OJSC Rosinter Restaurants Holding

Consolidated financial statements

For the year ended December 31, 2013

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For the year ended December 31, 2013

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Independent auditors' report

To the shareholders of OJSC Rosinter Restaurants Holding

We have audited the accompanying consolidated financial statements of OJSC Rosinter Restaurants Holding and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

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

Ernst & Young LLC

April 24, 2014

OJSC Rosinter Restaurants Holding

Consolidated statement of financial position

At December 31, 2013

(All amounts are in thousands of Russian roubles)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Non-current assets			
Property and equipment	9	1,733,528	1,840,496
Intangible assets	10	107,131	81,828
Goodwill	11	176,153	176,153
Long-term loans due from related parties	13	20,642	17,968
Long-term receivables due from related parties	13	1,577	2,780
Deferred income tax asset	14	167,261	154,402
Rent deposits and other non-current assets		244,040	162,812
		2,450,332	**2,436,439**
Current assets			
Inventories	15	182,924	168,683
VAT and other taxes recoverable		172,783	109,784
Income tax recoverable		43,660	22,063
Trade and other receivables	16	161,614	148,370
Advances paid	17	357,247	215,548
Receivables from related parties	13	53,439	118,556
Short-term loans		19,087	3,001
Short-term loans due from related parties	13	8,994	10,433
Cash and cash equivalents	18	96,008	279,008
		1,095,756	**1,075,446**
Assets held for sale	7	–	19,464
TOTAL ASSETS		**3,546,088**	**3,531,349**
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the parent entity			
Share capital	19	2,767,015	2,767,015
Additional paid-in capital		2,204,190	2,204,190
Treasury shares	19	(413,085)	(413,085)
Other capital reserves		25,941	21,581
Accumulated losses		(4,326,002)	(3,863,253)
Translation difference		(18,165)	(72,626)
		239,894	**643,822**
Non-controlling interests		4,530	12,629
		244,424	**656,451**
Non-current liabilities			
Long-term loans and borrowings	21	1,520,000	479,200
Long-term liabilities to partners	22	19,755	43,476
Deferred income		–	191
Deferred income tax liabilities	14	53,261	72,508
		1,593,016	**595,375**
Current liabilities			
Trade and other payables	23	1,469,448	1,323,167
Short-term loans and borrowings	21	33,940	741,285
Payables to related parties	13	70,917	50,317
Short-term loans due to related parties	13	2,376	4,218
Short-term liabilities to partners	22	15,074	40,517
Deferred income		37,897	47,959
Income tax payable		78,996	72,060
		1,708,648	**2,279,523**
TOTAL EQUITY AND LIABILITIES		**3,546,088**	**3,531,349**

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

OJSC Rosinter Restaurants Holding

Consolidated statement of profit or loss

For the year ended December 31, 2013

(All amounts are in thousands of Russian roubles, unless specified otherwise)

	Notes	2013	2012
Continuing operations			
Revenue	24	9,850,888	10,069,062
Cost of sales	25	(8,156,158)	(8,077,847)
Gross profit		**1,694,730**	**1,991,215**
Selling, general and administrative expenses	26	(1,405,018)	(1,510,917)
Start-up expenses for new restaurants		(191,551)	(97,102)
Other gains	28	62,800	73,782
Other losses	28	(112,161)	(126,851)
Profit from operating activities before impairment		**48,800**	**330,127**
Loss from impairment of operating assets	29	(137,045)	(187,277)
(Loss)/profit from operating activities after impairment		**(88,245)**	**142,850**
Financial income	30	9,912	22,754
Financial expense	30	(168,236)	(192,300)
Foreign exchange gain/(losses), net		22,099	(17,443)
Loss before income tax from continuing operations		**(224,470)**	**(44,139)**
Income tax expense	14	(23,167)	(90,768)
Loss for the period from continuing operations		**(247,637)**	**(134,907)**
Discontinued operations			
Loss after tax for the period from discontinued operations	8	(220,207)	(110,642)
Net loss for the period		**(467,844)**	**(245,549)**
Attributable to:			
Equity holders of the parent entity		(461,899)	(241,930)
Non-controlling interests		(5,945)	(3,619)
Earnings per share	20		
Basic, loss per share		(29.58)	(15.50)
Diluted, loss per share		(28.12)	(14.96)
Earnings per share for continuing operations			
Basic, loss per share from continuing operations		(15.48)	(8.41)
Diluted, loss per share from continuing operations		(14.71)	(8.12)

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

OJSC Rosinter Restaurants Holding

Consolidated statement of other comprehensive income

For the year ended December 31, 2013

(All amounts are in thousands of Russian roubles)

	2013	2012
Net loss for the period	**(467,844)**	**(245,549)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations:		
(Loss)/gain arising during the year	(29,539)	221
Less: reclassification adjustments for losses included in profit or loss	84,000	–
Other comprehensive income for the year, net of tax	**54,461**	**221**
Total comprehensive loss for the year, net of tax	**(413,383)**	**(245,328)**
Attributable to:		
Equity holders of the parent entity	(407,438)	(241,709)
Non-controlling interests	(5,945)	(3,619)

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

OJSC Rosinter Restaurants Holding

Consolidated statement of cash flows

For the year ended December 31, 2013

(All amounts are in thousands of Russian roubles)

	Notes	2013	2012
Operating activities			
Loss before tax from continuing operations		(224,470)	(44,139)
Loss before tax from discontinued operations	8	(220,338)	(110,470)
Adjustments to reconcile loss before tax to net cash provided by operating activities:			
Depreciation and amortization		335,018	376,923
Reclassification adjustments for losses included in profit or loss	8	84,000	–
Foreign exchange (gains) / losses, net		(26,347)	16,495
Financial income		(9,913)	(22,756)
Financial expense		169,398	192,300
(Reversal of impairment) / allowance for impairment of advances paid, taxes recoverable and receivables		(2,704)	63,966
(Reversal of write-down) / write-down of inventories to net realisable value	15	(12,672)	13,692
Loss on disposal of non-current assets		86,819	72,559
Impairment of assets		177,448	224,445
Gain on the disposal of discontinued operation	8	(9,748)	–
Bargain purchase, net of cash acquired		–	(18,247)
Share based payment expenses	31	4,360	3,055
		350,851	**767,823**
Changes in operating assets and liabilities:			
Increase in inventories		(4,010)	(12,515)
Increase in advances, taxes recoverable, receivables, rent deposits and other non-current assets		(339,376)	(38,622)
Decrease/(increase) in receivables from related parties		43,558	(78,401)
Increase in payables to related parties		20,475	26,291
Increase in trade and other payables		145,913	124,338
Net cash generated from operations		**217,411**	**788,914**
Interest paid		(137,582)	(138,838)
Interest received		6,936	20,480
Income tax paid		(84,077)	(74,978)
Net cash flows from operating activities		**2,688**	**595,578**
Investing activities			
Purchases of property and equipment		(427,897)	(287,752)
Proceeds from repayment of loans issued to related parties		400	103,741
Purchase of intangible assets		(75,104)	(31,616)
Loans issued to related parties		(1,190)	(16,926)
Proceeds from disposal of property and equipment		22,097	10,135
Proceeds from repayment of loans issued to third parties		6,821	9,286
Loans issued to third parties		(4,347)	–
Net outflow from cash and cash equivalents in respect of disposal subsidiaries		(6,850)	–
Net cash flows used in investing activities		**(486,070)**	**(213,132)**

Continued on the next page

Consolidated statement of cash flows (continued)

	Notes	2013	2012
Financing activities			
Proceeds from bank loans		3,262,007	1,242,568
Repayment of bank loans		(2,928,484)	(1,522,377)
Payments to partners	22	(32,096)	(54,280)
Repayment of related party loans		(1,842)	(1,023)
Proceeds from related party loans		940	–
Proceeds from sale of treasury shares		–	3,647
Repayment of lease obligations		(138)	(553)
Dividends paid to shareholders		(1,985)	(1,967)
Net cash flows from financing activities		**298,402**	**(333,985)**
Effect of exchange rate on cash and cash equivalents		1,980	(3,354)
Net (decrease)/increase in cash and cash equivalents		**(183,000)**	**45,107**
Cash and cash equivalents at beginning of the year		**279,008**	**233,901**
Cash and cash equivalents at end of the year		**96,008**	**279,008**

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

OJSC Rosinter Restaurants Holding

Consolidated statement of changes in equity

For the year ended December 31, 2013

(All amounts are in thousands of Russian roubles, unless specified otherwise)

	Attributable to equity holders of the parent entity								
	Share capital	Additional paid-in capital	Treasury shares	Other capital reserves	Accumulated losses	Translation difference	Total	Non-controlling interests	Total equity
At January 1, 2013	**2,767,015**	**2,204,190**	**(413,085)**	**21,581**	**(3,863,253)**	**(72,626)**	**643,822**	**12,629**	**656,451**
Net loss for the year	–	–	–	–	(461,899)	–	**(461,899)**	(5,945)	**(467,844)**
Other comprehensive loss for the year	–	–	–	–	–	54,461	**54,461**	–	**54,461**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(461,899)**	**54,461**	**(407,438)**	**(5,945)**	**(413,383)**
Share based payment transactions *(Note 31)*	–	–	–	4,360	–	–	**4,360**	–	**4,360**
Disposal of non-controlling interest in subsidiary	–	–	–	–	(850)	–	**(850)**	850	–
Dividends	–	–	–	–	–	–	**–**	(3,004)	**(3,004)**
At December 31, 2013	**2,767,015**	**2,204,190**	**(413,085)**	**25,941**	**(4,326,002)**	**(18,165)**	**239,894**	**4,530**	**244,424**
At January 1, 2012	**2,767,015**	**2,204,816**	**(416,732)**	**18,526**	**(3,621,323)**	**(72,847)**	**879,455**	**18,596**	**898,051**
Net loss for the year	–	–	–	–	(241,930)	–	**(241,930)**	(3,619)	**(245,549)**
Other comprehensive gain for the year	–	–	–	–	–	221	**221**	–	**221**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(241,930)**	**221**	**(241,709)**	**(3,619)**	**(245,328)**
Proceeds from sale of treasury shares	–	(626)	3,647	–	–	–	**3,021**	–	**3,021**
Share based payment transactions *(Note 31)*	–	–	–	3,055	–	–	**3,055**	–	**3,055**
Dividends	–	–	–	–	–	–	**–**	(2,348)	**(2,348)**
At December 31, 2012	**2,767,015**	**2,204,190**	**(413,085)**	**21,581**	**(3,863,253)**	**(72,626)**	**643,822**	**12,629**	**656,451**

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

1. Corporate information

OJSC Rosinter Restaurants Holding (the "Company") was registered as a Russian open joint stock company on May 24, 2004. The registered and headquarter address of the Company is at 7 Dushinskaya str., Moscow, 111024, Russia. As of December 31, 2013, the Company's controlling shareholder was RIG Restaurants Limited, a limited liability company (the "Parent") (formerly known as Rostik Restaurants Limited) incorporated under the laws of Cyprus. RIG Restaurants Limited is under the ultimate control of Mr. Rostislav Ordovsky-Tanaevsky Blanco.

