Lenta Limited and Subsidiaries

Consolidated financial statements

For the year ended 31 December 2013

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2013

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries ("the Group") as at 31 December 2013 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2013 were approved by management on 29 January 2014.

On behalf of the Management as authorized by the Board of Directors.

Jan Dunning
(CEO of Lenta Ltd)

Jago Lemmens
(Chief Financial Officer / Financial Director of Lenta Ltd)

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
St. Petersburg Branch
White Nights House Business Center
Malaya Morskaya Street, 23
St. Petersburg, 190000, Russia
Tel: +7 (812) 703 7800
Fax: +7 (812) 703 7810
www.ey.com/ru

ООО «Эрнст энд Янг»
Филиал в Санкт-Петербурге
Россия, 190000, Санкт-Петербург
ул. Малая Морская, 23
Бизнес Центр «Белые Ночи»
Тел.: +7 (812) 703 7800
Факс: +7 (812) 703 7810
ОКПО: 71457074

Independent auditors' report

To the Shareholders of Lenta Ltd

We have audited the accompanying consolidated financial statements of Lenta Ltd and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 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 auditors' judgement, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

30 January 2014

Lenta Limited and Subsidiaries

Consolidated statement of financial position as at 31 December 2013

(in thousands of Russian Roubles (RR))

	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	8	51,165,287	30,582,875
Prepayments for construction	9	2,576,068	1,459,501
Leasehold rights	10	2,771,664	2,214,195
Intangible assets other than leasehold rights	11	623,158	446,200
Total non-current assets		**57,136,177**	**34,702,771**
Current assets			
Inventories	12	12,994,188	9,373,700
Trade and other receivable	13	8,466,099	5,448,429
Advances paid	14	1,404,388	808,090
Taxes recoverable	15	1,714,755	1,121,760
Prepaid expenses		180,860	50,904
Cash and cash equivalents	16	6,211,965	3,536,464
Total current assets		**30,972,255**	**20,339,347**
Total assets		**88,108,432**	**55,042,118**
Equity and liabilities			
Equity			
Share capital	17,19	284	284
Additional paid-in capital	17	4,407,154	3,972,544
Share Options	27	65,510	978,698
Hedging reserve	17	(42,959)	–
Treasury shares	17	–	(15,724,392)
Retained earnings		307,478	9,809,527
Total equity		**4,737,467**	**(963,339)**
Liabilities			
Non-current liabilities			
Long-term borrowings	20	39,849,089	24,978,988
Deferred tax liabilities	21	1,639,997	705,323
Long-term portion of cash flow hedging instruments	20	370,939	130,089
Long-term obligations under finance leases		50,429	65,420
Total non-current liabilities		**41,910,454**	**25,879,820**
Current liabilities			
Trade and other payables	22	33,806,922	25,044,300
Advances received		124,802	156,671
Other taxes payable	23	715,445	547,509
Current income tax payable		481,482	402,595
Short-term portion of cash flow hedging instruments	20	188,773	141,558
Short-term borrowings and short-term portion of long-term borrowings	20	6,143,087	3,833,004
Total current liabilities		**41,460,511**	**30,125,637**
Total liabilities		**83,370,965**	**56,005,457**
Total equity and liabilities		**88,108,432**	**55,042,118**

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013

(in thousands of Russian Roubles (RR))

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Sales		144,266,474	109,909,902
Cost of goods sold	24	(112,809,423)	(87,233,080)
Gross profit		**31,457,051**	**22,676,822**
Selling, general and administrative expenses	25	(19,013,847)	(13,506,345)
Reversal of impairment of non-financial assets		–	401
Other operating income	26	1,459,666	1,118,420
Other operating expense		(170,542)	(124,618)
Operating profit		**13,732,328**	**10,164,680**
Interest expense		(4,341,902)	(3,217,459)
Interest income		82,153	77,779
Change in fair value of financial instruments at fair value through profit or loss	20	(234,367)	102,330
Other expenses		(91,220)	(215,122)
Foreign exchange gains/(losses)		(23,171)	69,967
Profit before income tax		**9,123,821**	**6,982,175**
Income tax expense	21	(2,031,644)	(1,846,377)
Profit for the year		**7,092,177**	**5,135,798**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement of cash flow hedges	18	(53,699)	–
Income tax relating to the components of OCI	21	10,740	–
Other comprehensive income for the year, net of tax		**(42,959)**	**–**
Total comprehensive income for the year, net of tax		**7,049,218**	**5,135,798**
Earnings per share (in RR per share) (Note 19)			
- basic and diluted, for profit for the year attributable to equity holders of the parent		0.083	0.060

Lenta Limited and Subsidiaries

Consolidated statement of cash flows for the year ended 31 December 2013

(in thousands of Russian Roubles (RR))

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities			
Profit before income tax		**9,123,821**	**6,982,175**
Adjustments for:			
Loss from disposal of property, plant and equipment		72,586	15,000
Gain on disposal of leasehold rights		(633)	–
Interest expense		4,341,902	3,217,459
Interest income		(82,153)	(77,779)
Inventory write-down to net realizable value		131,382	42,400
Change in bad debt allowance		34,606	(3,639)
Depreciation and amortization	8,25	2,312,255	1,576,364
Reverse of impairment of non-financial assets		–	(401)
Share options expense	27	65,510	–
Change in fair value of financial instruments at fair value through profit and loss	20	234,367	(102,330)
		16,233,643	**11,649,249**
Movements in working capital:			
Increase in trade and other receivables		(3,023,813)	(1,571,933)
Increase in advances paid	14	(596,557)	(496,797)
Increase in prepaid expenses		(54,956)	(12,052)
Increase in inventories	12	(3,751,870)	(1,846,838)
Increase in trade and other payables	22	7,469,635	6,373,866
(Decrease)/increase in advances received		(31,869)	10,748
Decrease in net other taxes payable	15,23	(456,150)	(740,885)
		15,788,063	**13,365,358**
Cash from operating activities			
Income taxes paid		(976,252)	(1,083,862)
Interest received		89,411	78,202
Interest paid		(4,048,443)	(3,099,041)
Net cash generated from operating activities		**10,852,779**	**9,260,657**
Cash flows from investing activities			
Purchases of property, plant and equipment		(22,496,319)	(14,061,626)
Purchases of intangible assets other than leasehold rights		(274,387)	(262,709)
Purchases of leasehold rights		(813,439)	(638,074)
Proceeds from sale of property, plant and equipment		4,361	680
Proceeds from disposals of leasehold rights		30,443	–
Net cash used in investing activities		**(23,549,341)**	**(14,961,729)**
Cash flows from financing activities			
Proceeds from borrowings		70,921,176	26,670,004
Repayments of borrowings		(54,045,200)	(22,837,000)
Repayments of obligations under financial lease		(14,990)	(10,836)
Proceeds from issue of new shares and sales of treasury shares	17	813,251	278,949
Amount paid on cancelation of share option	27	(2,227,174)	–
Payment of loan commission		(75,000)	–
Net cash generated from financing activities		**15,372,063**	**4,101,117**
Net increase/(decrease) in cash and cash equivalents		2,675,501	(1,599,955)
Cash and cash equivalents at the beginning of the period	16	3,536,464	5,136,419
Cash and cash equivalents at the end of the period	16	**6,211,965**	**3,536,464**

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

Consolidated statement of changes in equity for the year ended 31 December 2013

(in thousands of Russian Roubles (RR)

	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Share options reserve	Retained earnings	Total equity
Balance at 1 January 2013	**284**	**3,972,544**	–	**(15,724,392)**	**978,698**	**9,809,527**	**(963,339)**
Profit for the period	–	–	–	–	–	7,092,177	**7,092,177**
Other comprehensive income	–	–	(42,959)	–	–	–	**(42,959)**
Total comprehensive income	**–**	**–**	**(42,959)**	**–**	**–**	**7,092,177**	**7,049,218**
Share–based payment cancellation (Note 27)	–	–	–	–	(978,698)	(1,248,475)	**(2,227,173)**
Share–based payments (Note 27)	–	–	–	–	65,510	–	**65,510**
Issue of shares (Note 17)	–	118,500	–	–	–	–	**118,500**
Sale of treasury shares (Note 17)	–	316,110	–	378,641	–	–	**694,751**
Cancelation of treasury shares	–	–	–	15,345,751	–	(15,345,751)	–
Balance at 31 December 2013	**284**	**4,407,154**	**(42,959)**	**–**	**65,510**	**307,478**	**4,737,467**
Balance at 1 January 2012	**284**	**3,693,595**	–	**(15,724,392)**	**978,698**	**4,673,729**	**(6,378,086)**
Profit for the period	–	–	–	–	–	5,135,798	**5,135,798**
Other comprehensive income	–	–	–	–	–	–	**–**
Total comprehensive income	–	–	–	–	–	5,135,798	**5,135,798**
Issue of shares (Note 17)	–	278,949	–	–	–	–	**278,949**
Balance at 31 December 2012	**284**	**3,972,544**	–	**(15,724,392)**	**978,698**	**9,809,527**	**(963,339)**

Notes

Additional paid-in capital: Additional paid-in capital is the difference between the fair value of consideration received and nominal value of the issued shares.

