

**JSC SPC Katren**

**Financial Statements  
for the year ended 31 December 2015,  
and Auditors' Report**

## **Contents**

Auditors' Report	3
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	8
Statement of Cash Flows	12
Notes to the Financial Statements	13



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## **Auditors' Report**

To the Shareholder

JSC SPC Katren

We have audited the accompanying financial statements of JSC SPC Katren (the "Company"), which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these financial statements.

Audited entity: Joint Stock Company "Scientific production company "Katren".

Registered by the Novosibirsk Registration Chamber. Certificate in 19 April 1993, Registration No. CP-2090.

Entered in the Unified State Register of Legal Entities on 17 July 2002 by the Inspectorate of the Ministry of Taxes and Duties of the Soviet district of Novosibirsk, Registration No. 1025403638875, Certificate series 54 No. 000870010.

4, Timakova str., Novosibirsk, Novosibirsk region, 630117

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

*Opinion*

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



The image shows a handwritten signature in blue ink over a circular blue stamp. The stamp contains the text 'КПМГ' and 'KPMG' in the center, with 'ОГРН 1027100125628' and 'МОСКВА' around the perimeter. The stamp also includes the text 'АКТИВНОЕ ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ' around the top edge.

Krasnova Y. M.

Deputy Director, (power of attorney dated 16 March 2015 No. 47/15)

JSC "KPMG"

22 April 2016

Moscow, Russian Federation

**JSC SPC Katren**  
Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 31 December 2015

	Notes	2015	2014 (restated*)	2015	2014 (restated*)
		‘000 USD	‘000 USD	‘000 RUB	‘000 RUB
Revenue	28(k)	2,986,070	3,681,998	181,682,648	143,469,860
Cost of sales		(2,744,491)	(3,459,008)	(166,933,201)	(134,640,845)
<b>Gross profit</b>		<b>241,579</b>	<b>222,990</b>	<b>14,749,447</b>	<b>8,829,015</b>
Other income	5	1,145	1,908	70,038	71,364
Distribution expenses	3	(84,838)	(106,326)	(5,171,800)	(4,147,127)
Administrative expenses	4	(49,139)	(49,367)	(2,964,834)	(1,904,607)
Other expenses	6	(3,828)	(403)	(253,257)	(16,323)
<b>Results from operating activities</b>		<b>104,919</b>	<b>68,802</b>	<b>6,429,594</b>	<b>2,832,322</b>
Finance income	8	12,930	11,092	782,356	438,565
Finance expenses	8	(7,142)	(2,884)	(448,088)	(107,825)
<b>Profit before income tax</b>		<b>110,707</b>	<b>77,010</b>	<b>6,763,862</b>	<b>3,163,062</b>
Income tax expense	9	(23,337)	(16,909)	(1,425,509)	(690,893)
<b>Profit for the year</b>		<b>87,370</b>	<b>60,101</b>	<b>5,338,353</b>	<b>2,472,169</b>
<b>Other comprehensive income</b>					
<i>Items that will never be reclassified to profit or loss</i>					
Gain from revaluation of investment property on transfer from property, plant and equipment (net of income tax)		1,135	-	82,709	-
Foreign currency translation differences		(43,236)	(98,812)	-	-
<b>Other comprehensive (loss) / income for the year, net of income tax</b>		<b>(42,101)</b>	<b>(98,812)</b>	<b>82,709</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>45,269</b>	<b>(38,711)</b>	<b>5,421,062</b>	<b>2,472,169</b>

These financial statements were approved by management on 22 April 2016 and were signed on its behalf by:

General Director



Konobeev L. V.

Chief Financial Officer

Kuznetsova O. Y.

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

\* Restated as a result of change in accounting policy (Note 27(c)).

**JSC SPC Katren**  
Statement of Financial Position as at 31 December 2015

	Notes	31 December 2015	31 December 2014	1 January 2014	31 December 2015	31 December 2014	1 January 2014
		'000 USD	(restated*) '000 USD	(restated*) '000 USD	'000 RUB	(restated*) '000 RUB	(restated*) '000 RUB
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property, plant and equipment	10	93,505	114,497	166,596	6,814,905	6,441,438	5,452,555
Intangible assets		559	716	1,398	40,768	40,297	45,750
Other investments	12	38,184	43,134	72,318	2,782,948	2,426,624	2,366,910
Other non-current assets		422	226	490	30,774	12,651	16,041
Investment property	11	7,525	-	-	548,450	-	-
<b>Total non-current assets</b>		<b>140,195</b>	<b>158,573</b>	<b>240,802</b>	<b>10,217,845</b>	<b>8,921,010</b>	<b>7,881,256</b>
<b>Current assets</b>							
Inventories	14	500,128	520,491	734,907	36,450,646	29,281,984	24,052,910
Other investments	12	14,808	22,912	25,715	1,079,246	1,288,998	841,631
Trade and other receivables	15	448,354	540,460	668,384	32,677,276	30,405,393	21,875,673
Prepayments (advances given)		2,982	2,978	6,348	217,377	167,557	207,774
Cash and cash equivalents	16	7,188	85,485	53,204	523,848	4,809,247	1,741,338
<b>Total current assets</b>		<b>973,460</b>	<b>1,172,326</b>	<b>1,488,558</b>	<b>70,948,393</b>	<b>65,953,179</b>	<b>48,719,326</b>
<b>Total assets</b>		<b>1,113,655</b>	<b>1,330,899</b>	<b>1,729,360</b>	<b>81,166,238</b>	<b>74,874,189</b>	<b>56,600,582</b>

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

\*Restated as a result of change in accounting policy (Note 27(c)).

**JSC SPC Katren**  
Statement of Financial Position as at 31 December 2015

Notes	31 December 2015	31 December 2014 (restated*)	1 January 2014 (restated*)	31 December 2015	31 December 2014 (restated*)	1 January 2014 (restated*)
	'000 USD	'000 USD	'000 USD	'000 RUB	'000 RUB	'000 RUB
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
17						
Share capital	48,299	48,299	48,299	1,500,000	1,500,000	1,500,000
Reserves	(153,134)	(111,033)	(12,221)	82,709	-	-
Retained earnings	257,473	217,581	179,226	9,541,960	7,211,433	5,546,725
<b>Total equity</b>	<b>152,638</b>	<b>154,847</b>	<b>215,304</b>	<b>11,124,669</b>	<b>8,711,433</b>	<b>7,046,725</b>
<b>Non-current liabilities</b>						
18	-	31,995	18,332	-	1,800,000	600,000
13	1,535	2,808	5,869	111,912	157,967	192,080
<b>Total non-current liabilities</b>	<b>1,535</b>	<b>34,803</b>	<b>24,201</b>	<b>111,912</b>	<b>1,957,967</b>	<b>792,080</b>
<b>Current liabilities</b>						
18	19,209	577	27,498	1,400,000	32,447	900,000
19	931,850	1,128,885	1,459,439	67,915,779	63,509,244	47,766,277
Reserves	134	89	153	9,781	5,000	5,000
Current tax liabilities	8,289	11,698	2,765	604,097	658,098	90,500
<b>Total current liabilities</b>	<b>959,482</b>	<b>1,141,249</b>	<b>1,489,855</b>	<b>69,929,657</b>	<b>64,204,789</b>	<b>48,761,777</b>
<b>Total liabilities</b>	<b>961,017</b>	<b>1,176,052</b>	<b>1,514,056</b>	<b>70,041,569</b>	<b>66,162,756</b>	<b>49,553,857</b>
<b>Total equity and liabilities</b>	<b>1,113,655</b>	<b>1,330,899</b>	<b>1,729,360</b>	<b>81,166,238</b>	<b>74,874,189</b>	<b>56,600,582</b>

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

\*Restated as a result of change in accounting policy (Note 27(c)).

'000 USD	Attributable to equity holders of the Company				
	Share capital	Property revaluation reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2014, as previously reported	48,299	6,898	(12,585)	169,947	212,559
Impact of change in accounting policy (Note 27(c))	-	(6,898)	364	9,279	2,745
<b>Balance at 1 January 2014 (restated*)</b>	<b>48,299</b>	<b>-</b>	<b>(12,221)</b>	<b>179,226</b>	<b>215,304</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	60,101	60,101
<b>Other comprehensive income</b>					
Foreign currency translation differences	-	-	(98,812)	-	(98,812)
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(98,812)</b>	<b>-</b>	<b>(98,812)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(98,812)</b>	<b>60,101</b>	<b>(38,711)</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to equity holders	-	-	-	(22,077)	(22,077)
Other contributions by owners	-	-	-	331	331
Total contributions by and distributions to owners	-	-	-	(21,746)	(21,746)
<b>Balance at 31 December 2014 (restated*)</b>	<b>48,299</b>	<b>-</b>	<b>(111,033)</b>	<b>217,581</b>	<b>154,847</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

