PJSC "Magnit"

Consolidated financial statements

For the year ended 31 December 2015

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For the year ended 31 December 2015

Contents

Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the Shareholders of Public Joint Stock Company "Magnit"

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Magnit" and its subsidiaries (the "Group"), which consist of the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Совершенствуя бизнес, улучшая мир

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

22 March 2016

Moscow, Russia

PJSC "Magnit"

Consolidated statement of financial position

as at 31 December 2015

(In thousands of US dollars)

	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	6	3,649,644	4,141,049
Investment property		8,232	10,665
Land lease rights	7	39,540	54,645
Intangible assets	8	19,162	16,079
Goodwill	8	18,763	24,307
Long-term financial assets		1,852	1,733
		3,737,193	4,248,478
Current assets			
Inventories	9	1,598,069	1,448,240
Trade and other receivables		13,634	14,456
Advances paid	10	72,661	86,197
Taxes receivable		1,326	1,233
Prepaid expenses		4,403	4,311
Short-term financial assets		3,386	8,446
Income tax receivable		–	2,344
Cash and cash equivalents	11	115,129	314,469
		1,808,608	1,879,696
Total assets		5,545,801	6,128,174
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	12	34	34
Share premium	12	1,510,336	1,507,642
Treasury shares	12	(5,307)	(8,842)
Foreign currency translation reserve		(2,933,216)	(2,271,607)
Retained earnings		3,693,994	3,326,196
Total equity		2,265,841	2,553,423
Non-current liabilities			
Long-term borrowings and loans	17	815,162	789,396
Long-term advances received		1,568	3,591
Deferred tax liability	24	176,781	185,141
		993,511	978,128
Current liabilities			
Trade and other payables	14	1,212,527	1,187,282
Accrued expenses	15	132,738	145,482
Taxes payable	16	81,318	95,742
Dividends payable	13	233,167	255,465
Income tax payable		9,203	–
Short-term advances received		2,575	1,558
Short-term borrowings and loans	17	614,921	911,094
		2,286,449	2,596,623
Total liabilities		3,279,960	3,574,751
Total equity and liabilities		5,545,801	6,128,174

The accompanying notes on pages 7-47 are an integral part of these consolidated financial statements.

PJSC "Magnit"

Consolidated statement of comprehensive income

For the year ended 31 December 2015

(In thousands of US dollars)

	Notes	2015	2014
Revenue	18	15,594,588	19,872,292
Cost of sales	19	(11,151,836)	(14,132,806)
Gross profit		4,442,752	5,739,486
Selling expenses	20	(207,612)	(231,954)
General and administrative expenses	21	(2,883,839)	(3,716,842)
Investment income		3,702	9,695
Finance costs	22	(194,986)	(172,974)
Other income	23	64,967	75,257
Other expenses		(13,838)	(15,060)
Foreign exchange loss		(43,194)	(73,245)
Profit before income tax		1,167,952	1,614,363
Income tax expense	24	(199,067)	(373,245)
Profit for the year		968,885	1,241,118
Other comprehensive income			
Loss on translation to presentation currency		(659,933)	(1,855,795)
Other comprehensive loss for the year, net of tax		(659,933)	(1,855,795)
Total comprehensive income/(loss) for the year, net of tax		308,952	(614,677)
Profit for the year			
Attributable to:			
Equity holders of the Parent		968,885	1,241,118
		968,885	1,241,118
Total comprehensive income/(loss) for the year, net of tax			
Attributable to:			
Equity holders of the Parent		308,952	(614,677)
		308,952	(614,677)
Earnings per share (in US dollars per share)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	25	10.25	13.13

The accompanying notes on pages 7-47 are an integral part of these consolidated financial statements.

PJSC “Magnit”

Consolidated cash flow statement

For the year ended 31 December 2015

(In thousands of US dollars)

	Notes	2015	2014
Cash flows from operating activities			
Profit before income tax		1,167,952	1,614,363
Adjustments for:			
Depreciation	6	338,037	449,337
Amortization	21	8,380	8,991
Loss from disposal of property, plant and equipment		8,586	11,351
Revaluation of investment property		–	(7,148)
Bad debt provision	21	1,760	2,947
Foreign exchange loss		43,194	73,245
Finance costs	22	194,986	172,974
Investment income		(3,702)	(9,695)
Operating cash flows before working capital changes		1,759,193	2,316,365
Decrease in trade and other receivables		951	6,074
Decrease in advances paid		13,536	10,691
Decrease in advances received		(1,006)	(6,375)
Increase in taxes receivable		(93)	(378)
(Increase)/decrease in prepaid expenses		(92)	3,393
(Increase)/decrease in inventories		(149,829)	265,685
Decrease in trade and other payables		(18,201)	(357,667)
Decrease in accrued expenses		(12,744)	(56,550)
Decrease in taxes payable		(14,424)	(45,684)
Cash generated from operations		1,577,291	2,135,554
Income tax paid		(147,024)	(326,233)
Interest paid		(179,980)	(177,177)
Interest received		3,736	9,767
Net cash from operating activities		1,254,023	1,641,911
Cash flows from investing activities			
Purchase of property, plant and equipment		(885,859)	(1,450,010)
Purchase of intangible assets		(15,532)	(12,000)
Purchase of land lease rights		(4,521)	(5,826)
Proceeds from disposal of subsidiary		–	2,855
Proceeds from sale of property, plant and equipment		2,712	14,480
Proceeds from sale of land lease rights		1,484	115
Loans provided		(55,196)	(511,662)
Loans repaid		58,293	528,463
Net cash used in investing activities		(898,619)	(1,433,585)
Cash flows from financing activities			
Proceeds from loans and borrowings		8,510,154	9,166,521
Repayment of loans and borrowings		(8,384,711)	(8,594,681)
Dividends paid		(584,843)	(426,879)
Repayment of obligations under finance leases		(8)	(23)
Proceeds from sale of treasury shares	12	148,379	420,260
Purchase of treasury shares		(143,826)	(415,175)
Net cash (used in)/from financing activities		(454,855)	150,023
Effect of foreign exchange rates on cash and cash equivalents		(99,889)	(225,098)
Net (decrease)/increase in cash and cash equivalents		(199,340)	133,251
Cash and cash equivalents at the beginning of the year	11	314,469	181,218
Cash and cash equivalents at the end of the year	11	115,129	314,469