Treasury shares: Treasury shares are own equity instruments that are reacquired by the Group.

1. The Lenta Group and its operations

The Lenta Group (the "Group") comprises Lenta Limited ("the Company") and its subsidiaries. The Group's principal business activity is the development and operation of hypermarket and supermarket stores in Russia.

The Company was incorporated as a company limited by shares under the laws of the British Virgin Islands (BVI) on 16 July 2003. The Company's registered address is at Road Town, Tortola, BVI. The registered office of the Group's main operating entity, Lenta LLC, is located at 112, Savushkina Street, 197374, Saint Petersburg, Russia.

At 31 December 2012 and 31 December 2013 the Group had one main operational fully owned subsidiary, Lenta LLC, a legal entity registered under the laws of the Russian Federation. The principal activity of Lenta LLC is retail trade.

2. Basis of preparation and significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

2.1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for as described in accounting policies below. The consolidated financial statements are presented in Russian Roubles and all values are rounded to the nearest thousand (RR 000), except when otherwise indicated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

The Company does not prepare stand-alone financial statements, as BVI law does not require it. Its accounting records are kept only for the Group financial reporting purposes. The Russian Group companies maintain their accounting records in Russian Roubles and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation.

These consolidated financial statements have been prepared on a going concern basis.

At 31 December 2013, the Group had net current liabilities of approximately RR 10,488,256 (31 December 2012: RR 9,786,290).

Unused credit facilities available as of 31 December 2013 were RR 24,850,000. Management believes that operating cash flows and available borrowing capacity will provide it adequate resources to fund its liabilities for the next year.

2. Basis of preparation and significant accounting policies (continued)

2.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries) as at 31 December 2013. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

The Group 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 into 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.

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 interests
- 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 OCI 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.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies

Business combinations and goodwill

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 Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments*: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

Current versus non-current classification

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

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 financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

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.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian Rouble ("RR"), the national currency of the Russian Federation, the primary economic environment in which operating entities function.

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

Consolidated financial statements

Subsidiaries are those companies (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits and which are neither associates nor joint ventures. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Property, plant and equipment

Property, plant and equipment are initially recorded at purchase or construction cost. Cost of replacing major parts or components of property, plant and equipment items is capitalized and the replaced part is retired. All other repair and maintenance costs are expensed as incurred.

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Gains and losses on disposals determined by comparing net proceeds with the respective carrying amount are recognised in profit or loss.

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 impairment loss has been recognised.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method to write off their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	30
Land improvements	30
Machinery and equipment	5 to 15
Other	3 to 5

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

Leasehold rights

Leasehold rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortisation and accumulated impairment losses. These leasehold rights are amortized to profit or loss over the term of the lease, which is 49 years. If the Group further purchases the land plot previously leased, the carrying amount of the related leasehold right as of the date of purchase transaction is reclassified to the cost of land plot purchased.

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.

Intangible assets

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

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

Intangible assets with finite lives are amortised over the useful economic life (which is from 3 to 7 years) using a straight-line method write off their cost to their residual values and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets or included into the carrying amount of an asset as appropriate.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial 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 cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset or a cash-generating unit is the higher of its 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 the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (the cash-generating unit) 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 (the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with management's interpretation of the relevant legislation enacted or substantively enacted as at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity. 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.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is recorded using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

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

- When the deferred tax liability arises from the initial recognition of goodwill or 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, when 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 recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When 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 utilized.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

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.

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.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Cost comprises the direct cost of goods, transportation and handling costs. Cost of sales comprises only cost of inventories sold through retail stores and inventory write-downs made during the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized 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. For the purposes of borrowing costs recognition, a substantial period of time is considered to be a period of twelve months or more.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group 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 Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Revenue recognition

The sole source of revenue is retail sales. Revenue from the sale of goods is recognised at the point of sale.

The Group generates and recognizes sales to retail customers in its stores at the point of sale. Retail sales are in cash and through bank cards. Revenues are measured at the fair value of the consideration received or receivable, recognised 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.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

Income generated from rental of spaces for small trading outlets within the Group's stores is recognised in the end of each month on a straight-line basis over the period of the lease, in accordance with the terms of the relevant lease agreements.

Interest income is recognised on a time-proportion basis using the effective interest rate method. Interest income is included into the Interest income line in the statement of comprehensive income.

Suppliers' 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.

Employee benefits

The Group is subject to mandatory contributions to the Russian Federation defined contribution state pension benefit fund. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Share-based payments

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in share options reserve in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense (Note 27). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (Note 27).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where there is an alternative to settle the transaction in cash or by issuing shares at the discretion of counter-party, debt and equity components of the instrument are to be identified and treated appropriately

Pre-opening costs

Operating expenses incurred during the process of opening of new stores were recorded in the Group's consolidated statement of comprehensive income. These expenses do not meet capitalisation criteria under IAS 16 *Property, Plant and Equipment* and include rent, utilities and other operating expenses.

Development projects on behalf of third parties

Where the Group undertakes a short-term development project for a new store construction on behalf of a third party, expenditure incurred on construction of the store is recorded within other receivables while on-account payments received from the third party are recorded as advances received. The Group acts as an agent in such projects and recognizes commission earned as other operating income.

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 stores and in various regions 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 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 a measure of revenue and earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

Seasonality

The Group's business operations are stable during the year with limited seasonal impact, except for a significant increase of business activities in December.

2. Basis of preparation and significant accounting policies (continued)

2.3. 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 financial assets not at fair value through profit or loss, directly attributable transaction costs.

Effective interest rate method

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

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 shown in separate line 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 financial asset 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.

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 profit or loss.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

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 profit or 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

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share capital

Ordinary shares are classified as equity. Transaction costs of a share issue are shown within equity as a deduction from the equity.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

Additional paid-in capital

Additional paid-in capital represents the difference between the fair value of consideration received and the nominal value of the issued shares.

Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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. 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 transaction costs.

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially recognised at fair value, net of transaction costs, and subsequently measured at amortised cost using the 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.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps and caps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Swaps and caps used by the Group that meet the strict criteria for hedge accounting are accounted for as cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss as other operating expenses.

Designation of a hedge relationship takes effect prospectively from the date all of the criteria are met. In particular, hedge accounting can be applied only from the date all of the necessary documentation is completed. Therefore, hedge re' ionships cannot be designated retrospectively.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.
When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

2. Basis of preparation and significant accounting policies (continued)

2.3. Summary of significant accounting policies (continued)

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

Derivative instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group expects to hold a derivative as an economic hedge for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

3. Significant accounting judgments, estimates and assumptions

In the application of the Group's accounting policies, which are described in Note 2 above, 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

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

Judgments

Operating lease commitments – Group as lessor

The Group has entered into land and premises leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

3. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Assets versus business acquisition

From time to time in the normal course of business the Group acquires the companies that are a party to a lease contract or own the land plot in which the Group is interested. If at the date of acquisition by the Group, the company is not engaged in any business activity, the Group treats such acquisitions as a purchase of assets (a leasehold right or a land plot) in the consolidated financial statements. The exercise of judgment determines whether a particular transaction is treated as a business combination or as a purchase of assets.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

Useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate.