OJSC Rosinter Restaurants Holding and its subsidiaries (the "Group") is one of the leading casual dining operators in Russia by number of restaurants and by revenue. The Group's business is focused on serving the most popular cuisines in Russia: Italian, Japanese, American and local Russian cuisine.

Other revenue of the Group represents revenue from the network of independent franchisees in Moscow and throughout Russia and the CIS, sublease and other services and revenues from canteens.

The consolidated financial statements of the Company for the year ended December 31, 2013 were approved for issue by the President and CEO of OJSC Rosinter Restaurants Holding on April 23, 2014.

The Group derives revenue in the territory of Russia, CIS countries and European countries. For the years 2013 and 2012, the revenue from the Russian market was approximately 92% and 87% of total revenues, respectively. The non-current assets of Group's subsidiaries operating in the Russian market were approximately 91% and 88% of total non-current assets of the Group for the years ended December 31, 2013 and 2012, respectively. The second largest market on revenue of total revenues was Kazakhstan with 3% and 4% at December 31, 2013 and 2012, respectively.

On June 13, 2012 the Group acquired the remained 50% of Rosworth Investments Limited, which operates Costa Coffee outlets ("coffee outlets") in the Russian Federation through its subsidiary Brava LLC *(Note 6).*

As at December 31, 2013 the Group accomplished reorganisation and Brava LLC was joined to the Rosinter Restaurants LLC

During December, 2013 the Group sold the subsidiaries in the Ukraine, Hungary and Czech Republic *(Note 8).*

The Company had a controlling ownership interest, directly or indirectly, in the following principal subsidiaries:

		2013	2012
Entity	**Country of incorporation**	**% Ownership**	**% Ownership**
Rosinter Restaurants LLC	Russia	100.00%	100.00%
Rosinter Restaurants Sibir LLC	Russia	100.00%	100.00%
Rosinter Restaurants Perm LLC	Russia	51.00%	51.00%
Rosinter Restaurants Ekaterinburg LLC	Russia	51.00%	51.00%
Rosinter Restaurants Samara CJSC	Russia	100.00%	100.00%
BelRosInter LLC	Belarus	93.00%	93.00%
Rosinter Almaty LLP	Kazakhstan	90.00%	90.00%
Rosinter Ukraine LLC	Ukraine	–	51.00%
RIGS Services Limited	Cyprus	100.00%	100.00%
Rosinter Czech Republic s.r.o.	The Czech Republic	–	100.00%
Rosinter Polska Sp. z o.o.	Poland	100.00%	100.00%
Rosinter Hungary Kft	Hungary	–	100.00%

2. Going concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business.

The Group's current liabilities as of December 31, 2013, of RUB 1,708,648 (RUB 2,279,523 as of December 31, 2012) exceeded its current assets by RUB 612,892 (RUB 1,204,077 as of December 31, 2012). The net current liability position primarily results from trade and other payables in the amount RUB 1,469,448. As of December 31, 2012, the net current liability position primarily resulted from trade and other payables and current portion of long-term loans amounting to RUB 1,323,167 and RUB 741,285, respectively. During the year ended December 31, 2013, net cash generated from operations amounted to RUB 217,411 (2012: RUB 788,914).

Group management believes that it is appropriate to prepare the financial statements on a going concern basis due to the following:

- Additional sources of financing are available to the Group:

  As at December 31, 2013, the unutilized balance of Sberbank credit facility maturing in March 24, 2016 amounted to RUB 100,000.

  On January 16, 2014, the Group entered into a short term credit facility agreement with MKB, CJSC in the amount of RUB 150,000, bearing interest of 9.5% per annum and maturing in April 17, 2014.

  On January 31, 2014, the Group entered into a credit facility agreement with VTB OJSC in the amount of RUB 700,000 bearing interest of 9.10% per annum and maturing in January 30, 2017.

- The Group is continuing to negotiate with banks to ensure the ongoing availability of credits necessary to fund future planned capital expenditures and operations as necessary. Such ongoing negotiations include managing the Group's compliance with covenants which are included in existing debt agreements *(Note 21)* and reducing the covenants which the Group will need to comply with in the future in order to maintain its existing funding. The Group regularly monitors the compliance with loan covenants and believes that it will meet all of them on June 30, 2014 and December 31, 2014. The sensitivity analysis of the lowest Debt/EBITDA ratio shows that this ratio will not be met if EBITDA will be lower by approximately RUB 150,000 than forecasted for the six month ended June 30, 2014.

- Net cash generated from operations included rent prepayment in the amount of RUB 209,283, which would decrease rent payments and thus support net cash from operations in 2014 by the same amount.

- The net loss for the year ended December 31, 2013 amounted to RUB 467,844 primarily resulted from loss from discontinued operations in the Ukraine, Hungary and Czech Republic *(Note 8)*, increased expenses on new restaurants opening and impairment.

- Management has introduced enhanced operational initiatives designed to improve the Group's liquidity. Actions implemented include, among others, capital expenditure process, an improvement in the business economics through savings in labour and food and beverage costs. The current economic situation has also allowed the Group to negotiate rent decrease.

- The Group is able to reduce its planned capital expenditures, sell certain non-core assets and not pay bonuses to management which in aggregate would be sufficient to cover any working capital deficit that may occur.

Therefore, management believes in the Group's ability to operate as a going concern, and settle its debts as and when they fall due.

2. Going concern (continued)

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary if such additional resources are not available and the Group is unable to continue as a going concern.

3. Basis of preparation of financial statements

Statement of compliance

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

Basis of preparation

Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which they are incorporated and registered. Accounting policies and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for such financial statements to be presented in accordance with the standards and interpretations prescribed by the IASB.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies in *Note 4*.

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2013. The new/revised standards and interpretations mandatory for financial year beginning on or after January 1, 2013 are the following:

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

Amendments to IAS 1 *Presentation of Financial Statements* (issued June 2011, effective for annual periods beginning on or after July 1, 2012), changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements).The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. As far as the Group does not offset the financial instruments in accordance with IAS 32 and does not have netting agreements falling within the scope of the amendment, it has no impact on the Group.

3. Basis of preparation of financial statements (continued)

Changes in accounting policy and disclosures (continued)

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 has no impact on financial statement disclosures, as the Group has previously disclosed information as required by IFRS 12.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The use of IFRS 13 does not have a significant impact on the fair value measurement determined by the Group.

IAS 16 Property, Plant and Equipment (Amendment)

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

Improvements to International Financial Reporting Standards – 2011-2013 Cycle

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

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

The amendments have no impact on the Group's financial position or performance.

3. Basis of preparation of financial statements (continued)

Standards issued but not yet effective for 2013

The Group has not applied the following standards and amendments that have been issued but are not yet effective:

- IFRS 9 *Financial Instrument: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015);
- IAS 32 *Offsetting Financial Assets and Financial Liabilities* − Amendments to IAS 32 (effective for annual periods beginning on or after January 1, 2015);
- Annual Improvements to IFRSs (December 2013) (effective for annual periods beginning on or after January 1, 2014).

The impact of adoption of these Standards and Interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management, but Group's management believes that the adoption will have no material impact on the Group's financial position or performance.

4. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

4. Significant accounting policies (continued)

Basis of consolidation (continued)

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

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

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

Business combinations

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

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

If the business combination is achieved in stages the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

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

4. Significant accounting policies (continued)

Business combinations (continued)

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

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

Current versus non-current classification

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

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

All other assets are classified as non-current. A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Functional and presentation currency

The Group's consolidated financial statements are presented in Russian roubles, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. All financial information presented in RUB has been rounded to the nearest thousand unless otherwise stated.

The translation of the financial statements from the functional currency to the presentation currency is done in accordance with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The assets and liabilities of the subsidiaries which use local currencies as the functional currency are translated into the presentation currency at the rate of exchange ruling at the reporting date, and their transactions are translated at the weighted average exchange rates for the year. Equity items, other than the net profit or loss for the year that is included in the balance of accumulated profit or loss, are translated at the historical exchange rate effective at the date of transition to IFRS. Equity transactions measured in terms of historical cost in a functional currency are translated using the exchange rates at the date of the transaction. The exchange differences arising on the translation are recognised in other comprehensive income or loss.

4. Significant accounting policies (continued)

Functional and presentation currency (continued)

Transactions in foreign currencies in the Company and each subsidiary are initially recorded in the functional currency at the rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the rate of exchange ruling at the reporting date. All resulting differences are recorded as foreign currency exchange gains or losses in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets other than those measured at fair value through profit or loss, are recognised initially, they are measured at fair value, plus directly attributable transaction costs. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Subsequent measurement

The measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit and loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. During the years ended December 31, 2013 and 2012, the Group did not hold any investments in this category.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. During the years ended December 31, 2013 and 2012, the Group did not hold any investments in this category.