*\*Restated as a result of change in accounting policy (Note 27(c)).*



'000 USD	Attributable to equity holders of the Company				Total
	Share capital	Foreign currency translation reserve	Property revaluation reserve	Retained earnings	
<b>Balance at 1 January 2015 (restated*)</b>	<b>48,299</b>	<b>(111,033)</b>	-	<b>217,581</b>	<b>154,847</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	87,370	87,370
<b>Other comprehensive income</b>					
Foreign currency translation differences	-	(43,236)	-	-	(43,236)
Gain on revaluation of investment property on transfer from property, plant and equipment	-	-	1,135	-	1,135
<b>Total other comprehensive income</b>	-	(43,236)	1,135	-	(42,101)
<b>Total comprehensive income for the year</b>	-	<b>(43,236)</b>	<b>1,135</b>	<b>87,370</b>	<b>45,269</b>
<b>Transactions with owners, recorded directly in equity</b>					
Dividends to equity holders	-	-	-	(48,201)	(48,201)
Other contributions by owners	-	-	-	723	723
Total contributions by and distributions to owners	-	-	-	(47,478)	(47,478)
<b>Balance at 31 December 2015</b>	<b>48,299</b>	<b>(154,269)</b>	<b>1,135</b>	<b>257,473</b>	<b>152,638</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

*\*Restated as a result of change in accounting policy (Note 27(c)).*

'000 RUB	Attributable to equity holders of the Company			
	Share capital	Property revaluation reserve	Retained earnings	Total
Balance at 1 January 2014, as previously reported	1,500,000	204,515	5,252,362	6,956,877
Impact of change in accounting policy (Note 27 (c))	-	(204,515)	294,363	89,848
<b>Balance at 1 January 2014 (restated*)</b>	<b>1,500,000</b>	<b>-</b>	<b>5,546,725</b>	<b>7,046,725</b>
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	2,472,169	2,472,169
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>2,472,169</b>	<b>2,472,169</b>
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to equity holders	-	-	(818,889)	(818,889)
Other contributions by owners	-	-	11,428	11,428
Total contributions by and distributions to owners	-	-	(807,461)	(807,461)
<b>Balance at 31 December 2014 (restated*)</b>	<b>1,500,000</b>	<b>-</b>	<b>7,211,433</b>	<b>8,711,433</b>

10

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

*\*Restated as a result of change in accounting policy (Note 27(c)).*

'000 RUB	Attributable to equity holders of the Company			
	Share capital	Property revaluation reserve	Retained earnings	Total
<b>Balance at 1 January 2015 (restated*)</b>	<b>1,500,000</b>	-	<b>7,211,433</b>	<b>8,711,433</b>
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	5,338,353	5,338,353
<b>Other comprehensive income</b>				
Gain on revaluation of investment property on transfer from property, plant and equipment	-	82,709	-	82,709
<b>Total other comprehensive income</b>	-	82,709	-	82,709
<b>Total comprehensive income for the year</b>	-	<b>82,709</b>	<b>5,338,353</b>	<b>5,421,062</b>
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to equity holders	-	-	(3,044,342)	(3,044,342)
Other distributions to owners	-	-	36,516	36,516
Total contributions by and distributions to owners	-	-	<b>(3,007,826)</b>	<b>(3,007,826)</b>
<b>Balance at 31 December 2015</b>	<b>1,500,000</b>	<b>82,709</b>	<b>9,541,960</b>	<b>11,124,669</b>

11

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

*\*Restated as a result of change in accounting policy (Note 27(c)).*

	Notes	2014		2014	
		2015	(restated*)	2015	(restated*)
		'000 USD	'000 USD	'000 RUB	'000 RUB
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit for the year		<b>87,370</b>	<b>60,101</b>	<b>5,338,353</b>	<b>2,472,169</b>
<i>Adjustments for:</i>					
Depreciation and amortisation	3, 4	7,869	9,866	480,762	378,224
Impairment loss on property, plant and equipment	6	2,503	-	164,944	-
Loss on revaluation of investment property on transfer from property, plant and equipment	6	1,220	-	80,402	-
Loss on disposal of property, plant and equipment	6	73	126	4,492	4,689
Allowance for doubtful debts	3	5,976	8,253	380,093	364,302
Reversal of accounts payable	5	(47)	(219)	(3,073)	(7,959)
Net finance income	8	(5,788)	(8,208)	(334,268)	(330,740)
Income tax expense	9	23,337	16,909	1,425,509	690,893
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>122,513</b>	<b>86,828</b>	<b>7,537,214</b>	<b>3,571,578</b>
Change in inventories		(120,900)	(113,207)	(7,168,662)	(5,229,074)
Change in trade and other receivables		(51,692)	(212,265)	(2,845,719)	(8,837,229)
Change in other non-current assets		(288)	88	(18,123)	3,390
Change in prepayments for current assets		(777)	1,045	(49,820)	40,217
Change in trade and other payables and provisions		64,036	382,896	4,444,912	15,786,467
<b>Cash flows from operations before income taxes and interest paid</b>		<b>12,892</b>	<b>145,385</b>	<b>1 899 802</b>	<b>5,335,349</b>
Income tax paid		(28,758)	(4,073)	(1,554,585)	(155,014)
Interest paid		(4,295)	(3,732)	(259,726)	(135,248)
<b>Net cash from operating activities</b>		<b>(20,161)</b>	<b>137,580</b>	<b>85,491</b>	<b>5,045,087</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment	6, 10	84	36	4,933	1,486
Interest received		11,453	7,581	673,623	301,070
Acquisition of property, plant and equipment	10	(25,342)	(35,524)	(1,548,336)	(1,367,792)
Acquisition of intangible assets		(102)	-	(6,203)	-
Acquisition of other investments		(64,638)	(61,593)	(3,816,723)	(2,367,591)
Repayment of other investments		64,790	48,369	3,798,602	1,942,091
<b>Net cash used in investing activities</b>		<b>(13,755)</b>	<b>(41,131)</b>	<b>(894,104)</b>	<b>(1,490,736)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		74,743	141,168	4,357,171	5,498,000
Repayment of borrowings		(75,409)	(144,206)	(4,789,618)	(5,165,553)
Dividends paid		(48,201)	(22,077)	(3,044,342)	(818,889)
<b>Net cash used in financing activities</b>		<b>(48,867)</b>	<b>(25,115)</b>	<b>(3,476,789)</b>	<b>(486,442)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(82,783)</b>	<b>71,334</b>	<b>(4,285,399)</b>	<b>3,067,909</b>
Cash and cash equivalents at beginning of the year	16	85,485	53,204	4,809,247	1,741,338
Effect of exchange rate fluctuations on cash and cash equivalents		4,486	(39,053)	-	-
<b>Cash and cash equivalents at end of the year</b>	<b>16</b>	<b>7,188</b>	<b>85,485</b>	<b>523,848</b>	<b>4,809,247</b>

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 13 - 50.

*\*Restated as a result of change in accounting policy (Note 27(c)).*

## **1 Background**

### **(a) Russian business environment**

Operations of JSC SPC Katren (“the Company”) are primarily located in the Russian Federation. Consequently, the Company is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

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

The financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

### **(b) Organization and operations**

JSC SPC Katren is the Russian joint-stock company as defined in the Civil Code of the Russian Federation. Its ultimate parent company is OJSC Katren.

The Company's registered office is 630117, Russia, Novosibirsk, Timakova str., 4.

The principal activity of the Company is the wholesale distribution of a wide range of pharmaceutical products in the Russian Federation.

As at 31 December 2015 and 2014, OJSC Katren was the sole shareholder of the Company owning 100% of the shares.

The ultimate controlling party of the Company is an individual, Konobeev Leonid V., who is CEO of the Company and owns a controlling interest in the parent company OJSC Katren.

## **2 Basis of preparation**

### **(a) Statement of compliance**

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

**(b) Basis of measurement**

The financial statements are prepared on the historical cost basis except that investment property is remeasured at fair value on a regular basis.

**(c) Functional currency and presentation currency**

The functional currency of the Company is the Russian rouble. All amounts presented in the financial statements in U.S. dollars were translated in accordance with IAS 21 requirements and rounded to the nearest thousand.

**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 11(b) – fair value of investment property;
- note 20 – valuation allowances for trade receivables;
- note 28(c) – the useful lives of fixed assets.

Information about assumptions and estimation uncertainties that have a significant risk related to the significant change in the financial statements figures for the next financial year will is presented in the following notes:

- note 23 – contingent assets and liabilities: key assumptions on probability and amount of resources' outflows.