Leases renewal assumption

It is presumed that the initial land leases contracted for 3 years will be renewed for 49 years at completion of construction of department stores. Thus, any long-term prepayments at the inception of the leases are presumed to have a 49-year useful life. Should the Group fail to renew the land lease contracts for a 49-year period, leasehold rights would have to be written off at the end of the initial lease term.

3. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Inventory valuation

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review also includes the identification of slow moving inventories which are written down based on inventories ageing and write down rates. The write down rates are determined by management following the experience of sales of such items.

Tax legislation

Russian tax, currency and customs legislation is subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 29 for further discussion.

Impairment of non-financial assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

The value in use calculation is based on a discounted cash flow model. 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. 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.

3. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

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.

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

4. Adoption of new or revised standards and interpretations

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 2012, except for the adoption of new or revised standards and interpretations effective as of 1 January 2013

Annual Improvements to IFRSs 2010-2012 Cycle

Annual Improvements to IFRSs 2010-2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during the 2010-2012 cycle for annual improvements to IFRSs. It includes the following amendments:

- IFRS 2 *Share-based Payment: Definition of vesting condition*
- IFRS 3 *Business Combinations: Accounting for contingent consideration in a business combination*
- IFRS 8 *Operating Segments: Aggregation of operating segments*
- IFRS 8 *Operating Segments: Reconciliation of the total of the reportable segments' assets to the entity's assets*
- IFRS 13 *Fair Value Measurement: Short-term receivables and payables*
- IAS 16 *Property, Plant and Equipment: Revaluation method—proportionate restatement of accumulated depreciation*
- IAS 24 *Related Party Disclosures: Key management personnel*
- IAS 38 *Intangible Assets: Revaluation method—proportionate restatement of accumulated amortisation*

4. Adoption of new or revised standards and interpretations (continued)

Annual Improvements to IFRSs 2011-2013 Cycle

Annual Improvements to IFRSs 2011-2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2011-2013 cycle. It includes the following amendments:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards: Meaning of 'effective IFRSs'*
- IFRS 3 *Business Combinations: Scope exceptions for joint ventures*
- IFRS 13 *Fair Value Measurement: Scope of paragraph 52 (portfolio exception)*
- IAS 40 *Investment Property: Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property*

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified (or recycled) to profit or loss at a future point in time (e.g., net loss or gain on available for sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 has no impact on the consolidation of investments held by the Group.

4. Adoption of new or revised standards and interpretations (continued)

IAS 19 Employee Benefits (Revised 2011)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets, to simple clarifications and rewording. Actuarial gains and losses are now recognized in other comprehensive income. Interest on the net defined benefit liability (asset) is recognized using the discount rate used to measure the defined benefit obligation. IAS 19R has no impact on the Group's financial position or performance.

IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective from 1 July 2014 with earlier application permitted.

IAS 32 Financial Instruments, Presentation (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment did not have an impact on the consolidated financial statements for the Group, as there is no tax consequences attached to distributions to equity holders.

IAS 16 Property, Plant and Equipment (Amendment)

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment has no impact on the consolidated financial statements of the Group.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment did not have an impact on the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 has no impact on the Group's financial position or performance.

4. Adoption of new or revised standards and interpretations (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 has no impact on financial statement disclosures, financial position or performance of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has no material impact on the Group's financial position or performance.

IFRS 13 also requires specific disclosures on fair values. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 29.

5. 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.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

On 19 November 2013 the IASB issued package of amendments to the accounting requirements for financial instruments. The amendments: bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

5. Standards issued but not yet effective (continued)

Hedge accounting

The amendments introduced a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions.

Own credit

As part of the amendments, the changes introduced also enable entities to change the accounting for liabilities that they have elected to measure at fair value, before applying any of the other requirements in IFRS 9. This change in accounting would mean that gains caused by a worsening in an entity's own credit risk on such liabilities are no longer recognised in profit or loss. These amendments will facilitate earlier application of this long-awaited improvement to financial reporting

IFRS 9 effective date

The IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The amendments remove the mandatory effective date from IFRS 9. However, entities may still choose to apply IFRS 9 immediately.

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact on the financial statements.

5. Standards issued but not yet effective (continued)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact on the financial statements.

IAS 39 Financial Instruments: Recognition and Measurement - Amendments to IAS 39

The amendment eliminates the requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment is applicable for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014. The amendment is not expected to have any impact on the Group's financial position and performance.

6. Operating segments

The Group's principal business activity is the development and operation of food retail stores located in Russia. Risks and returns are affected primarily by economic development in Russia and by the development of Russian food retail industry. The Group has no significant assets outside the Russian Federation (excluding investments in its foreign wholly owned subsidiaries Lakatomo Holdings Ltd and Lenta Luxemburg, which are eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segment represented by stores into one reportable segment. Within the segment all business components are similar in respect of:

- the products;
- the customers;
- centralized Group structure (commercial, operational, logistic, finance, HR and IT functions are centralized).

The Group's operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyze performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortization (EBITDA).

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

(in thousands of Russian Roubles (RR))

6. Operating segments (continued)

The segment information for the year ended 31 December 2013 is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Sales	144,266,474	109,909,902
EBITDA	16,044,583	11,740,643

Reconciliation of EBITDA to IFRS profit for the year is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
EBITDA	**16,044,583**	**11,740,643**
Interest expense	(4,341,902)	(3,217,459)
Interest income	82,153	77,779
Income tax expense (see Note 21)	(2,031,644)	(1,846,377)
Depreciation / amortization (see Note 8,10,11,25)	(2,312,255)	(1,576,364)
Reversal of impairment of non-financial assets	-	401
Revaluation of financial instruments at fair value through profit or loss (see Note 7,20)	(234,367)	102,330
Other expenses	(91,220)	(215,122)
Foreign exchange gain	(23,171)	69,967
Profit for the year	**7,092,177**	**5,135,798**

7. Balances and transactions with related parties

Related parties may enter into transactions, which unrelated parties might not. Transactions between related parties might not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As at 31 December 2013 the Group's ownership structure is as follows:

Shareholders	Percentage of shares held, 31 December 2013	Percentage of shares held, 31 December 2012
Luna Inc.	49.84%	40.17%
Lakatomo Holdings Limited (subsidiary of Lenta Ltd)		19.89%
European Bank for Reconstruction and Development	21.50%	17.32%
Luna Holdings Inc.	11.73%	9.45%
Others	16.93%	13.17%
Total shareholders' equity	**100.00%**	**100.00%**

(in thousands of Russian Roubles (RR)

7. Balances and transactions with related parties (continued)

The consolidated financial statements include the following balances with related parties:

Entities with significant influence over the Group:

	31 December 2013	31 December 2012
VTB Capital		
Cash and cash equivalents	1,121,546	2,564,946
Long-term loans payable	29,891,695	24,978,988
Short-term loans payable	1,300,000	2,833,000
Interest accrued	11,480	7,975
Finance lease liability	49,612	63,511
Liability on swaps and caps	559,712	271,647
Loan commission prepayments	75,000	–
TPG Capital		
Prepayments	1,020	39,451
Luna Holdings Inc.		
Accrued liabilities	–	4,591

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Year ended 31 December 2013	Year ended 31 December 2012
VTB Capital		
Interest expense	3,264,516	2,957,497
Finance leasing charge	8,597	10,538
Financial charges on swaps and caps	153,955	155,156
Change in fair value of financial instruments through profit and loss	234,367	(102,330)
Change in fair value of financial instruments through OCI	53,698	–
Interest income on deposits	(63,545)	–
EBRD		
Selling, general and administrative expenses	2,260	–
Other expenses	3,928	–
TPG Capital		
Selling, general and administrative expenses	39,576	–
Other expenses	83,365	72,426
Luna Holdings Inc.		
Selling, general and administrative expenses	5,316	–
Other expenses	3,928	–

Remuneration to the members of the Board of Directors and key management personnel was as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Short-term benefits	436,774	1,051,783
Share-based payment	65,510	–
Termination benefits	8,555	1,124
Total remuneration	**510,839**	**1,052,907**

(in thousands of Russian Roubles (RR)

