	5 476 402	4 825 525
Additions	16 949	233 724
Transfer to land	-	(142 132)
Balance at 30 June	5 493 351	4 917 117
<i>Amortization and impairment losses</i>		
Balance at 1 January	(935 926)	(860 667)
Amortization charge	(55 962)	(49 642)
Transfer to land	-	26 399
Balance at 30 June	(991 888)	(883 910)
Net book value at 30 June	4 501 463	4 033 207

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014	30 June 2015	31 December 2014
Investment property	-	-	(6 947)	(4 203)	(6 947)	(4 203)
Property, plant and equipment	166 978	186 488	(1 058 023)	(856 180)	(891 045)	(669 692)
Construction in progress	-	-	(115 176)	(149 162)	(115 176)	(149 162)
Intangible assets	-	-	(14 945)	(14 649)	(14 945)	(14 649)
Other non-current assets	55 056	60 656	-	-	55 056	60 656
Inventories	437 508	716 188	(49 300)	(41 273)	388 208	674 915
Trade and other receivables	3 380	-	-	-	3 380	-
Trade and other payables	194 404	247 782	-	-	194 404	247 782
Tax loss carry-forwards	262 995	163 658	-	-	262 995	163 658
Tax assets/(liabilities)	1 120 321	1 374 772	(1 244 391)	(1 065 467)	(124 070)	309 305
Set off of tax	(563 773)	(229 917)	563 773	229 917	-	-
Net tax assets/(liabilities)	556 548	1 144 855	(680 618)	(835 550)	(124 070)	309 305

(b) Unrecognised deferred tax liability

As at 30 June 2015 a temporary difference of RUB 24 248 607 thousand (31 December 2014: RUB 24 344 483 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

17 Inventories

'000 RUB	30 June 2015	31 December 2014
Goods for resale	10 524 847	12 713 083
Raw materials and consumables	441 197	417 893
Write-down to net realisable value	(372 719)	(271 679)
	10 593 325	12 859 297

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 372 719 thousand as at 30 June 2015 (31 December 2014: RUB 271 679 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-off of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

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

18 Trade and other receivables

'000 RUB	30 June 2015	31 December 2014
Trade receivables	146 094	243 483
VAT receivable	1 361 679	2 743 875
Prepaid taxes other than income tax	23 293	14 822
Prepaid income tax	947 627	342 389
Interest rate swap receivables	33 717	135 159
Bonuses receivable from suppliers	2 349 989	2 281 600
Other receivables	1 456 707	445 945
	6 319 106	6 207 273

19 Equity

As at 30 June 2015 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 31 December 2014: EUR 2 691 thousand) is represented by 269 074 000 shares (31 December 2014: 269 074 000 shares) with a par value of 0.01 EUR each.

The Rouble value of the subscribed capital is determined with application of RUB/EUR historical exchange rate as at the date of each equity transaction.

In accordance with Luxembourg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During six months ended 30 June 2015 there were no transfers to legal reserve from net profits.

There were no movements in additional paid-in capital during six months ended 30 June 2015.

20 Earnings per share

The calculation of basic earnings per share for six months ended 30 June 2015 was based on the profit attributable to ordinary shareholders of RUB 621 235 thousand (six months ended 30 June 2014: RUB 1 694 675 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000 (six months ended 30 June 2014: 269 074 000), calculated as shown below. The Company has no dilutive potential ordinary shares.

For six months ended 30 June

	2015	2014
<i>Number of shares</i>		
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for six months ended 30 June	269 074 000	269 074 000

21 Loans and borrowings

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
<i>Non-current liabilities</i>		
Secured bank loans	5 000 000	5 000 000
Unsecured bank facilities	8 908 125	8 699 975
Unsecured bonds	4 980 000	4 980 000
Unsecured loans from related parties	851 265	975 041
	<u>19 739 390</u>	<u>19 655 016</u>
<i>Current liabilities</i>		
Unsecured bank facilities	6 506 194	9 314 926
Unsecured bonds	8 000 000	3 000 000
Unsecured bonds interest	241 720	107 730
Unsecured loans from third parties	2 872	2 871
	<u>14 750 786</u>	<u>12 425 527</u>

As at 30 June 2015 loans and borrowings with carrying value of RUB 5 000 000 thousand (31 December 2014: RUB 5 000 000 thousand) were secured by property, plant and equipment.

During six months ended 30 June 2015 operating company of the Group – LLC O'Key – issued bonds in the amount of RUB 5 000 000 thousand. The bonds are payable in April 2016.

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

At 30 June 2015 and for the six months then ended the Group complied with all loan covenants.