**3 Disribution expenses**

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Transportation expenses	28,153	39,211	1,714,465	1,505,413
Personnel costs	25,753	27,917	1,556,390	1,086,472
Depreciation and amortization	7,580	9,405	463,237	360,809
Advertising expenses	6,164	5,972	378,350	236,609
Change in allowance for doubtful debts	5,976	8,253	380,093	364,302
Lease payments	3,153	5,036	191,326	190,277
Materials	2,836	3,000	172,797	116,445
Storage expenses	2,456	4,067	146,583	154,709
Maintenance of premises	2,349	2,896	143,332	110,572
Certification and analysis	418	569	25,227	21,519
	<b>84,838</b>	<b>106,326</b>	<b>5,171,800</b>	<b>4,147,127</b>

#### 4 Administrative expenses

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Personnel costs	32,599	30,353	1,975,693	1,169,874
Trainings and business trip expenses	2,162	2,920	131,342	111,932
Other services acquired	1,984	2,252	121,543	87,284
Materials	1,952	2,109	118,726	81,076
Property tax and other taxes	1,659	2,360	101,763	91,039
Communication and connection services	1,310	2,021	79,722	76,661
Lease payments	751	1,236	45,525	46,933
Insurance	620	282	37,684	10,709
Maintenance of premises	405	480	24,458	18,445
Bank services	386	415	23,608	15,828
Depreciation and amortization	289	461	17,525	17,415
Other administrative expenses	5,022	4,478	287,245	177,411
	<b>49,139</b>	<b>49,367</b>	<b>2,964,834</b>	<b>1,904,607</b>

#### 5 Other income

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Rental income	596	885	36,442	33,289
Other services	502	804	30,523	30,116
Reversal of accounts payable	47	219	3,073	7,959
	<b>1,145</b>	<b>1,908</b>	<b>70,038</b>	<b>71,364</b>

#### 6 Other expenses

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Impairment loss on property, plant and equipment	2,503	-	164,944	-
Loss on revaluation of investment property on transfer from property, plant and equipment	1,220	-	80,402	-
Loss on disposal of property, plant and equipment	73	126	4,492	4,689
Foreign currency translation differences related to purchase of goods (see note 27(b))	32	277	3,419	11,634
	<b>3,828</b>	<b>403</b>	<b>253,257</b>	<b>16,323</b>

#### 7 Personnel expenses

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Wages and salaries	47,166	46,323	2,855,547	1,801,587
Social taxes	11,186	11,947	676,536	454,759
	<b>58,352</b>	<b>58,270</b>	<b>3,532,083</b>	<b>2,256,346</b>

## 8 Finance income and finance expenses

	2015		2014	
	'000 USD	'000 USD	'000 RUB	'000 RUB
Interest income on loans issued	7,004	2,573	423,729	114,261
Interest income on bank deposits	4,527	6,263	277,944	239,703
Unwinding of discount on long-term loans issued	1,212	2,242	68,386	83,956
Foreign currency translation differences	187	14	12,297	645
<b>Finance income</b>	<b>12,930</b>	<b>11,092</b>	<b>782,356</b>	<b>438,565</b>
Interest expenses	(4,202)	(2,884)	(254,345)	(107,825)
Discounting of accounts receivable	(2,940)	-	(193,743)	-
<b>Finance costs</b>	<b>(7,142)</b>	<b>(2,884)</b>	<b>(448,088)</b>	<b>(107,825)</b>
<b>Net finance income</b>	<b>5,788</b>	<b>8,208</b>	<b>334,268</b>	<b>330,740</b>

## 9 Income tax expense

Applicable tax rate for the Company in 2015 and 2014 was 20%:

	2015		2014	
	'000 USD	'000 USD	'000 RUB	'000 RUB
<b>Current tax expense</b>				
Current year	24,373	17,705	1,491,368	722,057
Underprovided expenses	158	161	10,002	5,806
	<b>24,531</b>	<b>17,866</b>	<b>1,501,370</b>	<b>727,863</b>
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	(1,194)	(957)	(75,861)	(36,970)
	<b>(1,194)</b>	<b>(957)</b>	<b>(75,861)</b>	<b>(36,970)</b>
<b>Total income tax expense</b>	<b>23,337</b>	<b>16,909</b>	<b>1,425,509</b>	<b>690,893</b>

### Tax recognised directly in equity:

'000 USD	2015			2014		
	Before tax	Tax	Net of Tax	Before tax	Tax	Net of Tax
Other contributions by owners	903	(180)	723	414	(83)	331
Gain on revaluation of investment property on transfer from property, plant and equipment	1,419	(284)	1,135	-	-	-
	<b>2,322</b>	<b>(464)</b>	<b>1,858</b>	<b>414</b>	<b>(83)</b>	<b>331</b>
'000 RUB	2015			2014		
	Before tax	Tax	Net of Tax	Before tax	Tax	Net of Tax
Other contributions by owners	45,645	(9,129)	36,516	14,285	(2,857)	11,428
Gain on revaluation of investment property on transfer from property, plant and equipment	103,386	(20,677)	82,709	-	-	-
	<b>149,031</b>	<b>(29,806)</b>	<b>119,225</b>	<b>14,285</b>	<b>(2,857)</b>	<b>11,428</b>



**Reconciliation of effective tax rate:**

	2015		2014	
	'000 USD	%	'000 USD	%
Profit before income tax	110,707	100	77,010	100
Income tax at applicable tax rate	22,141	20	15,402	20
Non-taxable income	(183)	-	(109)	-
Non-deductible expenses	1,221	1	1,455	2
Underprovided in prior years	158	-	161	-
	<b>23,337</b>	<b>21</b>	<b>16,909</b>	<b>22</b>

  

	2015		2014	
	'000 RUB	%	'000 RUB	%
Profit before income tax	6,763,862	100	3,163,062	100
Income tax at applicable tax rate	1,352,772	20	632,612	20
Non-taxable income	(11,191)	-	(4,463)	-
Non-deductible expenses	73,926	1	56,938	2
Underprovided in prior years	10,002	-	5,806	-
	<b>1,425,509</b>	<b>21</b>	<b>690,893</b>	<b>22</b>

**10 Property, plant and equipment**

'000 USD	Land and buildings	Plant and equipment	Construction in progress	Total
<b>Cost</b>				
Balance at 1 January 2014	<b>85,250</b>	<b>72,076</b>	<b>33,638</b>	<b>190,964</b>
Additions	5,274	10,460	19,790	35,524
Disposals	-	(485)	-	(485)
Transfers	18,976	2,037	(21,013)	-
Effect of movements in exchange rates	(43,308)	(33,932)	(13,683)	(90,923)
Balance at 31 December 2014	<b>66,192</b>	<b>50,156</b>	<b>18,732</b>	<b>135,080</b>
Balance at 1 January 2015	<b>66,192</b>	<b>50,156</b>	<b>18,732</b>	<b>135,080</b>
Additions	3,097	8,604	13,641	25,342
Disposals	-	(560)	-	(560)
Transfers	9,887	6,788	(16,675)	-
Reclassification to investment property	(8,387)	-	-	(8,387)
Effect of movements in exchange rates	(17,198)	(13,835)	(3,782)	(34,815)
Balance at 31 December 2015	<b>53,591</b>	<b>51,153</b>	<b>11,916</b>	<b>116,660</b>
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2014	<b>(5,686)</b>	<b>(18,682)</b>	-	<b>(24,368)</b>
Depreciation for the year	(2,556)	(7,166)	-	(9,722)
Disposals	-	323	-	323
Effect of movements in exchange rates	3,186	9,998	-	13,184
Balance at 31 December 2014	<b>(5,056)</b>	<b>(15,527)</b>	-	<b>(20,583)</b>

	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Construction in progress</b>	<b>Total</b>
Balance at 1 January 2015	(5,056)	(15,527)	-	(20,583)
Depreciation for the year	(2,061)	(5,713)	-	(7,774)
Impairment	(1,393)	(90)	(779)	(2,262)
Disposals	-	403	-	403
Reclassification to investment property	1,178	-	-	1,178
Effect of movements in exchange rates	1,491	4,392	-	5,883
Balance at 31 December 2015	<b>(5,841)</b>	<b>(16,535)</b>	<b>(779)</b>	<b>(23,155)</b>

**Carrying amounts**

At 1 January 2014	<b>79,564</b>	<b>53,394</b>	<b>33,638</b>	<b>166,596</b>
At 31 December 2014	<b>61,136</b>	<b>34,629</b>	<b>18,732</b>	<b>114,497</b>
At 31 December 2015	<b>47,750</b>	<b>34,618</b>	<b>11,137</b>	<b>93,505</b>

<b>'000 RUB</b>	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>				
Balance at 1 January 2014	<b>2,790,156</b>	<b>2,358,998</b>	<b>1,100,944</b>	<b>6,250,098</b>
Additions	203,049	402,757	761,986	1,367,792
Disposals	-	(18,493)	-	(18,493)
Transfers	730,637	78,437	(809,074)	-
Balance at 31 December 2014	<b>3,723,842</b>	<b>2,821,699</b>	<b>1,053,856</b>	<b>7,599,397</b>
Balance at 1 January 2015	<b>3,723,842</b>	<b>2,821,699</b>	<b>1,053,856</b>	<b>7,599,397</b>
Additions	189,221	525,709	833,406	1,548,336
Disposals	-	(33,878)	-	(33,878)
Transfers	604,093	414,707	(1,018,800)	-
Reclassification to investment property	(611,298)	-	-	(611,298)
Balance at 31 December 2015	<b>3,905,858</b>	<b>3,728,237</b>	<b>868,462</b>	<b>8,502,557</b>

**Depreciation and impairment losses**

Balance at 1 January 2014	<b>(186,110)</b>	<b>(611,433)</b>	-	<b>(797,543)</b>
Depreciation for the year	(97,993)	(274,742)	-	(372,735)
Disposals	-	12,319	-	12,319
Balance at 31 December 2014	<b>(284,103)</b>	<b>(873,856)</b>	-	<b>(1,157,959)</b>
Balance at 1 January 2015	<b>(284,103)</b>	<b>(873,856)</b>	-	<b>(1,157,959)</b>
Depreciation for the year	(125,937)	(349,095)	-	(475,032)
Impairment	-	24,453	-	24,453
Disposals	(101,494)	(6,577)	(56,873)	(164,944)
Reclassification to investment property	85,832	-	-	85,832
Balance at 31 December 2015	<b>(425,702)</b>	<b>(1,205,076)</b>	<b>(56,873)</b>	<b>(1,687,652)</b>

**Carrying amounts**

At 1 January 2014	<b>2,604,046</b>	<b>1,747,565</b>	<b>1,100,944</b>	<b>5,452,555</b>
At 31 December 2014	<b>3,439,739</b>	<b>1,947,843</b>	<b>1,053,856</b>	<b>6,441,438</b>
At 31 December 2015	<b>3,480,156</b>	<b>2,523,161</b>	<b>811,589</b>	<b>6,814,905</b>

Depreciation expense has been charged to distribution expenses in the amount of USD 7,580 thousand/ RUB 463,238 thousand and to administrative expenses in the amount of USD 194 thousand/ RUB 11,794 thousand (2014: USD 9,406 thousand/ RUB 360,809 thousand and USD 316 thousand/ RUB 11,926 thousand respectively).