8. Property, plant and equipment

Cost	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2013	**3,541,686**	**2,858,739**	**22,737,745**	**9,328,833**	**1,600,864**	**40,067,867**
Additions	–	–	–	3,873	22,644,151	**22,648,024**
Transfers from construction in progress	1,245,871	944,060	13,677,629	4,656,266	-20,523,826	**–**
Transfers from leasehold rights	173,810	–	–	–	–	**173,810**
Disposals	(2,295)	–	(792)	(152,192)	(22,366)	**(177,645)**
Balance at 31 December 2013	**4,959,072**	**3,802,799**	**36,414,582**	**13,836,780**	**3,698,823**	**62,712,056**
Accumulated depreciation and impairment						
Balance at 1 January 2013	**–**	**623,388**	**4,476,616**	**4,384,988**	**–**	**9,484,992**
Charge for the year	–	92,228	799,540	1,270,707	–	**2,162,475**
Disposals	–	–	(666)	(100,032)	–	**(100,698)**
Balance at 31 December 2013	**–**	**715,616**	**5,275,490**	**5,555,663**	**–**	**11,546,769**
Net book value						
Balance at 1 January 2013	**3,541,686**	**2,235,351**	**18,261,129**	**4,943,845**	**1,600,864**	**30,582,875**
Balance at 31 December 2013	**4,959,072**	**3,087,183**	**31,139,092**	**8,281,117**	**3,698,823**	**51,165,287**

Cost	Land	Land improvements	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2012	**1,846,517**	**2,213,528**	**14,638,482**	**6,908,351**	**776,071**	**26,382,949**
Additions	219,688	–	–	129	13,583,065	**13,802,882**
Transfers from construction in progress	1,475,481	645,211	8,103,379	2,502,336	(12,726,407)	**–**
Disposals	–	–	(4,116)	(81,983)	(31,865)	**(117,964)**
Balance at 31 December 2012	**3,541,686**	**2,858,739**	**22,737,745**	**9,328,833**	**1,600,864**	**40,067,867**
Accumulated depreciation and impairment						
Balance at 1 January 2012	**–**	**549,393**	**3,988,188**	**3,539,904**	**–**	**8,077,485**
Charge for the year	–	73,995	491,672	909,996	–	**1,475,663**
Disposals	–	–	(3,244)	(64,912)	–	**(68,156)**
Balance at 31 December 2012	**–**	**623,388**	**4,476,616**	**4,384,988**	**–**	**9,484,992**
Net book value						
Balance at 1 January 2012	**1,846,517**	**1,664,135**	**10,650,294**	**3,368,447**	**776,071**	**18,305,464**
Balance at 31 December 2012	**3,541,686**	**2,235,351**	**18,261,129**	**4,943,845**	**1,600,864**	**30,582,875**

Land and buildings with a carrying amount of RR 15,966,475 (31 December 2012: RR 10,927,425) are pledged under loan agreement with VTB Capital Plc (see Note 20).

During the year ended 31 December 2013 and year ended 31 December 2012 the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs capitalization. Thus, no borrowings costs were capitalized during those periods.

The carrying amount of property, plant and equipment held under finance leases at 31 December 2013 was RR 62,847 (31 December 2012: RR 79,251). Leased assets are pledged as security for the related finance lease. There were no additions during the year ended 31 December 2013 under finance leases.

(in thousands of Russian Roubles (RR))

8. Property, plant and equipment (continued)

Depreciation and amortization expense

The amount of depreciation charged during the year ended 31 December 2013 and year ended 31 December 2012 is presented within Depreciation and amortization in the Group's consolidated statement of profit or loss and other comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Depreciation of property, plant and equipment (Note 8)	2,162,475	1,475,663
Amortization of intangible assets (Note 11)	97,430	57,278
Leasehold rights amortization (Note 10)	52,350	43,423
Total depreciation and amortization	**2,312,255**	**1,576,364**

9. Prepayments for construction

Prepayments for construction are represented by advances given to the constructors for the building of the stores and to suppliers.

10. Leasehold rights

Leasehold rights as at 31 December 2013 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2013	**2,443,067**
Additions	813,439
Transfer to PPE	(180,000)
Disposals	(119,987)
At 31 December 2013	**2,956,519**

Accumulated amortization and impairment	Leasehold rights
At 1 January 2013	**228,872**
Additions	52,350
Transfer to PPE	(6,190)
Disposals	(90,177)
At 31 December 2013	**184,855**
Net book value	
At 1 January 2013	**2,214,195**
At 31 December 2013	**2,771,664**

(in thousands of Russian Roubles (RR)

10. Leasehold rights (continued)

Leasehold rights as at 31 December 2012 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2012	**1,829,754**
Additions	840,453
Transfer to PPE	(227,140)
At 31 December 2012	**2,443,067**

Accumulated amortization and impairment	Leasehold rights
At 1 January 2012	**210,612**
Charge for the year	43,423
Reversal of impairment	(401)
Transfer to PPE	(24,762)
At 31 December 2012	**228,872**
Net book value	
At 1 January 2012	**1,619,142**
At 31 December 2012	**2,214,195**

11. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 31 December 2013 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2013	**910,470**	**549**	**911,019**
Additions	274,388	–	**274,388**
At 31 December 2013	**1,184,858**	**549**	**1,185,407**
Accumulated amortization			
At 1 January 2013	**464,385**	**434**	**464,819**
Amortization for the period	97,353	77	**97,430**
At 31 December 2013	**561,738**	**511**	**562,249**
Net book value			
At 1 January 2013	**446,085**	**115**	**446,200**
At 31 December 2013	**623,120**	**38**	**623,158**

(in thousands of Russian Roubles (RR))

11. Intangible assets other than leasehold rights (continued)

Intangible assets other than leasehold rights as at 31 December 2012 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2012	**647,762**	**549**	**648,311**
Additions	262,708	–	**262,708**
At 31 December 2012	**910,470**	**549**	**911,019**
Accumulated amortization			
At 1 January 2012	**407,197**	**344**	**407,541**
Amortization for the period	57,188	90	**57,278**
At 31 December 2012	**464,385**	**434**	**464,819**
Net book value			
At 1 January 2012	**240,565**	**205**	**240,770**
At 31 December 2012	**446,085**	**115**	**446,200**

Amortization expense is included in selling, general and administrative expenses (Note 25).

12. Inventories

	31 December 2013	31 December 2012
Goods for resale	12,478,316	8,985,132
Raw materials	515,872	388,568
Total inventories	**12,994,188**	**9,373,700**

Raw materials are represented by inventories used in own production process in butchery, bakery and culinary.

During the reporting period the Group wrote down inventories to their net realizable value, which resulted in recognition of expenses within cost of sales in the consolidated statement of comprehensive income for the year ended 31 December 2013 in the amount of RR 2,120,784 (year ended 31 December 2012: RR 1,274,891).

13. Trade and other receivables

	31 December 2013	31 December 2012
Accounts receivable on rental and other services and on suppliers' advertising	5,719,509	3,538,067
Suppliers' rebates receivable	2,585,789	1,733,039
Receivables for construction of stores on behalf of third parties	14,911	129,886
Other receivables	151,646	54,307
Bad debt allowance	(5,756)	(6,870)
Total trade and other receivables	**8,466,099**	**5,448,429**

Receivables for construction represent expenditure on construction of stores on behalf of third parties, advance payments from which have been included in advances received (31 December 2013: nil, 31 December 2012: RR 106,131).