The accompanying notes on pages 7-47 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2015

(In thousands of US dollars)

	Attributable to equity holders of the parent					
	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Equity attributable to equity holders of the parent
Balance at 1 January 2014	34	1,497,515	(3,800)	(414,393)	2,775,370	3,854,726
Profit for the period	–	–	–	–	1,241,118	1,241,118
Other comprehensive income	–	–	–	(1,855,795)	–	(1,855,795)
Total comprehensive income for the period	–	–	–	(1,855,795)	1,241,118	(614,677)
Dividends declared (Note 13)	–	–	–	–	(690,292)	(690,292)
Purchase of treasury shares	–	–	(415,175)	–	–	(415,175)
Sale of treasury shares (Note 12)	–	10,127	410,133	(1,419)	–	418,841
Balance at 31 December 2014	34	1,507,642	(8,842)	(2,271,607)	3,326,196	2,553,423
Balance at 1 January 2015	34	1,507,642	(8,842)	(2,271,607)	3,326,196	2,553,423
Profit for the period	–	–	–	–	968,885	968,885
Other comprehensive income	–	–	–	(659,933)	–	(659,933)
Total comprehensive income for the period	–	–	–	(659,933)	968,885	308,952
Dividends declared (Note 13)	–	–	–	–	(601,087)	(601,087)
Purchase of treasury shares	–	–	(143,826)	–	–	(143,826)
Sale of treasury shares (Note 12)	–	2,694	147,361	(1,676)	–	148,379
Balance at 31 December 2015	34	1,510,336	(5,307)	(2,933,216)	3,693,994	2,265,841

The accompanying notes on pages 7-47 are an integral part of these consolidated financial statements.

(All amounts are in thousands of US dollars if not otherwise indicated)

1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2015 were authorised for release by the Chief Executive Officer of PJSC "Magnit" on 22 March 2016.

Close Joint Stock Company "Magnit" ("Magnit") was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company "Magnit". There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company. In 2014 Magnit changed its legal form to Public Joint Stock Company (the "Company" or PJSC "Magnit") in accordance with changes in legislation.

PJSC "Magnit" and its subsidiaries (the "Group") operate in the retail and distribution of consumer goods under the "Magnit" name. The Group's retail operations are operated through convenience stores, cosmetic stores, hypermarkets and other.

All of the Group's operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya St., 370072 Krasnodar, the Russian Federation.

The principal activities of the Group's subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

Company name	Principal activity	Ownership interest 2015	Ownership interest 2014
JSC "Tander"	Food retail and wholesale	100%	100%
LLC "Retail Import"	Import operations	100%	100%
LLC "BestTorg"	Food retail in Moscow and the Moscow region	100%	100%
LLC "Tander-Magnit"	Food retail in the Moscow region	100%	100%
LLC "Selta"	Transportation services for the Group	100%	100%
LLC "TK Zelenaya Liniya"	Greenhouse complex	100%	100%
LLC "Tandem"	Rent operations	100%	100%
LLC "Alkotrading"	Other operations	100%	100%
LLC "Logistika Alternativa"	Import operations	100%	100%
LLC "Zvezda"	Assets holder, maintenance services for the Group	100%	100%
LLC "ITM"	IT operations	100%	100%
LLC "TD-Holding"	Production and processing of food for the Group	100%	100%
LLC "MagnitEnergo"	Buyer of electric power for the Group	100%	100%

1. Corporate information (continued)

At 31 December 2015 and 2014, the shareholding structure of the Company was as follows:

	2015		2014	
Shareholder	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Galitskiy S.N.	36,563,000	38.67%	35,538,021	37.58%
Gordeichuk V.E.	2,402,820	2.54%	2,624,692	2.78%
Shares controlled by Lavreno Ltd. (Cyprus)	617,079	0.65%	4,276,445	4.52%
Shares controlled by the Group's Management	386,387	0.41%	462,847	0.49%
Treasury shares	31,677	0.03%	48,527	0.05%
Free float	54,560,392	57.70%	51,610,823	54.58%
	94,561,355	100%	94,561,355	100%

2. Basis of preparation of the financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of accounting

The Group's entities maintain their accounting records in Russian roubles ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS.

The financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as of the date of transition to IFRS and investment property at fair value.

The functional currency of each of the Group's entities is the Russian rouble ("RUB").

The presentation currency of the consolidated financial statements is the United States of America dollar ("USD") as it is considered by management a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation from functional currency into presentation currency is made as follows:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each consolidated statement of comprehensive income presented are translated at the average exchange rates for the periods presented (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);

2. Basis of preparation of the financial statements (continued)

Basis of accounting (continued)

- All resulting exchange differences are recognized in other comprehensive income;
- All items included in the consolidated statement of changes in equity, other than net profit for the period, are translated at historical exchange rates;
- In the consolidated cash flow statement, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at the average exchange rates for the periods presented.

The RUB is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

The following USD/RUB ex-rates were used during preparation of the consolidated financial statements:

	2015	2014
As of 31 December	72.8827	56.2584
Average for the year	60.9579	38.4217

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). 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.

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The Group re-assesses 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

3. Summary of significant accounting policies (continued)

Business combinations (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Current versus non-current classification

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

- Expected to be realised or intended to 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.

3. Summary of significant accounting policies (continued)

Current versus non-current classification (continued)

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.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 27.

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.

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Revenue recognition

The Group generates and recognizes sales to retail customers at the point of sale in its stores and to wholesale customers at the point of sale in its distribution centres and retail stores. Retail sales are in cash and through bank cards. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

Historical cost information was not available in relation to buildings purchased prior to transition date to IFRS (1 January 2004). Therefore, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS and deemed those values as cost.

Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of comprehensive income as incurred.

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful economic lives of the related assets are as follows:

	Useful life in years
Buildings	30
Machinery and equipment	3-14
Other fixed assets	3-10

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

3. Summary of significant accounting policies (continued)

Land lease rights

Land lease rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful life is estimated to be 49 years.

When the Group constructs a building on land that is leased under an operating lease, the operating lease costs (including amortization of land lease rights) that are incurred during the construction are capitalised as part of the construction cost of the building.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives.

Lease rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, lease rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortization:

Description	Useful life in years
Licenses	1-25
Lease rights (convenience stores)	1-21
Software	1-25
Trade marks	1-10
Other	1-7

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which estimates of future cash flows have not been adjusted.

3. Summary of significant accounting policies (continued)

Impairment of non-current assets (continued)

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss.

The following asset has specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December 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.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Summary of significant accounting policies (continued)

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost of goods for resale is calculated using the weighted average method, cost of materials and supplies is calculated using cost per unit method, cost of fuel and lubricants calculated using the average cost method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Vendor allowances

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian law.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

3. Summary of significant accounting policies (continued)

Income taxes (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated profit and loss, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

3. Summary of significant accounting policies (continued)

Retirement benefit costs

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 recognized in the profit and loss as incurred.

Bonus plan

Under the bonus program the Group has agreed to pay, at its discretion, cash bonuses to key management personnel. The amount of the cash bonus, if paid, will be based on the market price of the Group’s shares on that date times a fixed number of shares as indicated in the employment contract of each individual. The compensation expense is recognized over the one-year service period based on its assessment that it is probable the amounts will be paid. The liability will be remeasured at the date of settlement, with any changes recognised in profit or loss.

The fair value of the liability is determined based on the market value of shares at the end of each reporting period adjusted for expected employee turnover.

Segment reporting

The Group’s business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group’s chief operating decision maker reviews the Group’s operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores, cosmetic stores, hypermarkets and others, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Seasonality

The Group’s business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are expensed in the period they occur.

3. Summary of significant accounting policies (continued)

Financial assets

General description

Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"); held-to-maturity investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate. Interest income is included in investment income in the statement of comprehensive income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss.

With the exception of AFS equity instruments, 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 through the profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities and equity instruments issued by the Group

Treasury shares

If the Group reacquires its own equity instruments, those instruments (“treasury shares”) are recognised as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain and loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. On disposal the cost of treasury shares is written off using weighted average method. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

3. Summary of significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Share premium

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares.

Earnings per share

Earnings per share have been determined using the weighted average number of the Group’s shares outstanding during 12 months ended 31 December 2015 and 2014. The Group does not have any potentially dilutive equity instruments.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised using an effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

3. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new or revised standards and interpretations effective as of 1 January 2015:

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 cycle

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

Amendments to IFRS 2 – Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.

These amendments do not impact the Group’s accounting policies, as none of the entities within the Group had share-based payments.

Amendments to IFRS 3 – Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. These amendments do not impact the Group's accounting policy.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 8 – Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are ‘similar’;
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments do not impact the Group’s accounting policy as the Group appropriately discloses judgments made in applying aggregation criteria, furthermore, management of the Group believes that it has only one reporting segment.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. These amendments do not impact the Group's financial statement, as these assets are not revaluated and are recorded at carrying amount.