As at 31 December 2015, the Company had an insurance coverage for its property, plant and equipment in the amount of USD 56,089 thousand/ RUB 4,087,897 thousand (31 December 2014: USD 54,629 thousand/ RUB 3,073,337 thousand) and investment property in the amount of USD 6,020 thousand/ RUB 438,732 thousand (31 December 2014: nil).

**(a) Security**

At 31 December 2015 and 31 December 2014, no property, plant and equipment is a subject to a registered debenture to secure bank loans.

**(b) Property, plant and equipment under construction**

As at 31 December 2015, the Company's property, plant and equipment under construction comprise properties, including offices and warehouse premises, in the cities of Tyumen, Khabarovsk and also advances given for the acquisition of equipment and real estate. During 2015, capitalized borrowing costs related to the construction of the property amounted to USD 716 thousand/ RUB 43,738 thousand (2014: USD 1,485 thousand/ RUB 53,887 thousand), with a capitalization rate of 11.70 % (2014: 8.70%).

**(c) Impairment of property, plant and equipment**

Property, plant and equipment are tested for impairment at each reporting date separately for each cash-generating unit if impairment indicators exist. Cash-generating units (CGU) were determined at the level of branches of the Company, as their operating activities are considered to be independent from each other.

There was no indication that the Company's property, plant and equipment may be impaired as at 1 January and 31 December 2014. After several warehouses were put in use in 2015, management determined that there are indications of possible impairment losses for respective CGUs.

For the purpose of impairment testing of these cash-generating units the Company determined their value in use as at 31 December 2015.

Value in use was determined based on discounted cash flows projected for respective CGUs. The following assumptions were used in performing the impairment test:

- cash flows were projected for the period 2016 – 2020 based on the approved development model (business-plan) of the Company, past experience and actual operating results of the CGUs;
- cash flows were extrapolated using average sales growth at rate of 15% per annum and growth rate of 3.5% in terminal period.
- a pre-tax nominal RUB discount rate of 19.95 – 22.59% was applied in determining value in use for property, plant and equipment. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 12% at a market borrowing rate of 14.4%.

As a result of this assessment an impairment loss in the amount of RUB 164,944 thousand / USD 2,262 thousand was recognized for and fully allocated to CGU of Saratov branch. While no impairment loss was recognized for other cash-generating units as at 31 December 2015, the estimated recoverable amount is sensitive to changes in the revenue average growth rate and discount rate.

Increase in discount rate by 6 basic points, or reduction in the revenue average growth rate by 3 basic points would have increased impairment losses by USD 6,860 thousand/ RUB 500,000 thousand.

## 11 Investment property

### (a) Reconciliation of carrying amount

During 2015, management of the Company transferred to investment property several assets which were earlier classified as property, plant and equipment, based on the expected use of these properties.

	2015	2015
	'000 USD	'000 RUB
Balance at 1 January	-	-
Reclassification from property, plant and equipment	7,209	525,466
Change in fair value	316	22,984
<b>Balance at 31 December</b>	<b>7,525</b>	<b>548,450</b>

Investment property comprises of a number of commercial properties that are leased to third parties or held for the purpose of capital appreciation. Each of the leases contains an initial non-cancellable period of one year, with annual rents indexed to consumer prices. Subsequent renewals are negotiated with the lessee and on average renewal period of 1 year. No contingent rents are charged.

### (b) Measurement of fair value

In 2015, management commissioned an independent appraiser to appraise investment property as at 31 December 2015, which is accounted at fair value. The fair value of investment property was determined by taking the average of the fair values arrived at under income and market approaches.

The fair value measurement for investment property of USD 7,525 thousand / RUB 548,450 thousand has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 29).

#### Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<i>Discounted cash flows:</i> The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, expected repair and maintenance costs. The expected net cash flows are discounted using risk-adjusted discount / capitalization rates effective for respective region.	<ul style="list-style-type: none"> <li>• Occupancy rate (92-99%).</li> <li>• Capitalization rates (12-14% depending on region).</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• the occupancy rate were higher (lower);</li> <li>• the discounting rate were lower (higher).</li> </ul>
<i>Market-based approach:</i> the valuation model for land and buildings considers quoted market prices for similar items when available.	<ul style="list-style-type: none"> <li>• Quoted market prices for similar items.</li> </ul>	<p>The estimated fair value would increase (decrease) depending on market prices for similar items.</p>

## 12 Other investments

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	'000 USD	'000 USD	'000 RUB	'000 RUB
<i>Non-current</i>				
Loans issued to related parties	18,272	29,004	1,331,692	1,631,719
Available-for-sale investments	19,897	14,060	1,450,130	790,969
Loans issued to 3 <sup>rd</sup> parties	15	70	1,126	3,936
	<b>38,184</b>	<b>43,134</b>	<b>2,782,948</b>	<b>2,426,624</b>
<i>Current</i>				
Loans issued to related parties	12,809	19,221	933,521	1,081,343
Loans issued to 3 <sup>rd</sup> parties	1,999	3,691	145,725	207,655
	<b>14,808</b>	<b>22,912</b>	<b>1,079,246</b>	<b>1,288,998</b>

As at 31 December 2015, unquoted equity securities represented by shares of OJSC Katren, the parent company, with share of ownership in the amount of 7.16% (31 December 2014: 3.72%) are included in the available-for-sale investments carried at cost. There is no market for these investments, and there are no recent transactions, which could serve as a basis for determining the fair value.

To determine fair values, management used a discounted cash flows valuation technique in which a discount rate at the end of the reporting period reflects the weighted average market interest rate for loans provided by banks to businesses. In addition, the discounted future cash flows yield a wide range of fair value, because of the uncertainty of future cash flows in industry. However, for the management' opinion, their fair value at the end of the year is likely not to be significantly different from their carrying value.

The Company's exposure to credit, currency and interest rate risks arising from other investments is disclosed in note 20.

## 13 Deferred tax assets and liabilities

### (a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	'000 USD	'000 USD	'000 RUB	'000 RUB
Property, plant and equipment and investment property	(2,677)	(3,266)	(195,102)	(183,760)
Other investments	68	362	4,905	20,365
Inventories	7,170	7,157	522,509	402,600
Trade and other receivables	(6,954)	(8,331)	(506,773)	(468,650)
Trade and other payables	858	1,270	62,548	71,478
<b>Net tax liabilities</b>	<b>(1,535)</b>	<b>(2,808)</b>	<b>(111,913)</b>	<b>(157,967)</b>

### (b) Movement in temporary differences during the year

'000 USD	1 January 2015	Translation difference	Recognised in profit or loss	Recognised directly in equity	31 December 2015
Property, plant and equipment and investment property	(3,266)	721	152	(284)	(2,677)
Other investments	362	(11)	(103)	(180)	68
Inventories	7,157	(1,946)	1,959	-	7,170
Trade and other receivables	(8,331)	2,045	(668)	-	(6,954)
Trade and other payables	1,270	(266)	(146)	-	858
	<b>(2,808)</b>	<b>543</b>	<b>1,194</b>	<b>(464)</b>	<b>(1,535)</b>

  

'000 RUB	1 January 2014	Translation difference	Recognised in profit or loss	Recognised directly in equity	31 December 2014
Property, plant and equipment and investment property	(5,107)	2,276	(435)	-	(3,266)
Other investments	1,317	(356)	(516)	(83)	362
Inventories	9,889	(4,782)	2,050	-	7,157
Trade and other receivables	(13,165)	5,815	(981)	-	(8,331)
Trade and other payables	1,197	(766)	839	-	1,270
	<b>(5,869)</b>	<b>2,187</b>	<b>957</b>	<b>(83)</b>	<b>(2,808)</b>

'000 RUB	1 January 2015	Recognised in profit or loss	Recognised directly in equity	31 December 2015
Property, plant and equipment and investment property	(183,760)	9,335	(20,677)	(195,102)
Other investments	20,365	(6,331)	(9,129)	4,905
Inventories	402,600	119,909	-	522,509
Trade and other receivables	(468,650)	(38,122)	-	(506,772)
Trade and other payables	71,478	(8,930)	-	62,548
	<b>(157,967)</b>	<b>75,861</b>	<b>(29,806)</b>	<b>(111,912)</b>

'000 RUB	1 January 2014	Recognised in profit or loss	Recognised directly in equity	31 December 2014
Property, plant and equipment and investment property	(167,146)	(16,614)	-	(183,760)
Other investments	43,103	(19,881)	(2,857)	20,365
Inventories	323,654	78,946	-	402,600
Trade and other receivables	(430,871)	(37,779)	-	(468,650)
Trade and other payables	39,180	32,298	-	71,478
	<b>(192,080)</b>	<b>36,970</b>	<b>(2,857)</b>	<b>(157,967)</b>

## 14 Inventory

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	'000 USD	'000 USD	'000 RUB	'000 RUB
Goods for resale	496,403	516,910	36,179,156	29,080,491
Raw materials and consumables	3,725	3,581	271,490	201,493
	<b>500,128</b>	<b>520,491</b>	<b>36,450,646</b>	<b>29,281,984</b>

During 2015, cost of goods for resale recognised as cost of sales amounted to USD 2,744,491 thousand/ RUB 166,933,201 thousand (2014: USD 3,459,008 thousand/ RUB 134,640,845 thousand).