(in thousands of Russian Roubles (RR)

13. Trade and other receivables (continued)

Most amounts are receivable within 25 days. The Group has recognized an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognized against receivables of under 365 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Amounts receivable from suppliers and accounts receivable on rental and other services disclosed above include amounts (see below for ageing analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2013:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	38,151	4,017	5,815	2,535,980	**2,583,963**
Accounts receivable on rental and other services	558,644	22,951	5,828	5,129,564	**5,716,987**
Receivables for construction for stores on behalf of third parties	–	–	7,063	7,848	**14,911**
Other receivables	27,419	330	228	122,261	**150,238**
Total	**624,214**	**27,298**	**18,934**	**7,795,653**	**8,466,099**

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2012:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable	44,258	8,621	7,964	1,672,161	**1,733,004**
Accounts receivable on rental and other services	217,902	11,970	12,686	3,295,107	**3,537,665**
Receivables for construction for stores on behalf of third parties	–	–	345	123,108	**123,453**
Other receivables	–	–	–	54,307	**54,307**
Total	**262,160**	**20,591**	**20,995**	**5,144,683**	**5,448,429**

14. Advances paid

	31 December 2013	31 December 2012
Advances to suppliers of goods	674,363	406,532
Advances for services	579,375	289,529
Guarantee payments under lease contracts	150,650	112,029
Total advances paid	**1,404,388**	**808,090**

(in thousands of Russian Roubles (RR)

15. Taxes recoverable

Taxes recoverable as at 31 December 2013 are represented by a VAT receivable of RR 1,163,700 (31 December 2012: RR 918,963) and input VAT that has not yet been claimed for reimbursement from tax authorities of RR 551,055 (31 December 2012: RR 202,797).

16. Cash and cash equivalents

	31 December 2013	31 December 2012
RR short-term deposits	4,545,856	35,057
RR denominated cash in transit	1,245,195	3,303,108
RR denominated cash on hand and balances with banks	419,370	196,265
Foreign currency denominated cash on hand and balances with banks	1,544	2,034
Total cash and cash equivalents	**6,211,965**	**3,536,464**

Cash in transit represents cash receipts made during the last days of the reporting period (29-31 of December), which were sent to banks but not deposited into the respective bank accounts until the next reporting period.

Significant RR denominated cash in transit result from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year eve as well as the closing day in relation to the official banking days in Russia. If the closing day is on non-banking days, the amount of cash in transit increases.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

17. Issued capital and reserves

As at 31 December 2013 the Company's share capital was comprised of 86,052,995 authorized and issued ordinary shares (as at 31 December 2012, 106,685,231) with equal voting rights. The shares have no par value.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that immediately after the payment of the dividend the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, Lenta LLC, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the retained earnings recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the year ended 31 December 2013 and for the year ended 31 December 2012.

(in thousands of Russian Roubles (RR)

17. Issued capital and reserves (continued)

The movements in the number of shares the year ended 31 December 2013 and for the year ended 31 December 2012 were as follows.

	31 December 2013 No.	**31 December 2012 No.**
	unlimited	unlimited
Authorized share capital (ordinary shares with no par value)		
Issued and fully paid (no par value)	86,052,995	106,685,231
Treasury shares		(21,218,443)

	31 December 2013 No.	**Year ended 31 December 2012 No.**
Balance of shares outstanding at beginning of financial year	85,466,788	85,106,557
Sale of treasury shares	506,207	-
Additional issue of shares	80,000	360,231
Balance of shares outstanding at the end of financial year	**86,052,995**	**85,466,788**

During 2013 year 506,207 treasury shares held by Lakatomo Holdings Ltd were sold to the top management of the Group for a total cash consideration of RR 694,751. The excess of selling price over the carrying value of shares was recorded as increase of additional paid-in capital.

In 2013 year 80,000 ordinary shares were issued by the Group for a total cash consideration of RR 118,500 (USD 3,615,200 at the exchange rate at the date of the transaction). In 2012 year 360,231 ordinary shares were issued by the Group for a total cash consideration of RR 278,949 (USD 9,038,196 at the exchange rate at the date of the transaction). All amount of the consideration received was recorded as increase in additional paid-in capital, as the shares have no par value.

Share options reserve

	Share options reserve
As at 1 January 2012	**978,698**
Changes during the period	-
At 31 December 2012	**978,698**
Changes during the period	(913,188)
At 31 December 2013	**65,510**

The share options reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 27 for further details of these plans.

(in thousands of Russian Roubles (RR)

17. Issued capital and reserves (continued)

OCI, net of tax

The disaggregation of changes of OCI by each type of reserve in equity is shown below:

As at 31 December 2013	**Hedging reserve**
Interest rate swaps and caps	(42,959)
	(42,959)

As at 31 December 2012	**Hedging reserve**
Interest rate swaps and caps	-
	-

18. Components of other comprehensive income (OCI)

	Year ended 31 December 2013	**Year ended 31 December 2012**
Cash flow hedges:		
Reclassification during the year to profit or loss	89,090	-
Losses arising during the year	(142,789)	-
Net loss during the year	**(53,699)**	-

19. Earnings per share

	Year ended 31 December 2013	**Year ended 31 December 2012**
Earnings per share (in RR per share)		
- basic and diluted, for profit for the period attributable to equity holders of the parent	0.083	0.060

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the year ended 31 December 2013: RR 7,049,218 for the year ended 31 December 2012: RR 5,135,798) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Year ended 31 December 2013	**Year ended 31 December 2012**
Number of issued shares at the beginning of period	85,466,788	85,106,557
Number of shares issued in December 2013	80,000	-
Number of treasury shares sold in June 2013	506,207	-
Number of shares issued in September, 2012	-	360,231
Number of shares at the end of reporting period	86,052,995	85,466,788
Weighted average number of shares	**85,721,825**	**85,211,624**

The Group has issued share-based payments (Note 27) instruments that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

(in thousands of Russian Roubles (RR))

20. Borrowings

Short-term borrowings:

	Due date	Currency	Weighted average interest rate for the year ended 31 December 2013, %	Weighted average interest rate for the year ended 31 December 2012, %	31 December 2013	31 December 2012
Short-term portion of long-term borrowings						
Sberbank	–	RR	–	9.27	–	500,000
TransCreditBank	–	RR	–	7.97	–	1,203,000
TransCreditBank	–	RR	–	7.99	–	1,630,004
Raiffeisen Bank	2014	RR	7.26	–	4,517,056	–
VTB OAO	2014	RR	7.18	–	1,301,359	–
VTB Capital Plc	2014	RR	11.08	–	9,565	–
Bonds	2014	RR	10.00		314,551	–
Total short-term portion of long-term borrowings					**6,142,531**	**3,333,004**
Short-term borrowings						
VTB OAO	2014	RR	8.29	–	556	–
Bank Saint-Petersburg	–	RR	–	7.6	–	500,000
Total short-term borrowings					**556**	**500,000**
Total short-term borrowings and short-term portion of long-term borrowings					**6,143,087**	**3,833,004**

Long-term borrowings:

	Due date	Currency	Weighted average interest rate for the year ended 31 December 2013, %	Weighted average interest rate for the year ended 31 December 2012, %	31 December 2013	31 December 2012
VTB Capital Plc	2019	RR	11.08	11.05	29,891,695	24,978,988
Bonds	2016	RR	10.00	–	9,957,394	–
Total long-term borrowings					**39,849,089**	**24,978,988**

In September 2011, Lenta LLC entered into a secured loan agreement with VTB Capital Plc. Under the agreement the Group is entitled to borrow RR 25,375,000. In April 2013 the Group negotiated an additional 5 year tranche of RR 15,000,000. At the reporting date the Group received loan tranches A, B amounting to RR 25,375,000 with redemption date 12 April 2018 and partially utilized tranche C amounting to RR 5,000,000 with redemption date upon 60 months after utilization date. The loan facility is secured by, inter alia, immovable property of the Group, pledge of Lenta LLC-2 participatory interest in Lenta LLC as well as guarantee of Lenta Ltd, Zorovno Holdings Ltd and Lenta LLC-2.

Unused loan facility related to the third tranche C (RR 10,000,000) is available for drawdown by the Group within 540 days from 12 April 2013.

(in thousands of Russian Roubles (RR)

20. Borrowings (continued)

Borrowed funds of RR 15,724,392 were utilized in 2011 on funding the purchase of 19.96% of the Company's shares by its subsidiary Lakatomo Holdings Ltd, wholly owned through Lenta Luxemburg S.a.r.L (100% subsidiary of the Lenta LLC) . The remaining part has been used on market expansion and on current corporate activities.

The loan has covenants with respect to the Debt/EBITDA ratio and interest coverage, which were met as at 31 December 2013 and 31 December 2012.

The Group's short-term portion of long-term loans represents amounts borrowed under revolving credit lines and interest liability accrued on bonds.

There were no breaches of the loan agreements during the year ended 31 December 2013 and the year ended 31 December 2012.