4. Significant accounting policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in income statement in finance cost.

Available-for-sale financial investments

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in finance income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement. As at December 31, 2013 and 2012, the Group had no available-for-sale financial assets.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: (i) the rights to receive cash flows from the asset have expired; or (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

4. Significant accounting policies (continued)

Financial assets (continued)

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

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

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For amounts due from loans and receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group, if, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

4. Significant accounting policies (continued)

Financial assets (continued)

In the case of equity investments classified as available-for-sale objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Property and equipment

Property and equipment are recorded at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment. At each reporting date, management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on property and equipment principally on a straight-line basis from the time the assets are available for use, over the following estimated economic useful lives:

Description	**Useful life, years**
Leasehold improvements	10
Buildings	10-30
Restaurant equipment	4-10
Computer equipment and electronics	4
Office furniture and fixtures	10
Vehicles	5-10

Depreciation attributable to restaurants is presented in cost of sales; other depreciation is presented within selling, general and administrative expenses in the consolidated income statement. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognised.

4. Significant accounting policies (continued)

Property and equipment (continued)

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised if it can be clearly demonstrated that they extend the life of the asset or significantly increase its revenue generating capacity beyond its originally assessed standard of performance, and the assets replaced are derecognised. Gains and losses arising from the retirement or disposal of property and equipment are included in the consolidated income statement as incurred.

Assets under construction are stated at cost which includes cost of construction and equipment and other direct costs, less impairment, if any. Assets under construction are not depreciated until the constructed or installed asset is ready for its intended use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives from 4 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisations periods are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset. The following specific amortisation terms are applied for each type of intangible asset:

The Group capitalises franchise lump sums paid to T.G.I. Friday's Inc. for each new restaurant opened by the Group under "T.G.I. Friday's" brand name. Also the Group capitalises franchise lump sums paid to and Costa International Limited for each new coffee outlets opened under "Costa" brand name. Such franchise lump sums are amortised on a straight-line basis over the franchise contractual period of 15 years.

The Group has exclusive rights to lease and sublease a number of restaurant premises. These rights are accounted for at cost and are amortised on a straight-line basis over the useful life period, generally from 4 to 10 years. Software development costs are capitalised in accordance with requirements of IAS 38 *Intangible Assets* at cost and are amortised on a straight-line basis over their estimated useful lives, generally four years.

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. As at the acquisition date any goodwill acquired in acquisitions is allocated to each of the cash-generating units (CGU) or groups of cash-generating units expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units.

4. Significant accounting policies (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The carrying amount of goodwill at December 31, 2013 and 2012 was RUB 176,153.

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

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

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

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

The Group has used the following key assumptions in its cash flow projections:

Growth rates – Average growth rates used in cash flow projections are independent estimates of country's expected Gross Domestic Product (GDP) growth for the projected period.

Inflation – Estimates of consumer price indices obtained from reliable external researches.

Salaries growth rate – Internal estimates are calculated on Group's statistics of real salaries growth rates and published consumer price indices forecasts.

Discount rates – Current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC).

4. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Inventories

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realisable value. Cost of inventory is determined on the weighted-average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories recognised as an expense and reported as a component of cost of sales in the Income statement in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories recognised as an expense in the same components of the Income statement in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Value added tax

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

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

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

Receivables

Receivables, which generally have a short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts. Impaired debts are derecognised when they are assessed as uncollectible.

4. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand, cash in transit and short-term deposits with an original maturity of three months or less.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the reporting date but before approval of the financial statements are not recognised as a liability at the reporting date in accordance with IAS 10 *Events after the Reporting Period*.

Treasury shares

Own equity instruments which are reacquired by the Group ("treasury shares") are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Treasury shares are not recognised as a financial asset regardless of the reason for which they are reacquired.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the income statement. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

4. Significant accounting policies (continued)

Financial liabilities (continued)

Loans and borrowings

Loans and credit facilities are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and credit facilities are measured at amortised cost using the effective interest rate method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the loan.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Liabilities to partners

Before 2007, the Group entered into partnership agreements with third parties (the "partners") in respect of opening and operating the restaurants. In accordance with the partnership agreements, the partners have the right to obtain a share in profits of a particular restaurant or group of restaurants in return for their initial cash investments into the restaurants. The Group manages the operations of the restaurants. The Group recognises all assets and liabilities of the restaurants in the Group's consolidated financial statements as well as all income and expenses from their operations. In addition, the Group recognises a liability to partners under the partnership agreements.

Some of the Group's subsidiaries in Russia and CIS are incorporated in the legal form of limited liability companies (LLC) and have several participants (or partners). Each participant has a right to a dividend distribution proportional to its ownership interest. In addition to the contribution to the charter capital the partners provided LLCs with interest-bearing or interest-free loans which are linked to their ownership interest in a LLC. If a participant decides to exit the LLC, the company is obliged to repay the actual value of the participant's interest which is determined as its proportional share of net assets reported in the local statutory accounts. Therefore, the partners' interest in these LLCs and loans provided are classified as a liability to partners in the Group's consolidated statement of financial position.

At initial recognition, the liability to partners is recognised at its fair value which is equal to the initial cash investment of the partner. Subsequently, the liability to partners is measured at amortised cost which is calculated as the net present value of the estimated future payments to the partner using an effective interest method and any unwinding of the discount is reflected in the income statement as a finance charge. If the estimates of the future cash payments to the partner change, the carrying amount of the liability is recalculated by computing the present value of estimated future cash flows at the effective interest rate. The adjustment is recognised as finance income or expense in the consolidated income statement. The income attributed to the partners is presented as a finance expense in the consolidated income statement.

The differences between the carrying values of partners liabilities relating to acquired ownership interest and the consideration paid to acquire ownership interest are recognised as financial expense.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

4. Significant accounting policies (continued)

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded on active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Depending on contractual terms, the operating lease payment amounts are calculated for each restaurant as either a percentage of revenue with a minimum fixed monthly payment or as a fixed monthly payment. Some lease agreements contain escalation clauses.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

4. Significant accounting policies (continued)

Revenue recognition

Revenues are recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or receivable and comprise amounts received following direct sales in restaurant and amounts received or receivable from franchise holders, net of any rebates, VAT and other sales taxes.

The following specific recognition criteria must also be met before revenue is recognised:

Revenues from restaurants and canteens

Restaurant and canteens revenues are recognised when food and beverages are served. Revenues from food distribution are recognised upon delivery to the customers. Revenues are recognised at fair value of consideration received or receivable for meals and services delivered, net of value added tax charged to customers.

Franchise revenues

Franchise revenues comprise fixed franchise fees and continuing royalty fees, which are charged for the right to use certain of the Group's intellectual property granted by the franchise agreements and for other services provided during the period of the agreement. Franchise fees are recognised as revenues as the rights are granted. Royalty fee from an individual licensee is recognised as a percentage of its revenue over the period of the agreement. Royalty fees are reported as franchise revenue when the fees are earned and become receivable.

Sublease revenues

The Group leases certain premises. Parts of these premises are subleased to third parties. Sublease revenues are recognised over the lease terms.

Interest income

For all financial instruments measured at amortised cost interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Borrowing costs

Borrowing costs of the Group include interest on bank overdrafts, short-term, long-term credit facilities and bonds. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated as the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. For the years ended December 31, 2013 and 2012, capitalized borrowings costs were nil.

4. Significant accounting policies (continued)

Start-up expenses for new restaurants

Start-up expenses for new restaurants represent costs related to the opening of new restaurant premises. Such expenses include rent and payroll expenses, new personnel training and other overhead expenses that arise before the opening of new restaurants. Start-up expenses for new restaurants are recognised as operating expense in the accounting period the related work was performed.

Employee benefits

The Company accrues for the employees' compensated absences (vacations) as the additional amount that the Company expects to pay as a result of the unused vacation that has accumulated at the reporting date.

Under provision of the Russian legislation, social contributions are calculated by the Group by the application of a regressive rate (from 30% to 10%) to the annual gross remuneration of each employee. The Group allocates the social benefits to three social funds (state pension fund, social and medical insurance funds), where the rates of contributions to the pension fund varies from 22% to 10% depending on the annual gross salary of each employee. The Group's social contributions are expensed in the year to which they relate. Total social contributions amounted to RUB 608,442 and RUB 551,675 during the years ended December 31, 2013 and 2012, respectively, and they were classified as payroll expenses in these consolidated financial statements.

Share based payments

In April 2010, the Group adopted a Share Appreciation Rights Program (SARP) under which certain top managers and directors of the Group will receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period *(Note 31)*.

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

Loyalty programmes

Customer loyalty programmes are used by the Group to provide customers with award credits as part of a sales transaction, including awards that can be redeemed for goods and services not supplied by the entity. The Group company collecting the consideration on behalf of the third party measures its revenue as the net amount retained on its own account. The Group company acting as an agent for a third party recognises revenue arising from rendering agency services to that third party as revenue from rendering services.

The Group uses the "Honoured Guest" and "Malina" loyalty programmes to build brand loyalty, retain its valuable customers and increase sales volume. The programmes are designed to reward customers for past purchases and to provide them with incentives to make future purchases. Each time a customer buys meals in one of the Group's restaurants, the Group grants the customer loyalty award credits and recognises these award credits as deferred income at fair value.

4. Significant accounting policies (continued)

Loyalty programmes (continued)

The "Honoured Guest" programme operates mainly in Siberia and a customer can redeem the award credits as they are granted for free meals. The "Malina" programme operates in Moscow region and a customer using this programme can redeem the award credits as they are granted for getting goods and services listed in a special catalogue and provided by a programme operator.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences at the reporting date using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Deferred income tax is charged or credited to the income statement, except when it relates to items recognised outside profit or loss, in which case the deferred tax is also recognised in the statement of comprehensive income or directly in equity.

4. Significant accounting policies (continued)

Taxes (continued)

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxable authority.

Unified tax on imputed income and simplified taxation system

Certain restaurants of the Group's subsidiaries located outside the Moscow region with restaurants meeting specified criteria are subject to unified tax on imputed income or simplified tax paid instead of corporate income tax, value added tax, property tax . According to the Russian Tax Code companies engaged in restaurant and catering services are subject to unified tax if a trading area of a restaurant does not exceed 150 square meters. Imputed income is calculated as a fixed amount of imputed income per square meter of a trading area specified by the Russian Tax Code and respective regional/local authorities. Unified tax on imputed income is fixed at 15% of imputed income. If a trading area of a restaurant exceeds 150 square meters than restaurants are subject to simplified taxation system. In accordance with simplified taxation system, tax is calculated as 6% of revenue or 15% of profit. For the years 2013 and 2012, the share of revenues subject to unified tax on imputed income and tax under simplified taxation system amounted to approximately 16% and 14%, respectively.