As at 31 December 2015, the Company had an insurance coverage for its inventories in the amount of USD 415,325 thousand/ RUB 30,270,000 thousand (31 December 2014: USD 389,097 thousand/ RUB 21,890,000 thousand).

As at 31 December 2015, inventories with a carrying amount of USD 28,127 thousand/ RUB 2,050,000 thousand are pledged as security for borrowings received by the Company and committed loan facilities (31 December 2014: USD 36,439 thousand/ RUB 2,050,000 thousand were pledged as security for committed loan facilities).

## 15 Trade and other receivables

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Trade accounts receivable due from third parties	382,562	462,677	27,882,173	26,029,524
Accounts receivable due from related parties	7,046	7,313	513,500	411,416
VAT receivable	11,651	15,048	849,187	846,501
Other receivables	47,095	55,422	3,432,416	3,117,952
	<b>448,354</b>	<b>540,460</b>	<b>32,677,276</b>	<b>30,405,393</b>

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 20.

## 16 Cash and cash equivalents

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Cash in banks	7,165	21,464	522,153	1,207,553
Deposits with maturity less than 3 months	-	63,991	-	3,600,000
Petty cash	23	30	1,695	1,694
<b>Cash and cash equivalents</b>	<b>7,188</b>	<b>85,485</b>	<b>523,848</b>	<b>4,809,247</b>

The Company's exposure to interest rate and credit risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 20.

## 17 Capital and reserves

### (a) Share capital

As at 31 December 2015, the share capital of the Company amounts to USD 48,299 thousand/ RUB 1,500,000 thousand (31 December 2014: USD 48,299 thousand/ RUB 1,500,000 thousand) and is comprised of 375,000,000 ordinary shares authorized and fully paid for the par value of RUB 4 (USD 0.129) per share. All ordinary shares rank equally with regard to the Company's residual assets.

### (b) Dividends

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2015, the Company had retained earnings of USD 127,323 thousand/ RUB 9,279,629 thousand (31 December 2014: USD 118,812 thousand/ RUB 6,684,151 thousand).

During the year ended 31 December 2015, the following dividends have been declared:

	<b>2015</b>	<b>2014</b>
Dividends, USD thousand	48,201	22,077
Number of shares on issue	375,000,000	375,000 000
Dividend per share (USD)	<b>0.13</b>	<b>0.06</b>



	<b>2015</b>	<b>2014</b>
Dividends, RUB thousand	3,044,342	818,889
Number of shares on issue	375,000,000	375,000,000
Dividend per share (RUB)	<b>8.12</b>	<b>2.18</b>

## 18 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 20.

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
<i><b>Non-current liabilities</b></i>				
Secured bank loans	-	31,995	-	1,800,000
	-	<b>31,995</b>	-	<b>1,800,000</b>
<i><b>Current liabilities</b></i>				
Unsecured bank loans	-	577	-	32,447
Secured bank loans	19,209	-	1,400,000	-
	<b>19,209</b>	<b>577</b>	<b>1,400,000</b>	<b>32,447</b>

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<b>'000 USD</b>	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Sberbank RF	RUB	8.7% - 11.7%	2016	19,209	31,995
Raiffeisen Bank	RUB	23.2%	overdraft	-	577
				<b>19,209</b>	<b>32,572</b>

  

<b>'000 RUB</b>	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Sberbank RF	RUB	8.7% - 11.7%	2016	1,400,000	1,800,000
Raiffeisen Bank	RUB	23.2%	overdraft	-	32,447
				<b>1,400,000</b>	<b>1,832,447</b>

As at 31 December 2015, in accordance with existing agreements the Company could raise additional borrowings up to USD 50,080 thousand/ RUB 3,650,000 thousand (31 December 2014: USD 46,527 thousand/ RUB 2,617,553 thousand) (note 20(c)).

Bank loans are secured by the inventory with a carrying amount of USD 28,127 thousand/ RUB 2,050,000 thousand as at 31 December 2015 (31 December 2014: USD 36,439 thousand/ RUB 2,050,000 thousand) (note 14).

## 19 Trade and other payables

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	'000 USD	'000 USD	'000 RUB	'000 RUB
Trade payables	921,174	1,114,172	67,137,659	62,681,537
Payables to employees	4,294	6,052	312,937	340,481
Other payables	5,077	7,017	370,021	394,737
Other taxes payable	1,305	1,644	95,162	92,489
	<b>931,850</b>	<b>1,128,885</b>	<b>67,915,779</b>	<b>63,509,244</b>

The Company's exposure to currency and liquidity risk related to trade and other payables exclusive payables to employees and other taxes payable is disclosed in note 20.

## 20 Financial instruments and risk management

### (a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### **Risk management framework**

The Company has no formal policy of risk management. However, management actively monitors the financial and market risks and take appropriate decisions if necessary. The Audit Committee, established at the parent company level, reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Audit Committee is assisted in its oversight role by Internal Audit. Risk Management and Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### (b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

### (c) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Other investments	52,992	66,046	3,862,194	3,715,622
Trade and other receivables	448,354	540,460	32,677,276	30,405,393
Cash and cash equivalents	7,188	85,485	523,848	4,809,247
	<b>508,354</b>	<b>691,991</b>	<b>37,063,318</b>	<b>38,930,262</b>

**(i) Trade and other receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, and represent the maximum open amount without requiring approval from the Risk Management Department; these limits are reviewed quarterly. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Trade and other receivables relate primarily to wholesale customers. More than 90% of buyers are customers of the Company for longer than four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including the structure of the debt by the number of days of delay in payment, the contractual maturities of debt and the existence of previous financial difficulties.

As at 31 December 2015, trade receivables in the amount of USD 36,626 thousand/ RUB 2,669,434 thousand are secured by banks' and third parties' guarantees and collaterals (31 December 2014: USD 6,788 thousand/ RUB 381,902 thousand).

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are individually impaired accounts receivable.

**Impairment losses**

The aging of trade receivables at the reporting date was as follows:

	<b>31 December 2015</b>			<b>31 December 2014</b>		
	<b>Gross</b>	<b>Impair- ment</b>	<b>Carrying value</b>	<b>Gross</b>	<b>Impair- ment</b>	<b>Carrying value</b>
<b>'000 USD</b>						
Not past due	335,546	-	335,546	416,445	-	416,445
Past due 0-30 days	28,134	-	28,134	37,508	-	37,508
Past due 31-120 days	15,507	-	15,507	9,569	(3,298)	6,271
Past due more than 120 days	17,271	(10,896)	6,375	7,814	(5,361)	2,453
	<b>393,458</b>	<b>(10,896)</b>	<b>382,562</b>	<b>471,336</b>	<b>(8,659)</b>	<b>462,677</b>

'000 RUB	31 December 2015			31 December 2014		
	Gross	Impairment	Carrying value	Gross	Impairment	Carrying value
Not past due	24,236,844	-	24,236,844	23,428,540	-	23,428,540
Past due 0-30 days	2,050,478	-	2,050,478	2,110,140	-	2,110,140
Past due 31-120 days	1,130,221	-	1,130,221	538,339	(185,486)	352,853
Past due more than 120 days	1,258,790	(794,160)	464,630	439,603	(301,612)	137,991
	<b>28,670,333</b>	<b>(794,160)</b>	<b>27,882,173</b>	<b>26,516,622</b>	<b>(487,098)</b>	<b>26,029,524</b>

As at 31 December 2015, overdue but not impaired receivables are presented primarily by indebtedness which was either secured or paid off after the reporting date. The remaining balance of USD 8,094 thousand / RUB 589,900 thousand relates to one significant customer. Company's management regularly monitors this customer and assesses respective risk of default as low.

**The movement in the allowance for impairment in respect of trade receivables during the year was as follows:**

	2015	2014	2015	2014
	'000 USD	'000 USD	'000 RUB	'000 RUB
Balance at 1 January	8,659	6,957	487,098	227,679
Increase during the year	5,557	8,253	368,212	364,302
Amounts written off against trade receivables	(923)	(2,559)	(61,150)	(104,883)
Translation difference	(2,397)	(3,992)	-	-
Balance at 31 December	<b>10,896</b>	<b>8,659</b>	<b>794,160</b>	<b>487,098</b>

**(ii) Investments**

The Company establishes an allowance for impairment of investments, which represents its estimate of incurred losses. This valuation allowance is established to separate significant amounts of the loans and investments available-for-sale (carried at cost) for which there is an objective evidence of impairment loss.

As at 31 December 2015, impairment losses of investments accounted to USD 292 thousand/ RUB 21,286 thousand (2014: USD 179 thousand/ RUB 10,078 thousand). During 2015, additional impairment losses in the amount USD 419 thousand/ RUB 11,881 thousand were recognized as commercial expenses.