The Group entered into interest rate swaps and caps provided by VTB Bank OJSC to mitigate the risk of a rising MosPrime interest rate. As at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2013	Notional amount 2012	Fixed interest rate	Fixed commis sion	Effective date	Expiry date
Interest rate swap	6,250,000	6,250,000	7.33%	n/a	30 September 2011	31 March 2015
Interest rate swap	3,000,000	3,000,000	8.00%	n/a	30 September 2011	31 March 2015
Interest rate swap	3,250,000	3,250,000	8.15%	n/a	30 September 2011	31 March 2015
Interest rate swap	12,500,000	–	7.64%	n/a	31 March 2015	12 April 2018
Interest rate swap	900,000	–	7.54%	n/a	31 December 2013	12 November 2018
Interest rate cap	5,000,000	5,000,000	12.00%	0.79%	31 December 2011	31 December 2014
Interest rate cap	5,000,000	5,000,000	12.00%	0.78%	31 December 2011	31 December 2014
Interest rate cap	10,000,000	–	12.00%	0.54%	31 December 2014	12 April 2018
Interest rate cap	900,000	–	12.00%	0.45%	31 December 2013	12 November 2018

Derivative financial instruments are classified in the statement of financial position as follows:

	31 December 2013	31 December 2012
Non-current liability	370,939	130,089
Current liability	188,773	141,558
Total	**559,712**	**271,647**

The Group performs fair value assessment of the fair values of swaps and caps at the reporting date:

	31 December 2013	31 December 2012
Swaps	329,111	134,645
Caps	230,601	137,002
Total fair value	**559,712**	**271,647**

(in thousands of Russian Roubles (RR)

20. Borrowings (continued)

Starting 1 July 2013 the Group applied cash flow hedge accounting of swaps and caps that meet prescribed criteria, including completing of all necessary documentation. Hedge accounting was applied prospectively from designation.

Retrospective and prospective effectiveness of cash flow hedges (swaps and caps) was measured by the Group using the "dollar offset" method. The effective portion of the gain or loss on the hedging instrument was recognized in other comprehensive income in hedging reserve.

The effect from changes in fair value of financial instruments is recognized as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit or loss		
Change in fair value of financial instruments at fair value through profit or loss (before designation of hedge accounting (1 July 2013)	(196,049)	102,330
Ineffective portion of the change in the fair value of cash flow hedging instruments	(38,318)	-
	(234,367)	**102,330**
Other comprehensive income		
Effective portion of the change in the fair value of cash flow hedging instruments	(53,698)	-
Total change in fair value of financial instruments	**(288,065)**	**102,330**

Finance charges on swaps and caps recognized in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Finance charges on swaps and caps	153,955	155,156
Total finance charges on financial instruments	**153,955**	**155,156**

In October 2012 the Group signed a Sole Shareholder Decision on the Issuance of Lenta LLC bonds. On 7 February 2013 Federal Financial Markets Service registered the bond issue. In March 2013 the public floatation of certified non-convertible bearer bonds was placed in three tranches of RR 3,000,000, 3,000,000 and 4,000,000, with a nominal value of RR 1 each, a 10% coupon rate, 2,548 days to maturity and put option right on early redemption after 1,092 days.

The Groups' borrowings as at 31 December 2013 and 31 December 2012 are denominated in Russian Roubles.

As at 31 December 2013, the Group had RR 24,850,000 of unused credit facilities (as at 31 December 2012: RR 11,817,000). All other available borrowing facilities were fully utilized.

(in thousands of Russian Roubles (RR))

21. Income taxes

Income tax expense is comprised of:

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax expense	1,320,392	1,252,573
Deferred tax expense	945,414	590,682
Income tax credit	(234,162)	
Adjustments in respect of current income tax of previous year		3,122
Income tax expense recognized in profit for the year	**2,031,644**	**1,846,377**

	Year ended 31 December 2013	Year ended 31 December 2012
Effective portion of change in the fair value of cash flow hedging instruments	(10,740)	–
Income tax (benefit)/expense recognized in OCI	**(10,740)**	–

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax	**9,123,821**	**6,982,175**
Theoretical tax charge at 20%	(1,824,764)	(1,396,435)
Difference in tax rates for foreign companies	(76,781)	–
Add tax effect of non-deductible expenses	**(364,261)**	**(480,130)**
- effect of partially-deductible fixed assets	–	(268,570)
- expenses on inventory shrinkage and surpluses	(256,417)	(142,670)
- share option expenses	(13,102)	–
- others	(94,742)	(68,890)
Add tax effect of non-taxable gains	–	**33,310**
- others	–	33,310
Current income tax related to previous period		**(3,122)**
Current income tax credit	**234,162**	**–**
Income tax expense	**2,031,644**	**1,846,377**

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences, recorded at the rate of 20% is detailed below.

(in thousands of Russian Roubles (RR)

21. Income taxes (continued)

	1 January 2013	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2013
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(1,006,404)	(770,701)	–	(1,777,105)
Leasehold rights	(198,772)	(125,704)	–	(324,476)
Unused vacation and employee bonuses accrual	212,005	(98,035)	–	113,970
Suppliers' bonuses	(182,088)	(67,009)	–	(249,097)
Interest on borrowings	(79,202)	(5,459)	–	(84,661)
Intangible assets other than leasehold rights	3,888	(10,038)	–	(6,150)
Inventory	408,284	108,469	–	516,753
Bad debt provision	15,411	(4,876)	–	10,535
Finance leasing	14,897	(4,270)	–	10,627
Consulting and other accruals	19,774	79,180	–	98,954
Customs duty payable	30,677	–	–	30,677
Cashflow hedging instruments	–	7,664	10,740	18,404
Other	56,207	(54,635)	–	1,572
Total deferred tax (liabilities)/assets	**(705,323)**	**(945,414)**	**10,740**	**(1,639,997)**

	1 January 2012	Differences in recognition and reversals recognised in profit or loss	Differences in recognition and reversals recognised in other comprehensive income	31 December 2012
Tax effect of (taxable)/deductible temporary differences				
Property, plant and equipment	(307,657)	(698,747)	–	(1,006,404)
Leasehold rights	(125,414)	(73,358)	–	(198,772)
Unused vacation and employee bonuses accrual	86,894	125,111	–	212,005
Suppliers' bonuses	(92,514)	(89,574)	–	(182,088)
Interest on borrowings	(98,020)	18,818	–	(79,202)
Intangible assets other than leasehold rights	7,339	(3,451)	–	3,888
Inventory	307,923	100,361	–	408,284
Bad debt provision	3,881	11,530	–	15,411
Finance leasing	18,925	(4,028)	–	14,897
Consulting and other accruals	4,662	15,112	–	19,774
Customs duty payable	–	30,677	–	30,677
Other	79,340	(23,133)	–	56,207
Total deferred tax (liabilities)/assets	**(114,641)**	(590,682)	**-**	**(705,323)**

(in thousands of Russian Roubles (RR)

21. Income taxes (continued)

As at 31 December 2013 and 31 December 2012 the Group did not recognize a deferred tax liability with respect to taxable temporary differences associated with investments in subsidiaries of RR 3,039,417 and RR 2,037,764 respectively because management believed that it was in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

22. Trade and other payables

	31 December 2013	31 December 2012
Trade payables	28,927,222	21,639,226
Accrued liabilities and other creditors	2,418,750	2,482,531
Payables for purchases of property, plant and equipment	2,460,950	922,543
Total trade and other payables	**33,806,922**	**25,044,300**

The trade and other payables were denominated in:

	31 December 2013	31 December 2012
RR	33,748,859	24,148,893
USD	5,453	870,916
EUR	52,610	21,672
GBP	-	2,819
Total trade and other payables	**33,806,922**	**25,044,300**

23. Other taxes payable

	31 December 2013	31 December 2012
Social taxes	269,087	179,885
Property tax	167,948	122,285
Personal income tax	95,088	68,409
Other taxes	183,322	176,930
Total other taxes payable	**715,445**	**547,509**

24. Cost of sales

Cost of sales for the years ended 31 December 2013 and 31 December 2012 consisted of the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Cost of goods sold	95,801,289	74,331,374
Cost of own production	12,567,611	9,479,812
Supply chain cost	2,319,739	2,147,003
Losses due to inventory shortages	2,120,784	1,274,891
Total cost of sales	**112,809,423**	**87,233,080**

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

(in thousands of Russian Roubles (RR)

24. Cost of sales (continued)

The cost of own production consisted of the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Raw materials	10,362,035	7,953,812
Labour costs	1,780,493	1,226,000
Utilities	381,181	272,277
Repairs and maintenance	43,902	27,723
Total cost of own production	**12,567,611**	**9,479,812**

Cost of sales for the year ended 31 December 2013 included employee benefits expense of RR 2,280,344 (year ended 31 December 2012: RR 1,491,766) of which contributions to state pension fund comprised RR 362,652 (year ended 31 December 2012: RR 238,900).