The Group recognises the unified tax on imputed income and the simplified tax as other general and administrative expenses in its consolidated income statement. For the years ended December 31, 2013 and 2012, the unified tax on imputed income and the simplified tax amounted to RUB 19,379 and RUB 15,168, respectively.

5. Significant accounting judgements, estimates and assumptions

On an on-going basis, management of the Group evaluates its estimates and assumptions. Management of the Group bases its estimates and assumptions on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the Group's consolidated financial statements actual results may vary from these estimates.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of lease agreements

A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is longer than 75% of the economic life of the asset, or if at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

5. Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

Operating lease terms

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. When determining the lease term, the Group includes the option periods which relate to its preferential right to renew the lease agreement under the Civil Code of the Russian Federation provided the Group has complied with the lease agreement terms (all other conditions being equal). Preferential right arises if the lessor refused to enter into a lease agreement with the lessee for a new term, but within one year from the date of expiration of the lease agreement with the lessee entered into a lease agreement with a third party. In such case the lessee is entitled to claim through the court the transfer to him of the rights and responsibilities under such an agreement and compensation of damages caused by refusal to renew the lease agreement and/or to claim above damages only. Preferential right does not exist if the lessor decides not to continue leasing the property.

Partnership agreements

Before 2007, in order to raise capital for the development of its restaurants in the Moscow region, the Group entered into a number of partnership agreements. The Group has determined that, under the terms of the partnership agreements, it maintains full control of the restaurants business while partners gain a share in the profits of the restaurants.

Estimates and assumptions

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

Useful lives of property and equipment

The Group assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognised in profit or loss.

Impairment of non-financial assets

Generally, the Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, which is determined as the higher of an assets fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In determining fair value less costs to sell, an appropriate valuation model is used. For the years ended December 31, 2013 and 2012, the Group recognised impairment losses amounted to RUB 137,045 and RUB 187,277 respectively.

5. Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Impairment of goodwill

The Group's impairment test for goodwill is based on value in use calculations for cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There is no impairment loss of goodwill for the years ended December 31, 2013 and 2012.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Allowance for impairment of advances paid, taxes recoverable and receivables

Management maintains an allowance for impairment for doubtful advances paid and receivables to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group, inability of franchisees to settle their debts and unrecoverable taxes. When evaluating the adequacy of an allowance for impairment of advances paid, taxes recoverable and receivables, management bases its estimates on specific analysis of the major outstanding prepayments, taxes recoverable and accounts receivable balances and historical write-off experience. If the financial condition of those suppliers or franchisees were to deteriorate, actual write-offs might be higher than expected. As of December 31, 2013 and 2012, the allowance for impairment of advances paid, taxes recoverable and receivables amounted to RUB 49,183 and RUB 58,034, respectively.

Write-down of inventories to net realisable value

Management of the Group regularly reviews the need to provide for slow moving or damaged inventory based on monthly aging and inventory turnover report as well as based on physical inventory observation. As of December 31, 2013 and 2012, write-down of inventories to net realisable value amounted to RUB 39,613 and RUB 52,382, respectively.

Current taxes

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

Deferred tax assets

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

6. Business combinations

Acquisition of Rosworth Investments Limited

On June 13, 2012 the Group acquired 50% of shares of Rosworth Investments Limited ("Rosworth") for a total consideration of 1 US dollar (32.59 Russian roubles at the exchange rate on June 13, 2012), an unlisted company based in Cyprus. Up to June 13, 2012 Rosworth was the Group's joint venture accounted for using the equity method, investment in which was fully impaired at the date of acquisition. Rosworth holds 100% of shares of Brava LLC ("Brava"), an unlisted company based in Russian Federation, operating Costa Coffee outlets. Prior to the acquisition the Group issued a number of loans to Rosworth with the total carrying amount of RUB 92,267 and the fair value of RUB 92,267 at the acquisition date.

The acquisition of Rosworth resulted in gain on bargain purchase in the amount RUB 34,369 which was recognized as other gains in consolidated income statement of the Group. The Group recognized gain on bargain purchase due to successful negotiations with Costa Limited. The acquisition was held in accordance with expected synergies from combining assets and activities of the acquired company with those of the Group.

The fair value of the acquired identifiable assets, liabilities and contingent liabilities at the acquisition date was:

	June 13, 2012
Fair value	
Property and equipment	59,795
Deferred income tax asset	45,333
VAT and other taxes recoverable	3,014
Income tax recoverable	106
Trade and other receivables	11,214
Advances paid	12,377
Cash and cash equivalents	16,122
Receivables from related parties	4,472
Inventories	3,698
Other non-current assets	6,760
Total assets	**162,891**
Trade and other payables	35,656
Deferred income tax liabilities	599
Total liabilities	**36,255**
Total identifiable net assets	**126,636**
Gain on bargain purchase	34,369
Fair value of previously held equity interest	–
Purchase consideration transferred	92,267
- in cash	0*
- fair value of loans issued by the Group to Rosworth	92,267

Cash flow on acquisition was as follows:

	June 13, 2012
Net cash acquired with the subsidiary	16,122
Cash paid	0*
Net cash inflow	**16,122**

* 1 US dollar (32.59 Russian roubles at the exchange rate at June 13, 2012).

6. Business combinations (continued)

Acquisition of Rosworth Investments Limited (continued)

The fair value and net book value of property and equipment amounted to RUB 59,795. The revenue and net profit for the period from June 13, 2012 to December 31, 2012 were consolidated by the Group in the amount of RUB 161,629 and RUB 6,232 respectively. If the acquisition of the Rosworth had occurred on January 1, 2012, the Group would have consolidated revenue amounted to RUB 379,028.

7. Assets held for sale

As of December 31, 2012 the management of Group came to decision to sell assets of 7 restaurants in Omsk and as of December 31, 2012 the assets were classified as assets held for sale. In April 2013 the bargain was fully completed and assets disposed to a third party at a consideration, which approximates their carrying amount at this date. The result of this disposal was included into loss on disposal of non-current assets (Note 28).

The carrying amounts of assets held for sale are presented below:

	December 31, 2012
Property and equipment	17,776
Intangible assets	5
Inventories	1,683
Total assets	**19,464**

8. Discontinued operations

In September the Group came to decision to sell Rosinter Czech Republic s.r.o., Rosinter Andel s.r.o., Rosinter Hungary Kft and Rosinter Ukraine LLC subsidiaries with ownership interest as 100%, 100%, 100% and 51%, respectively. In December, 2013 the negotiations were completed and the Group sold the subsidiaries for 3 US dollar (98.19 Russian roubles at the exchange rate at December 31, 2013) to an entity under common control. In 2013 a disposed business was classified as discontinued operations and its results for the year are presented below:

	2013	**2012**
Revenue	446,075	497,551
Cost of sales	(480,229)	(510,114)
Gross loss	(34,154)	(12,563)
Selling, general and administrative expenses	(58,871)	(55,460)
Other gains	3,966	2,980
Other losses	(19,711)	(9,211)
Impairment loss recognised related to discontinued operations	(40,403)	(37,168)
Finance (expenses)/income, net	(1,161)	2
Foreign exchange (loss)/gains, net	4,248	948
Loss before tax from discontinued operation	**(146,086)**	**(110,470)**
Gain on the disposal of discontinued operation	9,748	–
Reclassification adjustments for losses included in profit or loss	(84,000)	–
Net loss before tax from discontinued operations	**(220,338)**	**(110,470)**
Income tax benefit/(expense) related to current pre-tax loss	131	(172)
Loss after tax from discontinued operations	**(220,207)**	**(110,642)**
Earnings per share for discontinued operations		
Loss per share, basic	14.10	7.09
Loss per share, diluted	13.41	6.84

8. Discontinued operations (continued)

Summarized financial information relating to the disposal of business is shown in table below:

	As the date of disposal
Non-current assets	4,476
Currents assets	25,926
Non-current liabilities	(3,055)
Current liabilities	(40,274)
Total net assets	**(12,927)**
Other expenses on disposal	3,179
Gain on the disposal of discontinued operation	**(9,748)**

The net cash flows incurred by discontinued operations are presented below:

	2013	2012
Operating	(74,043)	(87,625)
Investing	(10,106)	(4,540)
Financing	714	–
Net cash outflow	**(83,435)**	**(92,165)**

9. Property and equipment

The movement in property and equipment for the year ended December 31, 2012 was as follows:

	Buildings and leasehold improve-ments	Restaurant equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost							
At December 31, 2011	**2,404,679**	**1,042,017**	**209,115**	**271,662**	**32,444**	**199,979**	**4,159,896**
Additions	62	23,912	839	–	–	262,939	**287,752**
Assets acquired in business combination	26,282	21,861	662	10,348	–	642	**59,795**
Assets put into use	143,627	139,169	19,273	37,311	2,407	(341,787)	–
Disposals	(187,838)	(93,542)	(14,769)	(21,888)	(2,730)	(44,968)	**(365,735)**
Assets held for sale *(Note 7)*	(15,024)	(8,498)	(2,438)	(2,324)	–	–	**(28,284)**
Translation difference	(7,592)	(7,884)	(818)	(2,852)	(76)	(39)	**(19,261)**
At December 31, 2012	**2,364,196**	**1,117,035**	**211,864**	**292,257**	**32,045**	**76,766**	**4,094,163**
Accumulated depreciation and impairment							
At December 31, 2011	**(1,360,039)**	**(328,209)**	**(167,178)**	**(125,862)**	**(11,709)**	**(43,044)**	**(2,036,041)**
Charge for the year	(188,513)	(69,824)	(20,815)	(23,846)	(2,937)	–	**(305,935)**
Disposals	155,308	51,664	13,645	16,838	1,600	39,907	**278,962**
Impairment of property and equipment	(133,569)	(60,040)	(2,800)	(14,392)	435	(4)	**(210,370)**
Assets held for sale *(Note 7)*	5,515	2,434	1,642	917	–	–	**10,508**
Translation difference	4,308	2,950	533	1,376	36	6	**9,209**
At December 31, 2012	**(1,516,990)**	**(401,025)**	**(174,973)**	**(144,969)**	**(12,575)**	**(3,135)**	**(2,253,667)**
Net book value							
At December 31, 2011	**1,044,640**	**713,808**	**41,937**	**145,800**	**20,735**	**156,935**	**2,123,855**
At December 31, 2012	**847,206**	**716,010**	**36,891**	**147,288**	**19,470**	**73,631**	**1,840,496**