Amendments to IAS 24 – Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant to the Group as it does not receive any management services from other entities.

Annual improvements 2011-2013 cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

Amendments to IFRS 13 – Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

Amendments to IAS 40 – Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

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

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively, but the effective date of amendments has not been determined. These amendments are not expected to have any impact on the Group.

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

- *Servicing contracts*

  The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

- *Applicability of the amendments to IFRS 7 to condensed interim financial statements*

  The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture, acting as investment entity, to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and sets out the principles that both parties to a contract, i.e. the customer (“lessee”) and the supplier (“lessor”), apply to provide relevant information about leases in a manner that faithfully represents those transactions. Under IFRS 16 a lessee is required to recognise assets and liabilities arising from a lease. The new standard is applicable to all lease and sublease contracts except for leases of certain types of intangibles and some other specific assets and will supersede all current requirements for lease recognition and disclosure under IFRS.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 16 at or before the date of initial application of IFRS 16.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments to IAS 12 clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The clarifications refer to accounting for deferred tax assets when an entity:

- has deductible temporary differences relating to unrealised losses on debt instruments that are classified as available-for-sale financials assets and measured at fair value;
- is not allowed to deduct unrealised losses for tax purposes;
- has the ability and intention to hold the debt instruments until the unrealised loss reverses; and
- has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise those deductible temporary differences.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 7 Statement of Cash Flows

Amendments to IAS 7 *Statement of Cash Flows* were issued on 29 January 2016 as a response to requests from investors for information that helps them better understand changes in a company’s debt. The amendments require companies to provide information of changes in their financing liabilities will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

The IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017 with early application permitted. These amendments will result in additional disclosures made by the Group.

4. Significant accounting judgements and estimates

In the application of the Group’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available.

4. Significant accounting judgements and estimates (continued)

Impairment of assets (continued)

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

Useful economic life of property, plant and equipment

The Group’s property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group’s management business plans and operational estimates, related to those assets.

The Group’s management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

Useful life of leasehold improvements

The Group’s leasehold improvements in convenience stores used under operating leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of operating lease agreements assuming leases will be renewed. Based on the history of the successful renewals of these agreements (all agreements that management wanted to prolong were successfully prolonged) and pre-emptive rights for the prolongation of the lease agreements, the Group’s management assumes a thirty year depreciation period for these leasehold improvements.

Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

5. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, provides and receives loans and acquires construction services. Related parties of the Group are represented by counterparties that are allied with the Group through key management and their relatives. Transactions with related parties are made on terms not necessarily available to third parties.

5. Balances and transactions with related parties (continued)

As at 31 December 2015 the Group provided guarantees to related party in total amount of USD 6,512 thousand. The guarantees were not recognized as current liabilities in the consolidated statement of financial position of the Group.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Related party balances as at 31 December 2015 and 2014 consisted of the following:

	Shareholders		Other related parties	
	2015	2014	2015	2014
Loans received (Note 17)	23,794	–	–	–
Short-term loans receivable	2,305	–	331	7,412
Trade payables (Note 14)	–	–	2,453	436
Long-term financial assets	–	–	1,852	711
Other payables (Note 14)	–	–	822	13
Other receivables	–	–	212	409
Advances paid (Note 10)	–	–	69	2,465
Advances received	–	–	–	103

The Group's transactions with related parties for the years ended at 31 December 2015 and 2014 consisted of the following:

	Shareholders		Other related parties	
	2015	2014	2015	2014
Loans received	303,433	6,981	125,086	–
Loans received repayment	284,712	6,984	126,783	–
Interest expense	9,728	3	1,697	–
Loans given	9,072	9,708	42,369	366,054
Loans given repayment	6,665	9,727	47,812	390,417
Interest income	349	18	392	5,292
Purchases of inventory	–	–	143,037	181,702
Purchases of property, plant and equipment	–	–	4,917	11,966
Other income	–	–	2,825	3,965
Rent income	–	–	1,221	1,043
Other expense			1,097	–
Wholesale	–	–	162	105
Rent expense	–	–	44	44
Purchase of intangible assets	–	–	9	–
Purchase of land lease rights	–	–	4	–

All employee benefits of Group management and members of the Board of Directors of the Group for 2015 were USD 13,184 thousand (2014: USD 17,516 thousand).

6. Property, plant and equipment

Property, plant and equipment as at 31 December 2015 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2015	207,843	2,908,058	1,048,510	622,923	383,689	5,171,023
Additions	24,243	–	258,372	8,879	594,548	886,042
Transfers	–	668,661	–	–	(668,661)	–
Disposals	(1,584)	(5,076)	(11,787)	(4,729)	(1,512)	(24,688)
Transfer from land lease right	5,091	–	–	–	–	5,091
Translation difference	(51,948)	(771,892)	(279,508)	(142,762)	(75,145)	(1,321,255)
At 31 December 2015	183,645	2,799,751	1,015,587	484,311	232,919	4,716,213
Accumulated depreciation and impairment						
At 1 January 2015	–	(305,651)	(528,607)	(195,716)	–	(1,029,974)
Charge for the year	–	(109,421)	(171,986)	(56,630)	–	(338,037)
Disposals	–	476	9,359	3,555	–	13,390
Translation difference	–	87,544	147,183	53,325	–	288,052
At 31 December 2015	–	(327,052)	(544,051)	(195,466)	–	(1,066,569)
Net book value						
At 1 January 2015	207,843	2,602,407	519,903	427,207	383,689	4,141,049
At 31 December 2015	183,645	2,472,699	471,536	288,845	232,919	3,649,644