25. Selling, general and administrative expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Labour costs	8,628,126	7,005,688
Depreciation and amortization (Note 8,10,11)	2,258,711	1,576,364
Professional fees	1,526,150	658,837
Advertising	1,356,459	801,078
Utilities and communal payments	858,999	598,159
Cleaning	653,108	405,682
Repairs and maintenance	732,091	474,363
Taxes other than income tax	568,471	593,097
Security services	500,104	355,367
Premises lease	390,977	77,265
Land and equipment lease	203,056	178,353
Pre-opening costs	721,259	398,608
Other	616,336	383,484
Total selling, general and administrative expenses	**19,013,847**	**13,506,345**

Labour costs for the year ended 31 December 2013 included contributions to state pension fund of RR 1,155,985 (year ended 31 December 2012: RR 841,011).

Pre-opening costs for the year ended 31 December 2013 included labour costs of RR 319,170 (year ended 31 December 2012: RR 224,247) of which contributions to state pension fund comprised RR 35,177 (year ended 31 December 2012: RR 25,880).

Pre-opening costs for the year ended 31 December 2013 included depreciation expense of RR 53,544 (for the year ended 31 December 2012: nil)

26. Other operating income

	Year ended 31 December 2013	Year ended 31 December 2012
Penalties due by suppliers	618,824	516,293
Rental income	339,385	281,992
Advertising income	380,131	247,071
Gain on property, plant and equipment disposal	1,429	731
Other	119,897	72,333
Total other operating income	**1,459,666**	**1,118,420**

(in thousands of Russian Roubles (RR)

27. Share-based payments

Share option

In September 2011, an option to buy 3,375,000 ordinary shares at USD 25.086 per share was granted to a private individual for services provided in relation to coordination of Svoboda Corporation shares purchase.

The Group's management engaged the services of an independent appraiser, and used the results of such appraisal in considering management's assessment of the fair value of option. The value of the option is estimated at RR 978,698 as of the grant date using a Black Scholes option pricing model.

On 14 November 2013 the deed of termination was signed under which option to buy 3,375,000 ordinary shares was cancelled with a consideration being paid to the option holder in the amount of RR 2,227,173.

On 10 December, 2013 deed of novation and amendment was agreed whereby 80,000 option shares were novated and transferred to the member of the Board of Directors. This amendment deed was accompanied by share option deed between the member of the Board of Directors and the Company whereby 80,000 ordinary shares were issued for a consideration of USD 45.19 per share upon option exercising.

The following tables list the inputs to the models used for the option plan as of the termination date:

Dividend yield (%)	0%
Expected volatility (%)	30%
Risk-free interest rate (%)	2.46%
Expected life of share options (years)	0,5
Model used	Black-Scholes

The fair market value of the option per share at a termination date was defined as a range between maximum and minimum amounts. The management of the Group made an estimation of fair market value of share option within the specified range.

The amount of consideration paid to the option holder does not exceed estimated fair value of the terminated share option, thus no additional expense was recognized in the statement of comprehensive income.

The excess of consideration paid by the Group to the option holder over the balance value of terminated share option was recorded to the retained earnings (effect on the retained earnings comprised RR 1,248,475).

Share value appreciation rights

During the 2013 year the Group granted share value appreciation rights (SVARs) to certain members of top management as part of management long-term incentive plan.

(in thousands of Russian Roubles (RR)

27. Share-based payments (continued)

The contractual conditions of the options are as follows:

- Each SVAR entitles the holder to a quantity of ordinary shares in Lenta Ltd based on an increase in the share price over a predetermined exercise price subject to meeting the performance conditions.
- The performance conditions are based on achieving certain equity growth targets for the period from the vesting period commencement dates till the end of the vesting periods: 16% p.a. (in such case 100% of SVARs vest) or 8% (in such case 50% of SVARs vest and 50% of SVARs lapse worthless).
- 50% of the SVARs vest on the 5 year anniversary after the grant date and 50% on the 7 year anniversary after the grant date. Employees must remain in service at the date of vesting.
- Vesting of the SVARs is triggered in the event of IPO, change of control transaction or key shareholder sale event. Upon occurrence of such event the number of SVARs that vest is calculated in such way that the cumulative percentage of SVARs that have vested is equal to the total percentage of shares sold in an IPO or the total percentage of shares sold by the key shareholders.
- In the case of an IPO the cumulative percentage of SVARs that have vested and are due to be settled is subject to cap of 20% per year.
- The SVARs will be settled in ordinary shares in Lenta Ltd and there are no cash alternatives for the employees.

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, SVARs during the year:

	2013 Number	2013 WAEP, USD	2012 Number	2012 WAEP, USD
Outstanding at 1 January	–	–	–	–
Granted during the year	828,451	49.84	–	–
Forfeited during the year	(85,686)	49.84	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at 31 December	**742,765**	**49.84**	**–**	**–**
Exercisable at 31 December	–	–	–	–

The weighted average remaining contractual life for the SVARs outstanding as at 31 December 2013 was 6.8 years.

The weighted average fair value of options granted during the year was RR 0.36.

The exercise prices for options outstanding at the end of the year was USD 49.84.

(in thousands of Russian Roubles (RR))

27. Share-based payments (continued)

Movements during the year (continued)

The expense recognized for the services received from the employees during the year is shown in the following table:

	Year ended 31 December 2013	Year ended 31 December 2012
Expense arising from the equity-settled share based payment transaction	65,510	-

The fair value of the management SVARs is estimated at the grant date using the Black Scholes option pricing model, taking into account the terms and conditions upon which the SVARs were granted.

The following tables list the inputs to the models used for the option plan as of the grant date:

Dividend yield (%)	0%
Expected volatility (%)	35%
Risk-free interest rate (%)	6.2% - 7.2%
Expected life of share options (years)	5
Spot share price (USD)	45.19
Expected exercise price (USD)	49.84
Model used	Black-Scholes

The expected life of share option is based on current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the option is indicative of future trends, which may not necessarily be the actual outcome.

28. Commitments

Capital expenditure commitments

At 31 December 2013 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RR 7,808,933 (31 December 2012: RR 6,373,203).

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2013	31 December 2012
Not later than 1 year	1,077,130	456,134
Later than 1 year and not later than 5 years	3,714,116	1,411,931
Later than 5 years	12,445,337	6,455,736
Total operating lease commitments	**17,236,583**	**8,323,801**

(in thousands of Russian Roubles (RR)

29. Financial instruments

Categories of financial instruments

	31 December 2013	31 December 2012
Financial assets		
Cash	6,211,965	3,536,464
Trade and other receivables	8,466,099	5,448,429
Financial liabilities		
At fair value through profit or loss	–	271,647
At fair value through OCI	559,712	–
At amortised cost:		
Floating rate long-term borrowings	29,891,695	24,978,988
Fixed rate long-term borrowings	9,957,394	–
Fixed rate short-term borrowings and short-term portion of long-term borrowings	6,143,087	3,833,004
Trade and other payables	32,673,601	23,403,407
Long-term obligations under finance leases	50,429	65,420
Total financial liabilities at amortised cost	**78,716,206**	**52,280,819**

Fair values

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities. Quantitative disclosures fair value measurement hierarchy for financial assets and financial liabilities as at 31 December 2013:

	31 December 2013	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed:				
Interest–bearing borrowings		–	45,992,176	–
Obligations under finance leases		–	50,429	–
Financial liabilities measured at fair value:				
Cashflow hedging instruments		–	559,712	–