9. Property and equipment (continued)

The movement in property and equipment for the year ended December 31, 2013 was as follows:

	Buildings and leasehold improve-ments	Restaurant equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost							
At December 31, 2012	**2,364,196**	**1,117,035**	**211,864**	**292,257**	**32,045**	**76,766**	**4,094,163**
Additions	–	12,854	–	–	–	411,493	**424,347**
Assets put into use	108,516	97,639	19,575	45,605	10,193	(281,528)	**–**
Disposals	(199,722)	(113,751)	(27,140)	(37,148)	(1,852)	(3,960)	**(383,573)**
Discontinued operation	(163,170)	(83,849)	(13,654)	(15,380)	(713)	101	**(276,665)**
Other movements	–	–	–	–	–	21,302	**21,302**
Translation difference	7,664	5,239	563	1,914	–	34	**15,414**
At December 31, 2013	**2,117,484**	**1,035,167**	**191,208**	**287,248**	**39,673**	**224,208**	**3,894,988**
Accumulated depreciation and impairment							
At December 31, 2012	**(1,516,990)**	**(401,025)**	**(174,973)**	**(144,969)**	**(12,575)**	**(3,135)**	**(2,253,667)**
Charge for the year	(171,369)	(76,383)	(17,014)	(26,582)	(3,307)	–	**(294,655)**
Disposals	183,677	68,312	26,502	27,993	1,023	–	**307,507**
Impairment of property and equipment	(64,678)	(52,390)	(3,848)	(19,542)	–	(427)	**(140,885)**
Discontinued operation	145,641	56,760	13,275	14,013	117	(531)	**229,275**
Translation difference	(5,252)	(2,342)	(402)	(1,035)	(2)	(2)	**(9,035)**
At December 31, 2013	**(1,428,971)**	**(407,068)**	**(156,460)**	**(150,122)**	**(14,744)**	**(4,095)**	**(2,161,460)**
Net book value							
At December 31, 2012	**847,206**	**716,010**	**36,891**	**147,288**	**19,470**	**73,631**	**1,840,496**
At December 31, 2013	**688,513**	**628,099**	**34,748**	**137,126**	**24,929**	**220,113**	**1,733,528**

Property and equipment was tested for impairment as part of cash generating units without goodwill as of December 31, 2013 as impairment indicators were in place. The Group recognised impairment losses of property and equipment for the year ended December 31, 2013, in the amount of RUB 140,885 as the recoverable amount of these assets is less than carrying amount at the same date. During the year ended December 31, 2012, the Group recognised impairment losses of property and equipment in the amount of RUB 210,370. No impairment was recognised for cash generating units with goodwill.

The accumulated impairment loss of property and equipment amounted to RUB 346,389 and RUB 396,805 as of December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012 gross carrying amount of fully depreciated property, plant and equipment that were still in use amounted to RUB 574,457 and 487,761, respectively.

For the purpose of the impairment testing the Group assessed the recoverable amount of each cash generating unit (restaurant). The recoverable amount has been determined based on value-in-use calculation using cash flows projections based on the actual operating results and budgets approved by management and appropriate discount rate reflecting time value of money and risks associated with the cash generating units. The cash flow projections were discounted at the rate of 17% in Russian Rouble nominal terms. The calculation of the discount rate was based on Group's cost of financing and weighted average cost of capital (WACC). Cash flow projections cover a period of useful life of up to 10 years of the principal assets of each cash generating unit.

9. Property and equipment (continued)

Key assumptions used in determining value in use of cash generating unit's operated in Russia were as follows:

- Average growth rates used in cash flow projections vary from 2.7% to 3.7% depending on the year of projection;
- The inflation rate used in the calculation vary from 2.8% to 5.2% depending on the year of projection;
- Average salaries growth rates used in future cash flow projections amount to 4%;

10. Intangible assets

The movement in intangible assets for the year ended December 31, 2012 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks	Software	Assets under construction	Total
Cost						
At December 31, 2011	**38,204**	**429,877**	**32,034**	**110,755**	**–**	**610,870**
Additions	4,727	850	290	12,592	13,157	**31,616**
Disposals	(1,453)	(42,418)	(21)	(1,214)	–	**(45,106)**
Assets held for sale *(Note 7)*	–	–	–	(57)	–	**(57)**
Translation difference	69	334	(208)	(253)	–	**(58)**
At December 31, 2012	**41,547**	**388,643**	**32,095**	**121,823**	**13,157**	**597,265**
Accumulated depreciation and impairment						
At December 31, 2011	**(20,664)**	**(328,102)**	**(28,284)**	**(97,872)**	**–**	**(474,922)**
Charge for the year	(3,365)	(59,388)	(679)	(7,556)	–	**(70,988)**
Disposals	1,803	42,067	1	1,178	–	**45,049**
Impairment of intangible assets	(778)	(13,250)	–	(47)	–	**(14,075)**
Assets held for sale *(Note 7)*	–	–	–	52	–	**52**
Translation difference	54	(844)	36	201	–	**(553)**
At December 31, 2012	**(22,950)**	**(359,517)**	**(28,926)**	**(104,044)**	**–**	**(515,437)**
Net book value						
At December 31, 2011	**17,540**	**101,775**	**3,750**	**12,883**	**–**	**135,948**
At December 31, 2012	**18,597**	**29,126**	**3,169**	**17,779**	**13,157**	**81,828**

10. Intangible assets (continued)

The movement in intangible assets for the year ended December 31, 2013 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks	Software	Assets under construction	Total
Cost						
At December 31, 2012	**41,547**	**388,643**	**32,095**	**121,823**	**13,157**	**597,265**
Additions	2,791	56,747	–	6,891	8,596	**75,025**
Disposals	–	–	–	(907)	–	**(907)**
Discontinued operation	(6,124)	(22,636)	–	(3,081)	–	**(31,841)**
Other movements	–	–	–	–	(21,302)	**(21,302)**
Translation difference	508	1,502	291	358	745	**3,404**
At December 31, 2013	**38,722**	**424,256**	**32,386**	**125,084**	**1,196**	**621,644**
Accumulated depreciation and impairment						
At December 31, 2012	**(22,950)**	**(359,517)**	**(28,926)**	**(104,044)**	**–**	**(515,437)**
Charge for the year	(6,207)	(21,261)	(645)	(4,856)	–	**(32,969)**
Disposals	–	–	–	902	–	**902**
Reversal of impairment of intangible assets	(1,645)	5,542	–	(57)	–	**3,840**
Discontinued operation	4,937	22,636	–	2,244	–	**29,817**
Translation difference	(161)	(259)	(90)	(156)	–	**(666)**
At December 31, 2013	**(26,026)**	**(352,859)**	**(29,661)**	**(105,967)**	**–**	**(514,513)**
Net book value						
At December 31, 2012	**18,597**	**29,126**	**3,169**	**17,779**	**13,157**	**81,828**
At December 31, 2013	**12,696**	**71,397**	**2,725**	**19,117**	**1,196**	**107,131**

Intangible assets were tested for impairment as of December 31, 2013. During the year ended December 31, 2012 the Group recognised impairment loss of intangible assets in the amount of RUB 14,075 as the recoverable amount of these assets is less than carrying amount at the same date. For the year ended December 31, 2013 the Group recognised reversal of impairment of intangible assets in the amount of RUB 3,840

For the purpose of the impairment testing the Group assessed the recoverable amount of each cash generating unit (restaurant). The recoverable amount has been determined based on value-in-use calculation using cash flows projections based on the actual operating results and budgets approved by management and appropriate discount rate reflecting time value of money and risks associated with the cash generating units. The cash flow projections were discounted at the rate of 17% in Russian Rouble nominal terms. The calculation of the discount rate was based on Group's cost of financing and weighted average cost of capital (WACC). Cash flow projections cover a period of useful life of up to 10 years of the principal assets of each cash generating unit.

Key assumptions used in the determining value in use of cash generating unit's operated in Russia were as follows:

- Average growth rates used in cash flow projections vary from 2.7% to 3.7% depending on the year of projection;
- The inflation rate used in the calculation vary from 2.8% to 5.2% depending on the year of projection;
- Average salaries growth rates used in future cash flow projections amount to 4%.

11. Goodwill

The carrying amount of goodwill as of December 31, 2013 and 2012 was allocated among cash generating units (group of cash generating units) as follows:

	Carrying amount
Pulkovo airport restaurants, Saint Petersburg, Russia	125,006
T.G.I. Friday's Atrium, Warsaw, Poland	33,016
Combo Il Patio and Planet Sushi, Ekaterinburg, Russia	18,131
	176,153

The Group performed its annual goodwill impairment test in the years ended December 31, 2013 and 2012 there was no impairment of goodwill.

For the purpose of the impairment testing the Group assessed the recoverable amount of each cash generating unit (restaurant) to which allocated goodwill. The recoverable amount has been determined based on value-in-use calculation using cash flows projections based on the actual operating results and budgets approved by management and appropriate discount rate reflecting time value of money and risks associated with the cash generating units.

In regard to the assessment of value-in-use, the Group believes, that there is no reasonably possible change in a key assumptions, on which management has based its determination of the units recoverable amount that would cause the unit's carrying amount to exceed its recoverable amount.

The result of applying discounted cash flow models reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

12. Investments in joint ventures and associates

The Group accounted for investments in joint ventures and associates under the equity method.

Rosworth joint venture

In December 2007 the Group entered into a joint venture agreement with Costa Limited ("Costa") which operates coffee houses in the United Kingdom and other countries. The Group and Costa operated Rosworth and its subsidiary as a joint venture. The Group had 50% interest in Rosworth which started its operating activity in 2008. In 2011 Group's share in net losses of the joint venture exceeded cost of investment by RUB 52,741 and prevented the Group from further recognition of share of losses in excess of net investment in joint venture. As of June 13, 2012 the Group acquired the remaining 50% interest in Rosworth *(Note 6)*.