**(iii) Cash and cash equivalents**

At 31 December 2015 and 31 December 2014, approximately 100% of cash and cash equivalents of the Company are placed with three major Russian banks. These banks have the following credit ratings on Moody's scale.

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	'000 USD	'000 USD	'000 RUB	'000 RUB
Ba2	6,887	85,455	501,878	4,807,553
B1	278	-	20,275	-
Others	23	30	1,695	1,694
	<b>7,188</b>	<b>85,485</b>	<b>523,848</b>	<b>4,809,247</b>

**(iv) Guarantees**

The Company considers that financial guarantee contracts entered into by the Company to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company's policy is to provide financial guarantees only to related parties which are owned by parent company OJSC Katren. The financial guarantees issued are disclosed in the note 24(c).

**(d) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

As at 31 December 2015, the Company has committed credit facilities in several major banks. In accordance with existing agreements at the reporting date the Company could raise additional borrowings at interest rate varying from 11.70% to 13.00% per annum up to USD 50,080 thousand/ RUB 3,650,000 thousand (31 December 2014: USD 46,527 thousand/ RUB 2,617,553 thousand).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**Non-derivative financial liabilities**

31 December 2015 '000 USD	Carrying amount	Contractual cash flows		
		0-6 months	6-12 months	Total
Loans and borrowings	19,209	1,121	19,691	20,812
Trade and other payables	926,251	926,251	-	926 251
Financial guarantees	-	16,488	-	16,488
	<b>945,460</b>	<b>943,860</b>	<b>19,691</b>	<b>963,551</b>

<b>31 December 2014</b> <b>'000 USD</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>			<b>Total</b>
		<b>0-6 months</b>	<b>6-12 months</b>	<b>From 1 to 2 years</b>	
Loans and borrowings	32,572	1,953	1,403	33,956	37,312
Trade and other payables	1,121,189	1,121,189	-	-	1,121,189
Financial guarantees	-	38,786	-	-	38,786
	<b>1,153,761</b>	<b>1,161,928</b>	<b>1,403</b>	<b>33,956</b>	<b>1,197,287</b>

<b>31 December 2015</b> <b>'000 RUB</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>			<b>Total</b>
		<b>0-6 months</b>	<b>6-12 months</b>		
Loans and borrowings	1,400,000	81,676	1,435,132		1,516,808
Trade and other payables	67,507,680	67,507,680	-	-	67,507,680
Financial guarantees	-	1,101,723	-	-	1,101,723
	<b>68,907,680</b>	<b>68,791,079</b>	<b>1,435,132</b>		<b>70,226,211</b>

<b>31 December 2014</b> <b>'000 RUB</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>			<b>Total</b>
		<b>0-6 months</b>	<b>6-12 months</b>	<b>From 1 to 2 years</b>	
Loans and borrowings	1,832,447	109,873	78,931	1,910,310	2,099,114
Trade and other payables	63,076,274	63,076,274	-	-	63,076,274
Financial guarantees	-	2,182,038	-	-	2,182,038
	<b>64,908,721</b>	<b>65,368,185</b>	<b>78,931</b>	<b>1,910,310</b>	<b>67,357,426</b>

The trade and other payables do not include payables to employees and taxes payable. Financial guarantees are mainly represented by guarantees issued for related parties (note 24(c)).

**(e) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

**(i) Currency risk**

The Company is exposed to currency risk on outstanding balances and transactions that are denominated in a currency other than the functional currency of Company (the Russian Rouble (RUB)). The currencies in which these transactions primarily are denominated are EUR and USD.

**Exposure to currency risk**

The Company's exposure to foreign currency risk based on notional amounts was as follows:

**31 December 2015**

<b>'000 USD</b>	<b>USD-denominated</b>	<b>EUR-denominated</b>	<b>Total</b>
Trade and other receivables	1	132	133
Trade and other payables	(47)	(1,148)	(1,195)
Cash and cash equivalents	-	29	29
<b>Net exposure</b>	<b>(46)</b>	<b>(987)</b>	<b>(1,033)</b>

**31 December 2014**

<b>'000 USD</b>	<b>USD-denominated</b>	<b>EUR-denominated</b>	<b>Total</b>
Trade and other receivables	24	54	78
Trade and other payables	(4)	(1,687)	(1,691)
Cash and cash equivalents	24	122	146
<b>Net exposure</b>	<b>44</b>	<b>(1,511)</b>	<b>(1,467)</b>

**31 December 2015**

<b>'000 RUB</b>	<b>USD-denominated</b>	<b>EUR-denominated</b>	<b>Total</b>
Trade and other receivables	95	9,589	9,684
Trade and other payables	(3,430)	(83,693)	(87,123)
Cash and cash equivalents	-	2,081	2,081
<b>Net exposure</b>	<b>(3,335)</b>	<b>(72,023)</b>	<b>(75,358)</b>

**31 December 2014**

<b>'000 RUB</b>	<b>USD-denominated</b>	<b>EUR-denominated</b>	<b>Total</b>
Trade and other receivables	1,350	3,038	4,388
Trade and other payables	(225)	(94,908)	(95,133)
Cash and cash equivalents	1,350	6,864	8,214
<b>Net exposure</b>	<b>2,475</b>	<b>(85,006)</b>	<b>(82,531)</b>

The following exchange rates applied during the year:

<b>In RUB</b>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
1 USD	61,0968	38,5034	72,8827	56,2584
1 EUR	67,7744	50,9928	79,6972	68,3427

**Sensitivity analysis**

Strengthening of the national currency of the Company entities against US Dollar or EUR would not have a material impact on the profit or equity of the Company.

**(ii) Interest rate risk**

**Structure**

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
<b>Fixed rate instruments</b>				
Other investments	33,095	51,986	2,412,064	2,924,653
Financial liabilities	(19,209)	(32,572)	(1,400,000)	(1,832,447)
	<b>13,886</b>	<b>19,414</b>	<b>1,012,064</b>	<b>1,092,206</b>

#### **Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for any fixed rate financial instruments at fair value through profit or loss or at fair value through other comprehensive income. Therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

#### **Cash flow sensitivity analysis for variable rate instruments**

At reporting date, the Company has no material variable rate instruments therefore the sensitivity analysis is not performed.

#### **(f) Fair values versus carrying amounts**

The fair values of the Company's financial instruments do not significantly differ from their carrying amounts as at 31 December 2015 and 31 December 2014.

The following table shows the carrying amounts and fair values of financial assets. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial instruments listed in the table below for the purpose of its fair value measurement relate to Level 3 in the fair value hierarchy. To determine their fair values, management used a discounted cash flows valuation technique in which a discount rate at the end of the reporting period reflects the weighted average market interest rate for loans provided by banks to businesses. Own default risk has been assessed as insignificant. Risk of default on the loans issued has been assessed as insignificant, as loans are secured by collateral.

<b>'000 USD</b>	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Financial assets not measured at fair value</b>				
<i>Non-Current</i>				
Loans issued to related parties	18,272	29,004	17,753	27,939
	<b>18,272</b>	<b>29,004</b>	<b>17,753</b>	<b>27,939</b>
<i>Current</i>				
Loans issued to related parties	12,809	19,221	12,618	18,843
	<b>12,809</b>	<b>19,221</b>	<b>12,618</b>	<b>18,843</b>
<b>Financial liabilities not measured at fair value</b>				
<i>Long-term</i>				
Loans and borrowings	-	(31,995)	-	(30,572)
	-	<b>(31,995)</b>	-	<b>(30,572)</b>
<i>Short-term</i>				
Loans and borrowings	(19,209)	(577)	(18,941)	(577)
	<b>(19,209)</b>	<b>(577)</b>	<b>(18,941)</b>	<b>(577)</b>



'000 RUB	Carrying amount		Fair value	
	2015	2014	2015	2014
<b>Financial assets not measured at fair value</b>				
<i>Non-Current</i>				
Loans issued to related parties	1,331,692	1,631,719	1,293,852	1,571,776
	<b>1,331,692</b>	<b>1,631,719</b>	<b>1,293,852</b>	<b>1,571,776</b>
<i>Current</i>				
Loans issued to related parties	933,521	1,081,343	919,657	1,060,084
	<b>933,521</b>	<b>1,081,343</b>	<b>919,657</b>	<b>1,060,084</b>
<b>Financial liabilities not measured at fair value</b>				
<i>Long-term</i>				
Loans and borrowings	-	(1,800,000)	-	(1,719,923)
	-	<b>(1,800,000)</b>	-	<b>(1,719,923)</b>
<i>Short-term</i>				
Loans and borrowings	(1,400,000)	(32,447)	(1,380,446)	(32,447)
	<b>(1,400,000)</b>	<b>(32,447)</b>	<b>(1,380,446)</b>	<b>(32,447)</b>

**(i) Valuation techniques and significant unobservable inputs**

The following tables show the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

**Financial instruments not measured at fair value**

Type	Valuation technique	Significant unobservable inputs
Loans issued to related parties	Discounted cash flows	Credit risk, discount rate
Loans and borrowings	Discounted cash flows	Credit risk, discount rate

  

	31 December 2015	31 December 2014
Discount rate applied in determining the fair value of financial liabilities	13.67%	12.10%

**(g) Capital management**

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

The capital structure of the Company consists of debt, which includes the loans borrowings disclosed in note 18, cash and cash equivalents disclosed in note 16 and equity attributable to equity holders of the parent, comprising of issued capital, reserves and retained earnings.