	31 December 2012	Level 1	Level 2	Level 3
Financial liabilities for which fair values are disclosed:				
Interest–bearing borrowings		–	28,811,992	–
Obligations under finance leases		–	65,420	–
Financial liabilities measured at fair value:				
Financial instruments at fair value through profit and loss		–	271,647	–

During the reporting periods ending 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

(in thousands of Russian Roubles (RR)

29. Financial instruments (continued)

Fair values (continued)

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

	Carrying amount		Fair value	
	2013	**2012**	**2013**	**2012**
Financial liabilities				
Interest-bearing loans and borrowings				
Obligations under finance leases	50,429	65,420	50,429	65,420
Floating rate borrowings	29,891,695	24,978,988	30,283,314	25,839,065
Fixed rate borrowings	16,100,481	3,833,004	16,100,481	3,833,004
Derivatives not designated as hedges				
Interest rate swaps and caps	–	271,647	–	271,647
Derivatives in effective hedges				
Interest rate swaps and caps	559,712	–	559,712	–
Total	**46,602,317**	**29,149,059**	**46,993,936**	**30,009,136**

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 31 December 2013 was assessed to be insignificant.
- The Group enters into derivative financial instruments with financial institution with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and caps. The most frequently applied valuation techniques include swap models, using present value calculations, and option pricing model for caps. The models incorporate various inputs including the credit quality of counterparties and interest rate curves. As at 31 December 2013, the marked-to-market value of derivative positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

(in thousands of Russian Roubles (RR)

30. Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialists that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises the following types of risk: interest rate risk, currency risk, and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, cash equivalents and derivative financial instruments.

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.

During the year ended 31 December 2012 and year ended 31 December 2013, the Group did not attract any amounts of foreign currency denominated borrowings, and as a consequence is not materially exposed to foreign currency risk.

At 31 December 2013 and at 31 December 2012 there were no significant amounts in foreign currencies.

Whenever possible, the Group tries to mitigate the exposure to foreign currency risk by matching the statement of financial position, and revenue and expense items in the relevant currency.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant.

	Change in USD rate	Effect on profit before tax
Year ended 2013	10.21%	(557)
	-10.21%	557
Year ended 2012	10.72%	(4,985)
	-10.72%	4,985

(in thousands of Russian Roubles (RR)

30. Financial risk management (continued)

Foreign currency sensitivity (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate, with all other variables held constant.

	Change in EUR rate	Effect on profit before tax
Year ended 2013	8.63%	(4,541)
	-8.63%	4,541

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of the financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. As at 31 December 2013 and 31 December 2012 these obligations are represented with long-term borrowing from VTB Capital PLC, which bears interest of MosPrime 3m plus margin. In order to hedge the risk of rising MosPrime interest rate, the Group entered into interest rate swaps and caps (Note 20).

Interest rate sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in MosPrime rates, on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax and OCI are affected through the impact on floating rate borrowings, as follows:

	Profit or loss		OCI	
	72 bp increase	72 bp decrease	72 bp increase	72 bp decrease
2013				
Variable rate instruments	(187,600)	187,600		
Interest rate swaps and caps	90,000	(90,000)	331,523	(340,014)
Cash flow sensitivity (net)	**(97,600)**	**97,600**	**331,523**	**(340,014)**

	Profit or loss		OCI	
	109 bp increase	109 bp decrease	109 bp increase	109 bp decrease
2012				
Variable rate instruments	(276,347)	276,347	–	–
Interest rate swaps and caps	251,932	(259,079)	–	–
Cash flow sensitivity (net)	**(24,415)**	**17,268**	–	–

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2013 all of the Group's borrowings were denominated in Russian Roubles. The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

(in thousands of Russian Roubles (RR)

30. Financial risk management (continued)

Interest rate sensitivity (continued)

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps and caps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 20 of these financial statements. The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at 31 December 2013 was as follows:

	31 December 2013
Total floating rate borrowings (gross of direct issue costs)	30,375,000
Less notional amount of interest rate financial instruments (Note 20)	(24,300,000)
Net exposure to interest rate fluctuations	**6,075,000**
% of floating rate borrowings exposed to interest rate fluctuations	**20%**

Credit risk

Credit risk is the risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. Financial assets, which are potentially subject to credit risk, consist principally of cash in bank accounts and cash in transit, loans and receivables.

In determining the recoverability of receivables the Group performs a risk analysis considering the credit quality of the counterparty, the ageing of the outstanding amount and any past default experience.

Trade receivables

The Group has no significant concentrations of credit risk. Concentration of credit risk with respect to receivables is limited due to the Company's customer and vendor base being large and unrelated. Credit is only extended to counterparties subject to strict approval procedures. The Group trades only with recognized, creditworthy third parties who are registered in the Russian Federation. It is the Group's policy that all customers who are granted credit terms have a history of purchases from the Group. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Sales to retail customers are made in cash, debit cards or via major credit cards

Cash and cash equivalents

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 of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk at the reporting date of cash and cash equivalents is RR 6,149,636.

(in thousands of Russian Roubles (RR)

30. Financial risk management (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial assets and liabilities and projected cash flows from operations. The Group objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyzes its funding needs and anticipated cash flows, so that it can determine its funding needs.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2013, 31 December 2012 based on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed for the entire term of the instrument, such as variable rate interest payments, the amount disclosed in the table is determined by reference to the conditions (e.g. MOSPRIME, EURIBOR, LIBOR index) existing at the reporting date:

31 December 2013

	Less than 12 months	1-5 Years	Total
Borrowings	10,236,178	53,333,044	**63,569,222**
Trade and other payables	32,673,601	-	**32,673,601**
Amounts payable under swaps and caps	198,031	448,296	**646,327**
Finance leasing	21,136	40,987	**62,123**
Total	**43,128,946**	**53,822,327**	**96,951,273**

31 December 2012

	Less than 12 months	1-5 Years	Total
Borrowings	6,785,656	31,740,309	**38,525,965**
Trade and other payables	23,403,407	-	**23,403,407**
Amounts payable under swaps and caps	161,155	153,229	**314,384**
Finance leasing	25,778	75,747	**101,525**
Total	**30,375,996**	**31,969,285**	**62,345,281**

Capital management

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

The Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt. The Group is guided in its decisions by an established financing policy, which stipulates leverage ratios, interest coverage, covenants compliance, appropriateness of balance between long-term and short-term debt, requirements to diversification of funding sources. Dividends are to be declared based on the capital requirements of the business and with reference to continuing compliance with the financial policy

(in thousands of Russian Roubles (RR)

30. Financial risk management (continued)

Capital management (continued)

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, obligations under finance leases, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 17.

Net debt of the Group is comprised of the following:

	31 December 2013	31 December 2012
Borrowings	45,992,176	28,811,992
Obligations under finance leases	50,429	65,419
Cash and cash equivalents (Note 16)	(6,211,965)	(3,536,464)
Net debt	**39,830,640**	**25,340,947**

Net debt is a non-IFRS indicator and, therefore, its calculation may differ between companies, however it is one of the key indicators that is commonly used by investors and other users of financial statements in order to evaluate financial condition of the Group.

31. Contingencies

Operating environment of the Group

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including 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.

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RR 3,989 as at 31 December 2013 (31 December 2012: RR 76,963). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in these consolidated financial statements.

31. Contingencies (continued)

Legal contingencies (continued)

Russian Federation tax and regulatory environment. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RR 903,120 (31 December 2012: RR 639,839). No tax provisions were recorded as at 31 December 2013 and 31 December 2012. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of these financial statements. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect were accrued as at 31 December 2013 and 31 December 2012.

Environmental matters

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

32. Events occurring after the reporting period

On 21 January 2014 the Group entered into a secured loan agreement with EBRD, which entitles it to borrow funds to finance investments in existing and new regional stores and distribution centre(s), including energy efficiency and other sustainable resource investments. The Loan is to be available to the Group on any business day during the commitment period in one or more disbursements upon (and in accordance with) the request of the Group and must not exceed RR 4,554,240. The commitment period commences on 21 January 2014 and terminates on the date falling twenty-four months from the date of this agreement.

The loan bears covenants with respect to leverage ratio, interest coverage, loan to value ratio.