12. Investments in joint ventures and associates (continued)

Umai joint venture

In February 2011 the Group entered into a joint venture agreement with Japan Centre Group Limited which operates Japan restaurants in the United Kingdom and other countries. On February 22, 2011, the Group acquired 50% of shares of Rosinter-Umai UK Limited for total consideration of 1 Great British Pound (47.32 Russian roubles at the exchange rate at February 22, 2011). At December 31, 2011, the Group wrote off its entire investment in this entity, and therefore no carrying value existed in respect of this investment at either December 31, 2012 or 2013. The movement in unrecognized share of losses of Umai was as follows:

	2013	2012
Accumulated loss at the beginning of the year	**(4,254)**	**(4,797)**
Share of profit for the year	1,973	543
Accumulated loss at the end of the year	**(2,281)**	**(4,254)**

13. Related parties disclosures

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

Related parties	Revenue and other gains	Purchases	Long-term receivables due from related parties	Receivables from related parties	Payables to related parties
2013					
Entities under common control, including:	13,122	385,020	1,577	53,439	70,917
Loyalty Partners Vostok LLC (1)	6,734	12,123	–	–	7,132
RosCorp LLC (2)	4,439	155,183	–	–	13,890
Best Eastern Distribution LLC (3)	3	134,127	–	–	26,634
Legkaya Zhizn LLC (4)	–	36,081	–	48,087	–
Rostik Aero LLC (5)	–	15,670	–	–	1,796
2012					
Joint Ventures	4,755	7,113	–	–	–
Entities under common control, including:	24,341	235,296	2,780	118,556	50,317
Loyalty Partners Vostok LLC (1)	11,455	172	–	–	26,717
RosCorp LLC (2)	4,113	151,080	–	7,684	43
Best Eastern Distribution LLC (3)	–	39,629	–	–	3,078
Legkaya Zhizn LLC (4)	–	–	–	80,782	–
Rostik Aero LLC (5)	–	15,849	–	–	1,544
Total 2013	**13,122**	**385,020**	**1,577**	**53,439**	**70,917**
Total 2012	**29,096**	**242,409**	**2,780**	**118,556**	**50,317**

(1) The outstanding payable balance to Loyalty Partners Vostok LLC related to services under the "Malina" customer loyalty program provided to the Group. The ultimate controlling shareholder holds director position in Loyalty Partners Vostok LLC.

(2) During 2013 and 2012, RosCorp LLC provided the Group with rent, transport and utility services. The outstanding balances as of December 31, 2012 represent advances for rent, transport and utility services provided by RosCorp LLC to the Group.

(3) During 2013 and 2012, the Group purchased equipment, goods and materials from Best Eastern Distribution LLC.

(4) The outstanding receivable balance as of December 31, 2013 and December 31, 2012 represents advances for goods to Legkaya Zhizn LLC provided by the Group.

(5) During 2013 and 2012, Rostik Aero LLC leased to the Group.

13. Related parties disclosures (continued)

Loans receivable from / payable to related parties consisted of the following:

Related parties	Interest income	Interest expense	Short-term loans receivable from related parties	Long-term loans receivable from related parties	Short-term loans payable to related parties
2013					
Joint Ventures	1,714	–	–	20,642	–
Entities under common control	518	463	8,994	–	2,376
2012					
Joint Ventures	5,000	–	–	17,968	–
Entities under common control	7,005	612	10,433	–	4,218
Total 2013	**2,232**	**463**	**8,994**	**20,642**	**2,376**
Total 2012	**12,005**	**612**	**10,433**	**17,968**	**4,218**

As of December 31, 2013 and December 31, 2012 long-term and short-term loans from related parties were neither past due nor impaired.

As at December 31, the ageing analysis of short-term receivables from related parties is presented below:

	Total	Neither past due nor impaired	Past due but not impaired		
			< 3 months	3-6 months	> 6 months
2013	**53,439**	49,454	–	1	3,984
2012	**118,556**	115,417	969	215	1,955

Compensation to key management personnel

Key management personnel totaled 11 and 13 persons as at December 31, 2013 and 2012, respectively. Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	2013	2012
Salary	42,975	44,583
Performance bonuses	5,400	19,032
Share based payments *(Note 31)*	4,360	3,055
	52,735	**66,670**

The Group's contributions relating to social taxes for key management personnel amounted to RUB 3,950 and RUB 4,716 during the years ended December 31, 2013 and 2012, respectively.

14. Income tax

The Group's provision for income tax for the years ended December 31 is as follows:

	2013	2012
Current tax expense	(54,300)	(62,871)
Deferred tax benefit/(expense)	31,002	(27,897)
Income tax benefit/(expense) related to current pre-tax loss from discontinued operation *(Note 8)*	131	(172)
Total income tax expense from continuing operations	**(23,167)**	**(90,940)**

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2013:

	December 31, 2012	Differences from continuing operation	Translation difference	Differences from discontinued operation	Disposed deferred taxes from discontinued operation	December 31, 2013
Tax effect of deductible temporary differences						
Trade and other payables	53,545	32,444	90	(69)	(653)	85,357
Write-down of inventories to net realisable value	10,468	(35)	75	(73)	(52)	10,383
Carry forward of unused tax losses	85,915	(18,236)	4	–	–	67,683
Other	4,474	(611)	11	(36)	–	3,838
Total deferred tax asset	**154,402**	**13,562**	**180**	**(178)**	**(705)**	**167,261**
Tax effect of taxable temporary differences						
Property and equipment	(60,763)	19,017	(637)	552	1,970	(39,861)
Trade and other receivables	(499)	(2,891)	(29)	31	300	(3,088)
Other	(11,246)	926	(2)	(17)	27	(10,312)
Total deferred tax liability	**(72,508)**	**17,052**	**(668)**	**566**	**2,297**	**(53,261)**
Net deferred tax asset/(liability)	**81,894**	**30,614**	**(488)**	**388**	**1,592**	**114,000**

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2012:

	December 31, 2011	Differences recognition and reversal	Acquired in business combination	Translation difference	December 31, 2012
Tax effect of deductible temporary differences					
Trade and other payables	42,985	10,692	–	(132)	53,545
Write-down of inventories to net realisable value	8,523	2,012	–	(67)	10,468
Carry forward of unused tax losses	68,675	(27,780)	45,333	(313)	85,915
Other	3,788	754	–	(68)	4,474
Total deferred tax asset	**123,971**	**(14,322)**	**45,333**	**(580)**	**154,402**
Tax effect of taxable temporary differences					
Property and equipment	(46,208)	(15,253)	–	698	(60,763)
Trade and other receivables	(810)	283	–	28	(499)
Other	(12,147)	1,499	(599)	2	(11,246)
Total deferred tax liability	**(59,165)**	**(13,471)**	**(599)**	**728**	**(72,508)**
Net deferred tax asset/(liability)	**64,806**	**(27,793)**	**44,734**	**148**	**81,894**

During 2012, the Group acquired a deferred tax asset and deferred tax liabilities of RUB 45,333 and RUB 599, respectively in business combination *(Note 6)*.

14. Income tax (continued)

The recognition and reversal of temporary differences, as presented in the tables above, primarily relates to the depreciation of property and equipment in excess of the depreciation for tax purposes, accrued liabilities, tax losses available for carry forward and provisions to write inventory down to net realisable value.

At December 31, 2013 and 2012, the Group recognised a deferred tax liability for the temporary differences associated with profit distribution in the amount of RUB 2,127 and RUB 7,296, respectively.

As of December 31, 2013 and 2012, several subsidiaries had accumulated tax losses in the amount of RUB 338,415 and RUB 429,575, for which a deferred tax asset of RUB 67,683 and RUB 85,915, respectively, was recognised. Management expects that these tax losses will be used against future taxable income. This deferred tax asset may be utilised within 10 years.

As of December 31, 2013 and 2012, several subsidiaries had accumulated tax losses in the amount of RUB 285,158 and RUB 334,640, respectively, for which a deferred tax asset was not recognised. These losses relate to subsidiaries that have a history of losses and it is not probable that they will be utilized before expiration.

Below is a reconciliation of theoretical income tax at statutory income tax rates to the actual expense recorded in the Group's income statement:

	2013	**2012**
Loss before income tax from continuing operations	(224,470)	(44,139)
Loss before income tax from discontinued operations	(220,338)	(110,470)
Loss before income tax	**(444,808)**	**(154,609)**
At Russian statutory income tax rate (20%)	**88,962**	**30,922**
Effect of differences in tax rates in countries other than the Russian Federation	(13,209)	4,625
Effect of differences in tax rates on income taxable at other rate	2,805	7,425
Adjustment in respect of income tax of previous years	(5,187)	(8,502)
Tax on dividend income related to dividend declared by subsidiaries	(7,814)	(12,894)
Effect of unified tax on imputed income	18,897	31,874
Reduction in deferred taxes closing balance resulting from reduction in tax rate	–	(12)
Deferred tax benefit/(expense) recognised for profit distribution	5,169	(2,468)
Effect of tax losses for which deferred tax assets were not recognised	(65,623)	(74,133)
Utilization of previously unrecognized tax losses	3,392	–
Effect of non-deductible expenses	(50,428)	(67,777)
Income tax at the effective income tax rate	**(23,036)**	**(90,940)**
Income tax expenses reported in income statement	(23,167)	(90,768)
Income tax benefit/(expense) related to current pre-tax loss from discontinued operations	**131**	**(172)**

15. Inventories

Inventories consisted of the following as of December 31:

	2013	2012
Foods, beverages, liquors and tobacco (at cost net realisable value)	146,776	170,030
Utensils, paper goods and other items (at cost net realisable value)	75,761	52,718
	222,537	**222,748**
Write-down of inventories to net realisable value	(39,613)	(52,382)
Assets held for sale *(Note 7)*	–	(1,683)
Total inventories, at realizable value	**182,924**	**168,683**

During the year ended December 31, 2012 the increase of write-down of inventories to net realisable value amounted to RUB 13,692. During the year ended December 31, 2013 the Group recognised the reversal of write-down of inventories to net realisable value amounted to RUB 12,672 due to the fact that the slow-moving items are intended to be used in new restaurants.