The Company has no formal capital management policy, but the management's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. This is achieved by efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows. With these measures the Company aims for steady profits growth.

Additionally, management of the Company constantly monitors the debt to capital ratio and regulates level of dividends attributable to the holders of ordinary shares.

There were no changes in the Company's approach to capital management during the year.

As at 31 December 2015, loans amounting to USD 19,209 thousand/ RUB 1,400,000 thousand (31 December 2014: USD 31,995 thousand/ RUB 1,800,000 thousand) are subject to imposed capital requirement on the Company to maintain a prescribed debt to EBITDA (earnings before interest, tax, depreciation and amortization) ratio of 3:1, determined on the basis of the Russian statutory financial statements. As at the reporting date, the Company maintained these capital requirements.

As at 31 December 2015, the Company doesn't have unsecured bank loans (31 December 2014: USD 557 thousand/ RUB 32,447 thousand).

**(h) Master netting or similar agreements**

The Company may enter into sales and purchase agreements with the same counterparty in the normal course of business.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	<u>Trade and other receivables</u> <u>'000 USD</u>	<u>Trade and other payables</u> <u>'000 USD</u>	<u>Trade and other receivables</u> <u>'000 RUB</u>	<u>Trade and other payables</u> <u>'000 RUB</u>
<b>31 December 2015</b>				
Gross amounts	37,004	716,145	2,696,928	52,194,596
Amounts offset in accordance with IAS 32 offsetting criteria	-	-	-	-
Net amounts presented in the statement of financial position	37,004	716,145	2,696,928	52,194,596
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(37,004)	(37,004)	(2,696,928)	(2,696,928)
<b>Net amounts</b>	<b>-</b>	<b>679,141</b>	<b>-</b>	<b>49,497,668</b>
	<u>Trade and other receivables</u> <u>'000 USD</u>	<u>Trade and other payables</u> <u>'000 USD</u>	<u>Trade and other receivables</u> <u>'000 RUB</u>	<u>Trade and other payables</u> <u>'000 RUB</u>
<b>31 December 2014</b>				
Gross amounts	43,234	816,062	2,432,276	45,910,342
Amounts offset in accordance with IAS 32 offsetting criteria	-	-	-	-
Net amounts presented in the statement of financial position	43,234	816,062	2,432,276	45,910,342
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(43,234)	(43,234)	(2,432,276)	(2,432,276)
<b>Net amounts</b>	<b>-</b>	<b>772,828</b>	<b>-</b>	<b>43,478,066</b>

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

## 21 Capital commitments

As at 31 December 2015, the Company entered into contracts in respect of construction of office and warehouse premises in the amount of USD 17,711 thousand/ RUB 1,290,861 thousand (31 December 2014: USD 11,102 thousand/ RUB 624,581 thousand).

## 22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>'000 USD</b>	<b>'000 USD</b>	<b>'000 RUB</b>	<b>'000 RUB</b>
Less than one year	2,432	3,717	177,253	209,112
Between one and five years	1,210	2,838	88,199	159,661
More than five years	2,970	1,282	216,437	72,123
	<b>6,612</b>	<b>7,837</b>	<b>481,889</b>	<b>440,896</b>

The Company leases a number of warehouse facilities under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2015, USD 3,904 thousand/ RUB 236,851 thousand was recognised as an expense in profit or loss in respect of operating leases (2014: USD 6,272 thousand/ RUB 237,210 thousand).

The warehouse leases were entered into many years ago as combined leases of land and buildings. Since the land title does not pass, the Company determined that the land lease is an operating lease. The rent paid to the landlord of the building is increased to market rent at regular intervals, and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Company determined that the leases are operating leases.

Despite the fact that the majority of lease contracts stipulate the right of early termination of the contract, the Company has no plans to exercise this right, therefore management treats these contracts as non-cancellable.

There were no proceeds from sublease contracts of the Company's warehouse premises both in 2015 and 2014. In the reporting period an amount of USD 596 thousand/ RUB 36,442 thousand was recognised as other income (2014: USD 885 thousand/ RUB 33,289 thousand) with respect to rent of the Company's own warehouses. All such contracts contain early termination clause.

## 23 Contingences

### (a) Taxation contingencies

The Company operates in the Russian Federation. This note provides background information on the taxation system in those jurisdictions and taxation contingencies of the Company.

#### **Taxation contingencies in the Russian Federation**

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines,

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

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

## **24 Related party transactions**

### **(a) Control relationships**

The Company's ultimate controlling party is Mr. Konobeev Leonid V. as described in note 1(b). The parent company is OJSC Katren.

### **(b) Transactions with management and close family members**

The remuneration of directors and other members of key management who have significant power and responsibilities on strategic decisions of the Company (including the members of the Parent Company' Board of Directors) consist of short-term benefits including salary, bonuses and other compensation for serving on the management bodies.

During the year ended 31 December 2015, key management personnel received the remuneration of USD 6,052 thousand/ RUB 369,775 thousand (2014: USD 2,551 thousand/ RUB 98,228 thousand). Such amounts are stated exclusive of social taxes.

During 2015, the Company didn't acquire available-for-sale investments from the key management personnel (2014: USD 512 thousand/ RUB 21,498 thousand).

As at 31 December 2015, loans to directors in the amount of USD 14 thousand/ RUB 1,000 thousand with the rate at 16% were included in "Loans issued to related parties" (note 12) (31 December 2014: nil).

### **(c) Transactions with other related parties**

Information about related parties' transactions of the Company is presented below.

#### ***Operations with parent company***

During 2013, the Company issued interest-free loan in the amount of USD 32,187 thousand/ RUB 1,025,310 thousand to the parent company maturing in 2016.

As at 1 January 2015, the carrying value of loan due from the parent company amounted to USD 16,099 thousand/ RUB 905,726 thousand.

During 2015, under this agreement new installments in the amount of USD 16,801 thousand/ RUB 1,026,500 thousand were issued. New installments were discounted at the rate of 12% per annum. During 2015, the parent company repaid USD 33,365 thousand/ RUB 2,038,500 thousand ahead-of-schedule. During 2015, discounting of new tranches less unwinding of discounting for amounts repaid ahead-of-schedule in amount of USD 904 thousand/ RUB 45,645 thousand and respective tax effect in amount of USD 181 thousand/ RUB 9,129 thousand were recognized as other

distribution to owners within equity (2014: USD 414 thousand/ RUB 14,285 thousand and USD 83 thousand/ RUB 2,857 thousand accordingly). During 2015, unwinding of discount amounted to USD 1,212 thousand/ RUB 68,386 thousand (2014: USD 2,241 thousand/ RUB 83,956 thousand).

As at 31 December 2015, the carrying value of loans due from the parent company amounted to USD 106 thousand / RUB 7,757 thousand. At the end of 2015 maturity date for that balance was extended to 2019.

As at 31 December 2015, outstanding receivable balance for other operations with the parent company amounted to USD 2 thousand/ RUB 117 thousand (31 December 2014: USD 6 thousand, RUB 321 thousand).

***Operations with investor, having significant influence over the Company and companies controlled by him***

During 2015, the Company acquired available-for-sale investments from the investor, having significant influence over the Company in the amount of USD 12,082 thousand / RUB 640,006 thousand (2014: nil).

During 2015, stated entities repaid loans received earlier in the amount of USD 9,002 thousand / RUB 550,000 thousand (2014: USD 1,299 thousand/ RUB 50,000 thousand). No new loans were issued to stated companies during 2015 (2014: USD 4,506 thousand / RUB 173,500 thousand).

During 2015, interest income on loans issued amounted to USD 1,453 thousand/ RUB 88,757 thousand (2014: USD 2,997 thousand/ RUB 115,401 thousand).

As at 31 December 2015, the outstanding balance of loans due from these entities amounted to USD 5,488 thousand/ RUB 400,000 thousand, plus interest receivable of USD 546 thousand/ RUB 39,799 thousand (31 December 2014: USD 16,886 thousand/ RUB 950,000 thousand and USD 729 thousand/ RUB 41,048 thousand respectively).

As at 31 December 2015 and 31 December 2014, these loans are secured by guarantee of investor, having significant influence over the Company, and pledge of shares of the parent company.

***Operations with entities under common control***

'000 USD	Amount		Outstanding balance: asset / (liability)	
	2015	2014	31 December 2015	31 December 2014
Sale of goods	28,454	30,539	5,942	6,101
Other income	308	357	315	283
Other expenses	(18)	-	-	-
'000 RUB	Amount		Outstanding balance: asset / (liability)	
	2015	2014	31 December 2015	31 December 2014
Sale of goods	1,738,428	1,175,855	433,077	343,245
Other income	18,805	13,749	22,937	15,910
Other expenses	(1,094)	-	(16)	-

During 2015, the Company issued loans to entities under common control in the amount of USD 29,485 thousand/ RUB 1,801,435 thousand (2014: USD 23,749 thousand/ RUB 914,392 thousand). In addition, stated entities repaid loans received earlier in the amount of USD 13,188 thousand / RUB 802,347 thousand (2014: USD 19,245 thousand / RUB 741,000 thousand).