Property, plant and equipment as at 31 December 2014 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2014	264,963	3,951,997	1,480,759	938,088	613,175	7,248,982
Additions	70,432	–	300,688	134,197	945,177	1,450,494
Acquisition of subsidiary	–	–	–	–	–	–
Transfers	–	903,089		–	(903,089)	–
Disposals	(573)	(11,485)	(26,797)	(21,194)	(2,605)	(62,654)
Transfer from land lease right	8,767	–	–	–	–	8,767
Translation difference	(135,746)	(1,935,543)	(706,140)	(428,168)	(268,969)	(3,474,566)
At 31 December 2014	207,843	2,908,058	1,048,510	622,923	383,689	5,171,023
Accumulated depreciation and impairment						
At 1 January 2014	–	(364,081)	(662,943)	(259,141)	–	(1,286,165)
Charge for the year	–	(138,239)	(229,771)	(81,327)	–	(449,337)
Disposals	–	834	20,490	15,499	–	36,823
Translation difference	–	195,835	343,617	129,253	–	668,705
At 31 December 2014	–	(305,651)	(528,607)	(195,716)	–	(1,029,974)
Net book value						
At 1 January 2014	264,963	3,587,916	817,816	678,947	613,175	5,962,817
At 31 December 2014	207,843	2,602,407	519,903	427,207	383,689	4,141,049

In 2015, the weighted average capitalisation rate on funds borrowed is 11.82% per annum (2014: 9.07%).

7. Land lease rights

Land lease rights as at 31 December 2015 consisted of the following:

	Land lease rights
Cost	
At 1 January 2015	59,523
Additions	4,521
Disposals	(1,635)
Transfer to PPE	(5,091)
Translation difference	(13,217)
At 31 December 2015	44,101
Accumulated amortization and impairment	
At 1 January 2015	(4,878)
Charge for the year	(1,103)
Disposals	150
Translation difference	1,270
At 31 December 2015	(4,561)
Net book value	
At 1 January 2015	54,645
At 31 December 2015	39,540

Land lease rights as at 31 December 2014 consisted of the following:

	Land lease rights
Cost	
At 1 January 2014	105,920
Additions	5,826
Disposals	(130)
Transfer to PPE	(8,767)
Translation difference	(43,326)
At 31 December 2014	59,523
Accumulated amortization and impairment	
At 1 January 2014	(6,347)
Charge for the year	(1,751)
Disposals	15
Translation difference	3,205
At 31 December 2014	(4,878)
Net book value	
At 1 January 2014	99,573
At 31 December 2014	54,645

In 2015, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 183 thousand (2014: USD 484 thousand).

8. Intangible assets

Intangible assets as at 31 December 2015 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2015	2,499	2,816	16,729	389	1,683	24,116
Additions	1,811	152	12,642	12	915	15,532
Disposals	(326)	(125)	(1,026)	(10)	(661)	(2,148)
Translation difference	(813)	(647)	(5,717)	(89)	(425)	(7,691)
At 31 December 2015	3,171	2,196	22,628	302	1,512	29,809
Accumulated amortization and impairment						
At 1 January 2015	(854)	(701)	(5,520)	(232)	(730)	(8,037)
Charge for the year	(714)	(296)	(5,440)	(76)	(934)	(7,460)
Disposals	326	125	1,026	10	661	2,148
Translation difference	258	188	1,981	64	211	2,702
At 31 December 2015	(984)	(684)	(7,953)	(234)	(792)	(10,647)
Net book value						
At 1 January 2015	1,645	2,115	11,209	157	953	16,079
At 31 December 2015	2,187	1,512	14,675	68	720	19,162

Intangible assets as at 31 December 2014 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2014	2,954	4,804	20,878	674	1,569	30,879
Additions	1,572	117	8,555	31	1,725	12,000
Disposals	(430)	(86)	(1,845)	(36)	(597)	(2,994)
Translation difference	(1,597)	(2,019)	(10,859)	(280)	(1,014)	(15,769)
At 31 December 2014	2,499	2,816	16,729	389	1,683	24,116
Accumulated amortization and impairment						
At 1 January 2014	(1,042)	(717)	(5,578)	(298)	(625)	(8,260)
Charge for the year	(792)	(502)	(5,175)	(122)	(1,133)	(7,724)
Disposals	430	86	1,844	36	596	2,992
Translation difference	550	432	3,389	152	432	4,955
At 31 December 2014	(854)	(701)	(5,520)	(232)	(730)	(8,037)
Net book value						
At 1 January 2014	1,912	4,087	15,300	376	944	22,619
At 31 December 2014	1,645	2,115	11,209	157	953	16,079

Amortization expense is included in general and administrative expenses (Note 21).