16. Trade and other receivables

Receivables consisted of the following as of December 31:

	2013	2012
Trade receivables	92,361	89,313
Other receivables	106,168	94,549
	198,529	**183,862**
Allowance for doubtful accounts	(36,915)	(35,492)
Total receivables, net	**161,614**	**148,370**

Trade and other receivables are non-interest bearing and are generally on 30-90 days terms.

As at December 31, 2013 and 2012, trade and other receivables at nominal value of RUB 36,915 and RUB 35,492, respectively, were impaired and fully provided for. Movements in the provision for impairment of trade and other receivables were as follows:

	2013	2012
At December 31	**35,492**	**14,718**
Charge for the year	12,942	23,859
Amounts written off	(1,952)	(1,421)
Unused amounts reversed	(9,665)	(1,662)
Translation difference	98	(2)
At December 31	**36,915**	**35,492**

16. Trade and other receivables (continued)

As at December 31, the ageing analysis of trade and other receivables is presented below:

	Total	Neither past due nor impaired	Past due but not impaired		
			<3 months	3-6 months	>6 months
Trade receivables	80,036	53,915	18,791	5,346	1,984
Other receivables	81,578	41,044	7,920	1,337	31,277
2013	**161,614**	**94,959**	**26,711**	**6,683**	**33,261**
Trade receivables	71,028	44,858	16,805	3,181	6,184
Other receivables	77,342	26,537	21,704	1,871	27,230
2012	**148,370**	**71,395**	**38,509**	**5,052**	**33,414**

17. Advances paid

Advances paid consisted of the following as of December 31:

	2013	2012
Advances to suppliers	367,547	234,716
Advances to employees	1,968	3,374
	369,515	**238,090**
Allowance for doubtful advances paid	(12,268)	(22,542)
Total advances paid, net	**357,247**	**215,548**

As at December 31, 2013 and 2012, advances to suppliers at nominal value of RUB 12,268 and RUB 22,542, respectively, were impaired and fully provided for. Movements in the allowance for impairment of advances paid were as follows:

	2013	2012
At December 31	**22,542**	**22,248**
Charge for the year	4,332	13,076
Amounts written off	(9,874)	(10,017)
Unused amounts reversed	(3,875)	(2,655)
Disposal due to discontinued operations	(891)	–
Translation difference	34	(110)
At December 31	**12,268**	**22,542**

18. Cash and cash equivalents

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

	2013	2012
Cash at bank	42,277	121,207
Cash in hand	19,823	21,564
Cash in transit	24,294	98,512
Short-term deposits	9,614	37,725
Total cash and cash equivalents	**96,008**	**279,008**

19. Share capital

The authorised, issued and fully paid share capital of the Company as of December 31, 2013 and December 31, 2012 comprised 16,305,334 shares. The nominal value of each ordinary share is 169.70 Russian roubles.

As at December 31, 2013 and 2012 the total quantity and value of treasury shares of the Company held by the Group were 694,273 and RUB 413,085.

20. Earnings per share

Earnings per share were calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	2013	2012
Net loss attributable to equity holders of the Company	(461,899)	(241,930)
Weighted average number of ordinary shares outstanding	15,611,061	15,611,061
Effect on dilution: share based payments	815,861	566,010
Weighted average number of ordinary shares adjusted for the effect of dilution	16,426,922	16,177,071
Loss per share attributable to equity holders of the Parent, basic, roubles	**(29.58)**	**(15.50)**
Loss per share attributable to equity holders of the Parent, diluted, roubles	**(28.12)**	**(14.96)**

21. Loans and borrowings

Long-term loans and borrowings	2013	2012
Sberbank of Russia OJSC	600,000	700,000
Raiffeisenbank CJSC	250,000	250,000
UniCredit Bank CJSC	700,000	250,000
	1,550,000	**1,200,000**
Less: current portion	(30,000)	(720,800)
Total long-term loans and borrowings	**1,520,000**	**479,200**

Short-term loans and borrowings	2013	2012
UniCredit Bank CJSC	3,940	20,191
Finance lease liabilities	–	294
	3,940	**20,485**
Current portion of long-term loans and borrowings	30,000	720,800
Total short-term loans and borrowings	**33,940**	**741,285**

21. Loans and borrowings (continued)

Sberbank of Russia OJSC

On December 24, 2010, the Group entered into a credit facility agreement in the amount of RUB 700,000 bearing interest of 8.75% per annum and maturing in December 20, 2013. This credit facility was fully repaid.

On March 25, 2013, the Group entered into a credit facility agreement in the amount of RUB 700,000 bearing interest of 11.68% per annum and maturing in March 24, 2016. As of December 31, 2013 the outstanding balance of the credit facility amounted to RUB 600,000.

Raiffeisenbank CJSC

In November 27, 2012, the Group entered into a credit facility agreement with Raiffeisenbank, CJSC in the amount of RUB 500,000, bearing interest of 11.08% per annum and maturing in November 26, 2015. As of December 31, 2013 utilized balance of this credit facility amounted to RUB 250,000 and current portion of this credit facility amounted to RUB 30,000.

UniCredit Bank CJSC

On June 15, 2011, the Group entered into an unsecured loan agreement with a credit limit in the amount of RUB 250,000, bearing interest of 8.85% per annum and maturing in June 14, 2014. This credit facility was fully repaid in 2013.

On August 28, 2013, the Group entered into a credit facility in the amount of RUB 700,000, bearing interest of 9.30% per annum and maturing in August 27, 2016. As of December 31, 2013 the outstanding balance of the credit facility amounted to RUB 700,000.

On June 24, 2013, the Group entered into an overdraft facility in the amount of RUB 150,000, bearing interest of 9.30% and of Mosprime 1M plus 3.25% per annum and maturing in June 23, 2014. As at December 31, 2013 the outstanding balance of the loan amounted to RUB 3,940.

Loan covenants

Loan agreements include the following significant covenants:

- Financial debt to Earnings before interest, taxes, depreciation, impairment and amortization (EBITDA);
- Equity divided by total assets in accordance with IFRS;
- Outstanding balances of financial debt based on consolidated financial statements in accordance with IFRS;
- Outstanding balances of financial debt based on consolidated financial statements in accordance with Russian Generally Accepted Accounting Principles.

At December 2013 and 2012, the Group was in compliance with its debt covenants.

22. Liabilities to partners

The movements in liabilities to partners were as follows during the years ended December 31:

	2013	2012
At December 31, 2012	**83,993**	**97,401**
Increase in amounts due to partners *(Note 30)*	11,693	45,552
Payments to partners	(32,096)	(54,280)
Other non-cash settlements	(29,411)	(4,700)
Translation difference	650	20
At December 31, 2013	**34,829**	**83,993**

Analysed as to:

	2013	2012
Short-term portion	15,074	40,517
Long-term portion	19,755	43,476
Total liabilities to partners	**34,829**	**83,993**

23. Trade and other payables

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

	2013	2012
Trade creditors	513,641	513,573
Output VAT and other taxes payable	242,858	279,226
Accrued salaries	130,407	144,069
Unused vacation provision	137,610	113,295
Advances received	97,489	49,540
Interest payable to banks	7,633	2,587
Accrued and other liabilities	339,810	220,877
Total trade and other payables	**1,469,448**	**1,323,167**

Maturity profile of accounts payable is shown in *Note 33*.

24. Revenue

Revenue for the years ended December 31 consisted of the following:

	2013	2012
Revenue from restaurants	9,210,613	9,431,097
Franchise revenue	294,607	280,807
Revenue from canteens	191,594	191,700
Sublease services	119,205	121,502
Other revenues	34,869	43,956
Total revenue	**9,850,888**	**10,069,062**

25. Cost of sales

The following expenses were included in cost of sales for the years ended December 31:

	2013	2012
Food and beverages	2,241,711	2,284,743
Payroll and related taxes	2,141,145	2,164,864
Rent	1,987,275	1,848,092
Restaurant equipment depreciation	297,654	327,896
Materials	278,713	284,347
Utilities	276,494	283,183
Laundry and sanitary control	262,066	238,162
Maintenance and repair services	198,333	187,499
Other services	154,097	153,611
Transportation services	101,261	89,832
Franchising fee	95,526	83,489
Sublease services cost	78,996	74,764
Other expenses	42,887	57,365
Total cost of sales	**8,156,158**	**8,077,847**

26. Selling, general and administrative expenses

The following expenses were included in selling, general and administrative expenses for the years ended December 31:

	2013	2012
Payroll and related taxes	812,006	819,148
Advertising	176,884	214,120
Other services	88,321	92,827
Rent	81,651	75,317
Transportation services	41,340	37,594
Utilities	39,102	34,479
Depreciation and amortization	29,970	31,211
Financial and legal services	25,490	24,494
Materials	23,422	21,186
Bank services	8,652	9,316
Maintenance and repair services	7,855	9,718
Laundry and sanitary control	6,498	2,123
(Reversal)/increase in the allowance for impairment of advances paid, taxes recoverable and receivables	(3,588)	63,710
Other expenses	67,415	75,674
Total selling, general and administrative expenses	**1,405,018**	**1,510,917**

27. Rent expenses

The following rent expenses were included in cost of sales and selling, general and administrative expenses for the years ended December 31:

	2013	2012
Rent premises minimum payment	1,958,110	1,907,548
Rent premises contingent payment	189,812	90,625
Total rent expenses	**2,147,922**	**1,998,173**

28. Other gains/losses

Gains and losses for the years ended December 31 consisted of the following:

	2013	2012
Gain on termination of rent agreements	23,170	–
Gain on bargain purchase	–	34,369
Write off of trade and other payables	2,037	4,739
Other gains	37,593	34,674
Total other gains	**62,800**	**73,782**
Loss on disposal of non-current assets	68,612	66,561
Non-refundable VAT	27,367	15,962
Other losses	16,182	44,328
Total other losses	**112,161**	**126,851**

29. Impairment of assets

Loss from impairment of assets for the years ended December 31 consisted of the following:

	2013	2012
Loss from impairment of property and equipment *(Note 9)*	140,885	183,932
(Reversal)/loss from impairment of intangible assets *(Note 10)*	(3,840)	3,345
Total loss/(reversal) from impairment of assets	**137,045**	**187,277**

30. Financial income/expenses

The following income/expenses were included in financial income/expenses for the years ended December 31:

	2013	2012
Interest income	9,912	22,754
Total financial income	**9,912**	**22,754**

	2013	2012
Interest expense	156,543	146,748
Increase in amounts due to partners *(Note 22)*	11,693	45,552
Total financial expenses	**168,236**	**192,300**

31. Share based payments

On April 30, 2010 and later on the Group adopted an incentive plan (the "Plan") under which a number of executive employees and members of the Board of Directors (the "Participants") were granted cash settled phantom share options (the "Options"). The right to exercise the Options occurs in three installments of 1/3rd each and vests after 1, 2 and 3 years after the Plan adoption. Each installment is exercisable within 5 years upon vesting. Each part of the Plan adopted in certain year with certain exercise price is referred here as "Plan 2010-2013". The Group intends to settle the first 1/3rd of the Plan 2010 in cash and the other 2/3rd of the Plan 2010-2013 in equity, making use of its right to settle its obligation by issuance of treasury shares it holds for that purpose. The Group valued the cash-settled part of the Options and the Plan at the market price at the reporting date. The Group valued the equity-settled part of the options and the plan at the date of granting and did not revalue at December 31, 2013.