During 2015, interest income on loans amounted to USD 2,459 thousand/ RUB 150,247 thousand (2014: USD 2,757 thousand/ RUB 106,160 thousand).

As at 31 December 2015, the outstanding balance of loans due from the entities under common control amounted to USD 25,472 thousand/ RUB 1,856,456 thousand, plus interest receivable of USD 241 thousand/ RUB 17,563 thousand (31 December 2014: USD 15,240 thousand/ 857,368 thousand and USD 194 thousand/ RUB 10,886 thousand respectively).

As at 31 December 2015, the Company issued financial guarantees for liabilities of related parties which are represented by companies under common control, for a total amount of USD 16,488 thousand/ RUB 1,201,723 thousand, expiring in 2016 - 2020 (31 December 2014: USD 38,786 thousand/ RUB 2,182,038 thousand).

## 25 Events subsequent to the reporting date

In March 2016, dividends in the amount of USD 22,544 thousand (at exchange rate on the date of declaration)/ RUB 1,550,000 thousand were declared.

In April 2016, the Company received additional loan in the amount of USD 8,894 thousand / RUB 600,000 thousand maturing in 2018.

In February 2016, the Company issued additional loan to the related party under common control in the amount of USD 3,348 thousand / RUB 245,000 thousand. Another related party under common control repaid the loan to the Company in the amount of USD 1,107 thousand / RUB 91,100 thousand.

In April 2016, the Company issued a guarantee for the related party under common control for the bank loan in the amount of USD 3,898 thousand / RUB 262,975 thousand.

## 26 Calculation of earnings before interest, taxes, depreciation and amortization (EBITDA)

	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>'000 USD</u>	<u>'000 USD</u>	<u>'000 RUB</u>	<u>'000 RUB</u>
Profit for the year	87,370	60,101	5,438,353	2,472,169
<b>Adjustments:</b>				
Income tax expense	23,337	16,909	1,425,509	690,893
Depreciation and amortization	7,869	9,866	480,762	378,224
Net finance income	(5,788)	(8,208)	(334,268)	(330,740)
Allowance for doubtful debts	5,976	8,253	380,093	364,302
Loss on impairment of property, plant and equipment	2,503	-	164,944	-
Loss on revaluation of investment property on transfer from property, plant and equipment	1,220	-	80,402	-
Write-down of inventories	431	218	24,227	10,636
Employee benefits provision	822	370	50,135	20,127
Loss on disposal of fixed assets	73	126	4,492	4,688
<b>EBITDA</b>	<b><u>123,813</u></b>	<b><u>87,636</u></b>	<b><u>7,614,649</u></b>	<b><u>3,610,300</u></b>

Calculation of EBITDA is not established by IFRS and therefore may not be considered an alternative measure of profit prepared in accordance with IFRS. Management believes that it is appropriate to disclose the EBITDA, since it provides additional information that may be useful to the users of

financial statements. Because there are no uniform rules for calculating the EBITDA, other companies may calculate this measure by other methods and, therefore, performance of different companies may not be comparable.

## **27 Change in accounting policy**

Except for the changes stated below, the Company has consistently applied the accounting policies set out in note 28 to all periods presented in these financial statements.

### **(a) Change in accounting policy**

The Company changed its accounting policy with regard to subsequent measurement of land and buildings from revaluation model to cost model.

Management of the Company consider that such accounting policy provides more reliable and relevant presentation. Revaluation model for land and buildings requires to determine reliably its fair value, however difficulties in selection of similar pharmaceutical warehouses for experts' assessment of fair value lead to significant adjustments of unobservable inputs and, therefore, result in reduction of appraisal reliability. Since the majority of land and buildings were acquired during past few years and its carrying amount had no revaluation taken place insignificantly differs from the revalued amount, management consider that change in accounting policy is consistent with the objectives of financial statements.

The Company applied this change in accounting policy retrospectively. The impact of this change on the comparative information is presented in note 27 (c).

### **(b) Changes in presentation**

Presentation of foreign currency translation differences was changed in the statement of profit or loss and other comprehensive income for the year ended 31 December 2015. Foreign currency translation differences directly related to purchases of goods were reclassified from finance costs to other operating expenses for the purpose of true presentation of information.

Data presented in prior year financial statements and effect of reclassification are disclosed in note 27 (c).





	'000 USD			'000 RUB		
	Presented in prior year financial statements	Adjustments	Restated	Presented in prior year financial statements	Adjustments	Restated
Reserves	(103,526)	(7,507)	(111,033)	200,131	(200,131)	-
Retained earnings	208,621	8,960	217,581	6,929,585	281,848	7,211,433
Other	48,299	-	48,299	1,500,000	-	1,500,000
<b>Total equity</b>	<b>153,394</b>	<b>1,453</b>	<b>154,847</b>	<b>8,629,716</b>	<b>81,717</b>	<b>8,711,433</b>

Effect on the statement of profit or loss and other comprehensive income for the year ended 31 December 2014 was as follows:

	'000 USD			'000 RUB		
	Presented in prior year financial statements	Adjustments	Restated	Presented in prior year financial statements	Adjustments	Restated
Commercial expenses	(106,141)	(185)	(106,326)	(4,138,334)	(8,793)	(4,147,127)
Other expenses	(126)	(277)	(403)	(4,689)	(11,634)	(16,323)
Finance Income	11,078	14	11,092	437,920	645	438,565
Financial expenses	(3,147)	263	(2,884)	(118,814)	10,989	(107,825)
Income tax expense	(16,923)	14	(16,909)	(691,555)	662	(690,893)
Other	175,531	-	175,531	6,995,772	-	6,995,772
<b>Profit for the year</b>	<b>60,272</b>	<b>(171)</b>	<b>60,101</b>	<b>2,480,300</b>	<b>(8,131)</b>	<b>2,472,169</b>
<i>Items that will never be reclassified to profit or loss</i>						
Foreign currency translation differences	(97,691)	(1,121)	(98,812)	-	-	-
<b>Other comprehensive income for the year, net of income tax</b>	<b>(97,691)</b>	<b>(1,121)</b>	<b>(98,812)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>(37,419)</b>	<b>(1,292)</b>	<b>(38,711)</b>	<b>2,480,300</b>	<b>(8,131)</b>	<b>2,472,169</b>

**(d) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2016. Entities are permitted to apply them earlier. The Company has not yet analyzed the likely impact of the improvements on its financial position or performance.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.
- IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.
- IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.

The following new or amended standards are not expected to have a significant impact of the Company' financial statements.

- *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*
- *IFRS 14 Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*

- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*
- *Disclosure Initiative (Amendments to IAS 1).*

## **28 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and are consistent with the accounting policies of the parent company OJSC Katren which performed the financial statements according to the IFRS.

### **(a) Foreign currency**

#### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities are translated to USD at the exchange rates at the reporting date. The income and expenses are translated to USD at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in other comprehensive income. In the statement of changes in equity, such differences are recognised in the foreign currency translation reserve.

### **(b) Financial instruments**

#### **(i) Non-derivative financial instruments**

Non-derivative financial assets comprise investments in equity and debt securities, trade and other receivables, and cash and cash equivalents.

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are

transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

#### ***Loans and receivables***

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses (see note 28(g)(i)).

Loans and receivables category comprise the following classes of financial assets: trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

#### ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 28(h)(i)) and foreign currency differences on available-for-sale debt instruments (see note 28(h)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities.

#### **(ii) *Non-derivative financial liabilities***

All financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

**(c) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other expense" in profit or loss. Upon the sale of the revalued assets any corresponding amount recognized in the revaluation reserve as a "revaluation surplus" is transferred to retained earnings.

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 20 - 50 years,
- Plant and equipment 5 - 10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(d) Investment property**

When a revalued item is sold, the amount included in the revaluation reserve is transferred to retained earnings. Investment property is measured at fair value based on periodic valuation by external independent appraisers. A gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period when it arises.

**(e) Intangible assets**

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the profit or loss as incurred.

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives of other intangible assets for the current and comparative periods are 5-10 years old.

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(f) Leased assets**

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present (discounted) value of the minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognized in the statement of financial position of the Company.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cash and volume discounts and rebates are separately as a reduction in the purchase price of inventory if it is probable that the rebate or volume discount will be earned and the amount can be estimated reliably.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Impairment**

**(i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the

disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment.

In assessing impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**(ii) *Non-financial assets***

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire

amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

**(i) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal obligation or obligation due to established practice to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(j) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal obligation or obligation due to established practice that can be estimated reliably and it is probable that an outflow of economic benefits to settle the obligation.

**(k) Revenue**

All revenues recognized by the Company in 2015 and 2014 relate to revenues from sales of goods.

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of goods, transfer usually occurs upon receipt by the customer.

**(l) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

**(m) Financial income and costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquire. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that



the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

**(n) Foreign currency gains and losses**

Foreign currency gains and losses related to the purchase of goods are reported as other operational cost. Other foreign currency gains and losses are reported as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

**(o) Income tax expense**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(p) Financial Guarantees**

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies under common control, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee

## **29 Determination of fair values**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **(a) Investment property**

Fair value of investment property is determined using market and income approach. Under market approach fair value of land and buildings is determined based on quoted market prices of similar items. Income approach is based on future income from usage of real estate objects.

### **(b) Intangible assets**

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### **(c) Inventories**

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### **(d) Equity and debt securities**

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

### **(e) Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

### **(f) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.