Goodwill as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Goodwill as at beginning of the year	24,307	41,782
Goodwill impairment	–	–
Translation difference	(5,544)	(17,475)
Goodwill as at the end of the year	18,763	24,307

8. Intangible assets (continued)

Goodwill impairment test

The Company performed its annual goodwill impairment test as of 31 December of each year. In assessing whether goodwill has been impaired, the current value of generating unit was compared with its estimated value in use. Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for ten years, approved by the management of the Group, taking into account inflation, the demand for produced products, as well as other macroeconomic assumptions. The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 13.38% (14.42% in 2014).

The impairment test did not reveal impairment of goodwill.

9. Inventories

Inventory as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Goods for resale	1,505,438	1,366,965
Materials and supplies	92,631	81,275
	1,598,069	1,448,240

Materials and supplies are represented by spare parts, packaging materials and other materials used in hypermarkets, stores and warehouses, as well as semi-finished goods of own production.

10. Advances paid

Advances paid as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Advances to third party suppliers	59,667	55,348
Advances for customs duties	12,045	27,317
Advances to employees	880	1,067
Advances to related party suppliers (Note 5)	69	2,465
	72,661	86,197

11. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Petty cash, in RUB	22,447	31,065
Cash in banks, in RUB	1,815	1,748
Cash in banks, in foreign currency	364	285
Cash in transit, in RUB	90,503	103,515
Short-term deposits	–	177,856
	115,129	314,469

11. Cash and cash equivalents (continued)

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts and bank card payments being processed as at 31 December 2015 and 2014.

As at 31 December 2015 the Group did not place short-term deposits on bank accounts.

12. Share capital, share premium and treasury shares

	2015 No. ('000)	2014 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issued and fully paid (par value of RUB 0.01)	94,561	94,561
Treasury shares	(31)	(48)

	2015 No. ('000)	2014 No. ('000)
Balance of shares outstanding at beginning of financial year	94,513	94,545
Sale of treasury shares	790	1,750
Purchase of treasury shares	(773)	(1,782)
Balance of shares outstanding at the end of financial year	94,530	94,513

In 2015 789,556 treasury shares were sold by the Group for a total cash consideration of RUB 9,022,687 thousand (USD 148,379 thousand at exchange rate at the date of transactions). The difference between cash received and the carrying value of shares was recorded as increase of share premium in the amount of USD 2,694 thousand and increase of foreign currency translation reserve in the amount of USD 1,676 thousand.

During 2015 the Group purchased 772,706 of own ordinary shares from the open market.

13. Dividends declared

During the year ended 31 December 2015 the Group declared dividends to shareholders relating to 2014, the first half of 2015 and the first 9 months of 2015:

	2015
Dividends declared for 2014 (2.50 USD for 1 share)	236,101
Dividends declared for the first half of 2015 (1.34 USD for 1 share)	126,497
Dividends declared for the first 9 months of 2015 (2.52 USD for 1 share)	238,489

During the year ended 31 December 2014 the Group declared dividends to shareholders relating to 2013, the first half of 2014 and first 9 months of 2014:

	2014
Dividends declared for 2013 (2.57 USD for 1 share)	243,166
Dividends declared for the first half of 2014 (2.04 USD for 1 share)	192,750
Dividends declared for the first 9 months of 2014 (2.69 USD for 1 share)	254,376

As at 31 December 2015 the amount of liability for unpaid dividends is USD 233,167 thousand (at 31 December 2014: USD 255,465 thousand).

14. Trade and other payables

Trade and other payables as at 31 December 2015 and 2014 consisted of the following:

	31 December 2015	31 December 2014
Trade payables to third parties	1,196,126	1,173,162
Other payables to third parties	13,126	13,671
Trade payables to related parties (Note 5)	2,453	436
Other payables to related parties (Note 5)	822	13
	1,212,527	1,187,282

The average credit period for purchases was 41 days in 2015 and 36 days in 2014. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

15. Accrued expenses

Accrued expenses as at 31 December 2015 and 2014 consisted of the following:

	31 December 2015	31 December 2014
Accrued salaries and wages	79,797	90,781
Other accrued expenses	52,941	54,701
	132,738	145,482

16. Taxes payables

Taxes payables as at 31 December 2015 and 2014 consisted of the following:

	31 December 2015	31 December 2014
Value added tax	30,034	37,896
Social insurance contributions	27,793	30,759
Employee income tax withholding	12,375	14,182
Property tax	10,007	11,585
Other taxes	1,109	1,320
	81,318	95,742

17. Borrowings and loans

Long-term and short-term borrowings and loans as at 31 December 2015 and 2014 consisted of the following:

	Year of maturity	Weighted average interest rate	31 December 2015	Weighted average interest rate	31 December 2014
Long-term borrowings and loans					
Unsecured bank loans	2017	11.72%	404,083	10.68%	345,700
Unsecured bonds	2017	11.47%	279,334	–	–
Unsecured bonds	2018	12.11%	139,283	–	–
Unsecured bonds	2016	–	–	8.45%	272,830
Unsecured bank loans	2016	–	–	7.56%	177,576
Less: current portion of long-term borrowings and loans			(7,538)		(6,710)
Total long-term borrowings and loans			815,162		789,396
Short-term borrowings and loans					
Unsecured bonds	2016	9.71%	354,914	–	–
Unsecured bank loans	2016	9.34%	228,675	–	–
Unsecured borrowings from related parties (Note 5)	2016	11.40%	23,794	–	–
Unsecured bank loans	2015	–	–	12.26%	813,373
Unsecured bonds	2015	–	–	8.93%	90,988
Other unsecured borrowings	2015	–	–	14.50%	23
Current portion of long-term borrowings and loans			7,538		6,710
Total short-term borrowings and loans			614,921		911,094

The Group entered into a number of agreements with related parties for short-term borrowings amounting of RUB 1,720,000 thousand (USD 23,600 thousand).

18. Revenue

Revenue for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Retail	15,548,452	19,851,316
Wholesale	46,136	20,976
	15,594,588	19,872,292

19. Cost of sales

Cost of sales for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Cost of goods sold	10,526,739	13,279,203
Transportation expenses	357,067	539,540
Losses due to inventory shortages	268,030	314,063
	11,151,836	14,132,806

19. Cost of sales (continued)

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

In 2015, payroll in amount of USD 125,078 thousand (2014: USD 168,299 thousand) was included in cost of sales.

In 2015, depreciation of production fixed assets in amount of USD 1,454 thousand (2014: USD 1,565 thousand) was included in cost of goods sold.

20. Selling expenses

Selling expenses for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Advertising	94,751	90,435
Packaging and raw materials	60,925	72,540
Depreciation	51,936	68,979
	207,612	231,954

21. General and administrative expenses

General and administrative expenses for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Payroll	1,258,696	1,690,523
Rent and utilities	721,862	814,217
Payroll related taxes	361,260	481,899
Depreciation	284,647	378,793
Repair and maintenance	54,860	87,906
Taxes, other than income tax	50,020	76,400
Bank services	44,842	49,213
Security	12,741	16,484
Provision for unused vacation	11,165	15,109
Bad debt provision	1,760	2,947
Other expenses	81,986	103,351
	2,883,839	3,716,842

“Other expenses” line includes amortization charge for the year ended 31 December 2015 in the amount of USD 8,380 thousand (2014: USD 8,991 thousand).

22. Finance costs

Finance costs for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Interest on loans	151,651	133,391
Interest on bonds	53,598	49,602
Total interest expense for financial liabilities	205,249	182,993
Less: amounts included in the cost of qualifying assets	(10,263)	(10,019)
	194,986	172,974

23. Other income

Other income for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Sale of packing	49,716	46,125
Penalties	6,598	7,091
Advertising income	6,110	9,790
Other	2,543	12,251
	64,967	75,257

24. Income tax

The Group’s income tax expense for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Consolidated statement of comprehensive income		
Current tax	158,571	314,865
Deferred tax	40,496	58,380
Income tax expense reported in the consolidated statement of comprehensive income	199,067	373,245

The movements for the years ended 2015 and 2014 in the Group’s deferred tax position are as follows:

	2015	2014
Liability at the beginning of the year	185,141	249,707
Charge for the year	40,496	58,380
Translation difference	(48,856)	(122,946)
Deferred tax liability at the end of the year	176,781	185,141

24. Income tax (continued)

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2015 and 2014 is as follows:

	Consolidated statement of financial position			Consolidated statement of comprehensive income	
	As at 31 December 2015	As at 31 December 2014	As at 1 January 2014	2015	2014
Deferred tax assets					
Accrued expenses	(940)	(628)	(1,155)	(545)	65
Inventories	(23,652)	(17,342)	(16,386)	(12,274)	(11,434)
Other	(8,168)	(9,609)	(15,267)	(898)	(1,065)
Deferred tax liabilities					
Property, plant and equipment	200,300	200,131	268,933	54,780	63,951
Other	9,241	12,589	13,582	(567)	6,863
Net deferred tax liability	176,781	185,141	249,707	40,496	58,380

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 20% to the actual expense recorded in the Group’s profit and loss:

	2015	2014
Profit before tax	1,167,952	1,614,363
Theoretical income tax expense at 20%	(233,590)	(322,873)
Adjustments due to:		
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(4,163)	(35,488)
Tax effect of other expenses that are not deductible in determining taxable profit	(6,631)	(14,884)
Income tax recovery due to submission of revised tax returns	45,317	–
Income tax expense	(199,067)	(373,245)

25. Earnings per share

Earnings per share for the years ended 31 December 2015 and 2014 have been calculated on the basis of the net profit for the year and the weighted average number of common shares outstanding during the year.

The calculation of earnings per common share for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Profit for the year attributable to equity holders of the parent	968,885	1,241,118
Weighted average number of shares (in thousands of shares)	94,561	94,561
Basic and diluted earnings per share (in US dollars)	10.25	13.13

The Group does not have any potentially dilutive equity instruments.