22 Trade and other payables

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
Trade payables	17 695 615	26 272 658
Advances received	732 610	335 282
Taxes payable (other than income tax)	588 104	644 760
Payables to staff	1 254 566	1 322 765
Deferred income	55 053	76 632
Interest rate swap payables	118 362	-
Other current payables	393 974	446 152
	<u>20 838 284</u>	<u>29 098 249</u>

23 Non-cancellable operating leases

During six months ended 30 June 2015 the Group entered into several non-cancellable operating leases of land plots.

Non-cancellable operating lease rentals are payable as follows:

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
Less than one year	2 714 129	2 634 774
Between one and five years	9 620 429	8 525 459
More than five years	19 175 183	15 809 958
	<u>31 509 741</u>	<u>26 970 191</u>

24 Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUB 6 071 690 thousand as at 30 June 2015 (31 December 2014: RUB 8 616 146 thousand).

25 Contingencies**(a) Legal proceedings**

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

(b) Taxation contingencies

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

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

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

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

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

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

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

A number of new laws introducing changes to the Russian tax legislation are effective since 1 January 2015. In particular, those changes are aimed at regulating transactions with offshore companies and their activities which may potentially impact the Group's tax position and create additional tax risks.

26 Financial instruments and risk management

(a) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 4. Fair value of Group's financial assets and liabilities approximates their carrying amounts, excluding fixed rate loans and borrowings, for which fair value is disclosed in the table below:

'000 RUB	<u>Carrying amount</u>	<u>Fair value</u>
<i>Non-current liabilities</i>		
Secured bank loans	5 000 000	4 457 831
Unsecured bonds	4 980 000	4 713 570
Unsecured loans from related parties	851 265	786 420
	<u>10 831 265</u>	<u>9 957 820</u>
<i>Current liabilities</i>		
Unsecured bonds	8 000 000	8 038 500
	<u>8 000 000</u>	<u>8 038 500</u>

(b) Fair value hierarchy

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

Fair value of Group's loans and borrowings was determined for disclosure purposes by discounting future cash flows at the market rate of interest at the reporting date. Due to significant disruption of Russian debt market since December 2014 for fixed rate borrowings market rate of interest was determined by calculating the change in yield for government bonds from issuance date to 30 June 2015 for each loan and adding this spread to nominal interest rate of the loan (Level 2 fair value). For variable rate borrowings market rate of interest approximates nominal interest rate as at reporting date.

27 Related party transactions**(a) Control relationships**

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

(b) Transactions with management**(i) Management remuneration**

Key management received the following remuneration during the period, which is included in personnel costs (see note 10):

For the six months ended 30 June

'000 RUB	2015	2014
Salaries and bonuses	135 221	83 340
Social security contributions	5 121	1 527
Long-service bonus	17 226	34 000
Other payments	46 631	-
	204 199	118 867

In addition, members of Board of Directors received remuneration of RUB 47 097 thousand (six months ended 30 June 2014: RUB 6 508 thousand), which is included in legal and professional expenses (see note 8).

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group. The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	Six months ended 30 June 2015	Six months ended 30 June 2014	30 June 2015	31 December 2014
Services provided:				
Other related parties	19 155	21 837	(2 765)	(5 200)
	19 155	21 837	(2 765)	(5 200)

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

(ii) Expenses

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	Six months ended 30 June 2015	Six months ended 30 June 2014	30 June 2015	31 December 2014
Lease of premises				
Other related parties	(363 057)	(359 152)	653 949	678 885
Including:				
Rental fee	(304 618)	(307 262)	-	-
Reimbursement of utilities	(29 168)	(32 841)	-	-
Reimbursement of other expenses	(29 271)	(19 049)	-	-
Other services received:				
Other related parties	(1 967)	(1 434)	-	236
Finance costs:				
Other related parties	(35 514)	(28 364)	-	-
	(400 538)	(388 950)	653 949	679 121

All outstanding balances with related parties, except for prepayments for operating leases, are to be settled in cash within six months of the reporting date. None of the balances are secured.

Outstanding balance of RUB 653 949 includes prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 688 180 thousand and current liabilities for rent of hypermarkets in the amount RUB 34 231 thousand. Long-term part of prepayments is RUB 672 585 thousand, refer to note 15. Terms of the leases are such that the Group pays rentals which include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

Interest costs on loans from related parties amounted to RUB 35 514 thousand for six months ended 30 June 2015 (six months ended 30 June 2014: RUB 28 364 thousand) and were recorded as finance costs in profit or loss.

(iii) Loans

'000 RUB	Repayment	Repayment	Outstanding	Outstanding
	For six months ended 30 June		balance	balance
	2015	2014	30 June 2015	31 December 2014
Loans received:				
Other related parties	146 457	28 230	(851 265)	(975 041)

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

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

28 Events subsequent to the reporting date

In August 2015 Group closed one store in Krasnoyarsk.