The value of the Plan is recognized in the financial statements during the vesting period as payroll expense and amounted to RUB 4,360 and RUB 3,055 during the year ended December 31, 2013 and 2012, respectively. Total number of outstanding Options was 839,786 and 611,385 at December 31, 2013 and 2012, respectively, out of which 309,129 and 129,000 were exercisable at the respective dates.

	SARP 2010	SARP 2011	SARP 2012	SARP 2013	Total
Outstanding, December 31, 2011	**138,667**	**260,500**	**–**	**–**	**399,167**
Granted	–	–	338,385	–	**338,385**
Exercised	–	–	–	–	**–**
Expired	(31,667)	(82,500)	(12,000)	–	**(126,167)**
Outstanding, December 31, 2012	**107,000**	**178,000**	**326,385**	–	**611,385**
Granted	–	–	–	370,901	**370,901**
Exercised	–	–	–	–	**–**
Expired	(10,000)	(48,500)	(49,000)	(35,000)	**(142,500)**
Outstanding, December 31, 2013	**97,000**	**129,500**	**277,385**	**335,901**	**839,786**

Program name	Granting date	Vesting dates	Instalments	Excersisable	Weighted average floor price, US dollars
SARP 2010	April 30, 2010	April 30, 2011, 2012, 2013	Equal, 1/3rd each	5 years from vesting of each instalment	10.50
SARP 2011	April 30, 2011	April 30, 2012, 2013, 2014	Equal, 1/3rd each	5 years from vesting of each instalment	19.50
SARP 2012	April 30, 2012	April 30, 2013, 2014, 2015	Equal, 1/3rd each	5 years from vesting of each instalment	4.40
SARP 2013	April 30, 2013	April 30 2014, 2015, 2016	Equal, 1/3rd each	5 years from vesting of each instalment	3.10

32. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

Litigation

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

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, additional taxes, fines, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. However, the tax regime in Russia following the recent cases has become even less predictable. As of December 31, 2013 management believes that its interpretation of the relevant legislation is appropriate and that it is likely that the Group's tax position will be sustained.

Capital commitments

At December 31, 2013 and 2012 the Group had capital commitments of RUB 139,899 and RUB 32,661 respectively. These capital commitments principally relate to the construction of new restaurants.

Operating lease commitments

The Group has entered into a number of commercial lease agreements for its restaurants' premises. The nominal amount of minimum rental payables under the non-cancellable leases at December 31 was as follows:

	2013	2012
Within one year	1,549,040	1,521,033
After one year but not more than five years	3,672,913	3,198,464
More than five years	951,618	731,506
Total minimum rental payables	**6,173,571**	**5,451,003**

33. Financial risk management objectives and policies

Financial instruments carried on the statement of financial position comprise loans given, finance lease liabilities, trade and other payables, bank loans, bonds and liabilities to partners. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables and cash and short-term deposits, which arise directly from its operations.

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations include those related to market movements in interest rates, foreign exchange rates, credit risk and liquidity risk. The Group's risk management policies in relation to these risks are summarised below.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are either fixed or variable. The majority of interest rates on long-term and short-term credit facilities of the Group are disclosed in *Notes 21*. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rate. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favorable to the Group over the expected period until maturity.

At December 31, 2013, if Mosprime 1M or internal bank rate of UniCredit Bank, CJSC at that date had been 200 basis points lower/higher with all other variables held constant, effect on profit before tax for the year would have been RUB 871. At December 31, 2012, if Mosprime 1M or internal bank rate of Raiffeisenbank, CJSC at that date had been 200 basis points lower/higher with all other variables held constant, effect on profit before tax for the year would have been RUB 8,298 and RUB 479, respectively.

The Group does not hedge its interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk related to its US dollar denominated intercompany balances and external debts of its Russian subsidiaries.

The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk.

33. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

The table below shows the sensitivity to a reasonably possible change in the US dollar and Russian rouble exchange rates, with all other variables held constant, of the Group's profit before tax:

	As at December 31, 2013		As at December 31, 2012	
As at December 31, 2013	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**
US dollar / Russian rouble	10.2%	1,178	12.5%	(19,847)
US dollar / Russian rouble	(10.2%)	(1,178)	(12.5%)	19,847
US dollar / Kazakhstani tenge	–	–	10.7%	–
US dollar / Kazakhstani tenge	–	–	(10.7%)	–
Russian ruble / Kazakhstani tenge	10.7%	(1,928)	–	–
Russian ruble / Kazakhstani tenge	(10.7%)	1,928	–	–
US dollar / Ukrainian hryvnia	30.0%	3,975	20.0%	2,650
US dollar / Ukrainian hryvnia	(30.0%)	(3,975)	(20.0%)	(2,650)
Russian rouble / Ukrainian hryvnia	20.0%	–	27.0%	–
Russian rouble / Ukrainian hryvnia	(20.0%)	–	(27.0%)	–

The Group has no significant exposure to foreign currency risk since the majority of its US dollar denominated intercompany balances are short-term. The Group does not hedge its foreign currency risk.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of financial assets and projected cash flows from operations. The tables below summaries the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at December 31, 2013 and 2012 based on contractual undiscounted payments.

December 31, 2012	Less than 3 months	3-12 months	1 to 5 years	Total
Long-term and short-term loans and borrowings	100,294	640,991	479,200	**1,220,485**
Long-term and short-term loans due to related parties	–	4,218	–	**4,218**
Trade and other payables	731,839	911	4,287	**737,037**
Payables to related parties	45,924	4,393	–	**50,317**
Liabilities to partners	35,844	4,673	43,476	**83,993**
Total	**913,901**	**655,186**	**526,963**	**2,096,050**

December 31, 2013	Less than 3 months	3-12 months	1 to 5 years	Total
Long-term and short-term loans and borrowings	–	33,940	1,520,000	**1,553,940**
Long-term and short-term loans due to related parties	–	2,376	–	**2,376**
Trade and other payables	860,546	538	–	**861,084**
Payables to related parties	61,228	9,689	–	**70,917**
Liabilities to partners	14,202	872	19,755	**34,829**
Total	**935,976**	**47,415**	**1,539,755**	**2,523,146**

33. Financial risk management objectives and policies (continued)

Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to loans due from related parties and receivables. The carrying amount of loans due from related parties and receivables, net of allowance for impairment, represents the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

The Group deposits available cash with several Russian banks. Deposit insurance is not offered to banks operating in Russia. To manage the credit risk, the Group allocates its available cash to a variety of Russian banks and management periodically reviews the credit worthiness of the banks in which such deposits are held.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

	2013	**2012**
Trade and other receivables *(Note 16)*	161,614	148,370
Receivables from related parties *(Note 13)*	53,439	118,556
Long-term loans due from related parties *(Note 13)*	20,642	17,968
Short-term loans due from related parties *(Note 13)*	8,994	10,433
Long-term receivables due from related parties *(Note 13)*	1,577	2,780
Short-term loans	19,087	3,001
	265,353	**301,108**

As of December 31, 2012 the Group recognized allowance for impairment of other receivables from third parties in the amount of RUB 20,964. As of December 31, 2013 other receivables from third parties were partially reclassified into short-term interest loans and allowance for impairment in amount of RUB 15,116 was reversed.

Fair value of financial instruments

At December 31, 2013 and 2012, the estimated fair values of financial assets and liabilities, including cash and cash equivalents, trade and other receivables, loans granted, short-term borrowings, long term bank loans, trade and other payables approximated their carrying values.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. No changes were made in the objectives, policies or processes during the years ended December 31, 2013 and 2012.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in *Note 21*, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

33. Financial risk management objectives and policies (continued)

Gearing ratio

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio as at December 31, 2013 and 2012 was as follows:

	2013	2012
Debt	1,553,940	1,220,485
Cash and cash equivalents	(96,008)	(279,008)
Net debt	**1,457,932**	**941,477**
Equity	**244,424**	**656,451**
Gearing ratio	**5.96**	**1.43**

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

The Group monitors capital using primarily a leverage ratio, which is net debt divided by EBITDA. The Group's policy is to keep the leverage ratio well below the covenant ratios specified in its debt facility agreements. The Group's net debt includes loans and other forms of borrowings, finance leases, less cash and short-term deposits. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (debt covenants), which are used for capital monitoring.

34. Events after reporting period

On February 14, 2014 the Group fully repaid ahead the schedule the long-term loan with Sberbank of Russia, OJSC dated March 2016 of RUB 600,000 *(Note 21)*. For that purpose on January 31, 2014 the Group entered into a credit facility agreement with VTB OJSC in the amount of RUB 700,000 bearing interest of 9.10% per annum and maturing in January 30, 2017.

On January 16, 2014, the Group entered into a short term credit facility agreement with MKB, CJSC in the amount of RUB 150,000, bearing interest of 9.5% per annum and maturing in April 17, 2014.