26. Contingencies, commitments and operating risks

Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions imposed consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

By the Executive Order of the President of Russia *On Special Economic Measures to Protect the Russian Federation's Security* signed on 6 August 2014 and Executive Order of the President of Russia *On Prolongation of Special Economic Measures to Protect the Russian Federation's Security* signed on 24 June 2015 it was prohibited to import into the territory of the Russian Federation certain agricultural products, raw materials and foodstuffs originating in countries, that have decided to impose economic sanctions on Russian legal entities and (or) individuals, or have joined such decision. By the Executive Order of the President of Russia *On Special Economic Measures to Protect the Russian Federation's and Russian Citizens Security from the Criminal and Other Illegal Actions and the Application of Special Economic Measures Against Turkey* signed on 28 November 2015 it was prohibited to import into the territory of the Russian Federation certain products from Turkey. The following countries are under embargo: EU countries, USA, Australia, Canada, Norway and Turkey. A specific list of goods in respect of which the restrictions are imposed was determined by the Russian Government. The list includes meat and dairy products, fish, vegetables, fruits, nuts and some other products. The Group's management believes that these measures do not have material impact on the Group's operation.

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.

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows.

Insurance

The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in developed markets are not yet generally available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

26. Contingencies, commitments and operating risks (continued)

Capital and rent commitments

As at 31 December 2015 and 2014, the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	2015	2014
Within one year	119,944	191,226
In the second to fifth years inclusive	74,009	4,856
	193,953	196,082

The Group entered in a number of cancellable short-term and long-term rental agreements. The Group plans to prolong these agreements in the future. The expected annual lease payments under these agreements amount to approximately USD 488 million (2014: USD 457 million).

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity ratios.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 17, cash and cash equivalents disclosed in Note 11 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 12.

27. Financial risk management objectives and policies

Gearing ratio

Management reviews the Group’s capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio in 2015 of up to 58% (2014: 54%) determined as the proportion of net debt to equity.

The gearing ratio as at 31 December 2015 and 2014 was as follows:

	2015	2014
Debt	1,430,083	1,700,490
Cash and cash equivalents	(115,129)	(314,469)
Net debt	1,314,954	1,386,021
Equity	2,265,841	2,553,423
Net debt to equity ratio	58%	54%

Debt is defined as long-term and short-term borrowings. Equity includes all capital and reserves of the Group.

27. Financial risk management objectives and policies (continued)

Fair values

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

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	Carrying amount		Fair value	
	2015	2014	2015	2014
Long-term borrowings and loans	403,999	522,958	402,399	438,066
Bonds	773,531	363,818	752,847	349,077

The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Long-term borrowing and loans are categorized as Level 2 within the fair value hierarchy. For quoted bonds (Level 1) the fair value was determined based on quoted market prices. No transfers occurred between levels in the hierarchy during the reporting period.

Fair values of financial instruments of the Group other than disclosed above approximate to their carrying amounts as at 31 December 2015 and 2014.

Foreign currency risk management

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when purchase is denominated in a different currency from the Group's functional currency).

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership over goods to the Group.

	Change in USD rate	Effect on profit before tax	Change in EUR rate	Effect on profit before tax
2015	+40.00%	44,291	+43.00%	19,629
	-13.00%	(14,395)	-15.00%	(6,847)
2014	+28.54%	37,913	+29.58%	13,846
	-28.54%	(37,913)	-29.58%	(13,846)

27. Financial risk management objectives and policies (continued)

Interest rate risk management

The Group is exposed to insignificant interest rate risk as entities in the Group borrow funds on fixed rates primary.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises with respect to operating activities (primarily for trade and other receivables) and investing activities (cash, short term loans).

Customer credit risk is managed by the Group by dealing with creditworthy counterparties, who have a good long term credit history. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of current assets at any time during the years presented.

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as presented in the statement of financial position.

Offsetting of financial assets and liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. The effect of offsetting is the following:

	Gross amount			Net amount	
	Trade and other receivables	Trade and other payables	Amount of offset	Trade and other receivables	Trade and other payables
2015	316,354	(1,515,247)	302,720	13,634	(1,212,527)
2014	321,196	(1,494,022)	306,740	14,456	(1,187,282)

27. Financial risk management objectives and policies (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built a liquidity risk management framework for management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk tables

The following tables summarise the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments. The table includes both interest and principal cash flows.

	Weighted average effective interest rate, %	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	Total
2015						
Trade and other payables		1,115,525	97,002	–	–	1,212,527
Fixed interest rate instruments	11.29	36,632	311,489	225,977	814,033	1,388,131
Instruments with variable interest rate	8.01	1,583	2,652	147,647	62,551	214,433
		1,153,740	411,143	373,624	876,584	2,815,091
2014						
Trade and other payables	–	1,059,056	128,226	–	–	1,187,282
Fixed interest rate instruments	11.2	202,318	266,497	524,585	592,830	1,586,230
Instruments with variable interest rate	7.72	1,972	3,307	14,882	276,420	296,581
		1,263,346	398,030	539,467	869,250	3,070,093

The Group has access to financing facilities of RUB 199,700,000 thousand (USD 2,740,019 thousand) of which RUB 151,836,740 thousand (USD 2,083,303 thousand) remains unused at 31 December 2015. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

28. Subsequent events

There were no significant events after the reporting date.