PJSC Dixy Group

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2016

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For the six months ended 30 June 2016

Contents

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улучшаем мир

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Report on review of interim condensed consolidated financial statements

To the Board of Directors of PJSC Dixy Group

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC Dixy Group and its subsidiaries (the "Group"), comprising the interim consolidated statement of financial position as at 30 June 2016 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the-six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

24 August 2016

Moscow, Russia

PJSC Dixy Group

Interim consolidated statement of financial position

At 30 June 2016

(in thousands of Russian roubles, unless otherwise indicated)

	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	36,321,524	37,599,781
Investment properties		2,380,250	2,415,780
Capital advances		2,094,506	1,887,592
Goodwill		17,665,526	17,665,526
Other intangible assets		3,710,578	3,607,919
Operating lease deposits		1,422,684	1,475,257
Initial lease costs		70,238	90,883
Deferred tax asset		726,774	535,595
		64,392,080	65,278,333
Current assets			
Inventories	7	18,569,786	22,299,229
Trade and other receivables		9,102,360	6,423,871
Taxes recoverable and prepayments		1,390,146	2,923,716
Income tax prepayments		1,375,360	1,668,814
Loans		60,616	-
Initial lease costs		24,488	38,404
Cash and cash equivalents	8	2,815,062	2,920,831
		33,337,818	36,274,865
Total assets		97,729,898	101,553,198
Equity and liabilities			
Equity attributable to equity holders of the Parent			
Share capital	9	1,248	1,248
Additional paid-in capital		20,106,300	20,443,341
Treasury shares		(564)	(554)
Share-based payment reserve		69,769	-
Retained earnings		11,723,035	12,163,581
Total equity		31,899,788	32,607,616
Non-current liabilities			
Borrowings	10	20,740,906	25,767,841
Finance leases	11	922,632	1,077,548
Unfavourable operating lease agreements		18,353	24,192
Deferred tax liability		505,340	532,698
		22,187,231	27,402,279
Current liabilities			
Trade and other payables		28,690,959	32,129,441
Borrowings	10	12,046,826	7,692,260
Finance leases	11	298,142	275,644
Advances from customers		227,241	227,585
Tax liability, other than income taxes		2,356,361	1,195,794
Income taxes payable		11,306	9,590
Unfavourable operating lease agreements		12,044	12,989
		43,642,879	41,543,303
		65,830,110	68,945,582
Total equity and liabilities		97,729,898	101,553,198

Signed and authorized for release by the General Director and the Head of IFRS Reporting of PJSC Dixy Group on 24 August 2016.

Sergey Belyakov,
General Director

Irina Kobyakina,
Head of IFRS Reporting

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

PJSC Dixy Group

Interim consolidated statement of comprehensive income

For the six months ended 30 June 2016

(in thousands of Russian roubles, unless otherwise indicated)

	Note	For the six months ended 30 June 2016	2015
		(unaudited)	
Revenue		158,172,893	131,618,994
Cost of sales		(115,023,605)	(93,307,755)
Gross profit		**43,149,288**	**38,311,239**
Selling, general and administrative expenses		(41,162,650)	(35,091,764)
Operating profit		**1,986,638**	**3,219,475**
Finance income		40,060	54,559
Finance costs		(2,304,848)	(2,250,363)
Foreign exchange gain/(loss), net		104,303	(127,285)
Share of loss of an associate		–	(54,357)
(Loss)/profit before income tax		**(173,847)**	**842,029**
Income tax expense	12	(266,699)	(34,865)
(Loss)/profit for the period		**(440,546)**	**807,164**
Total comprehensive (loss)/income for the period		**(440,546)**	**807,164**
Attributable to:			
Equity holders of the Parent		(440,546)	807,421
Non-controlling interest		–	(257)
		(440,546)	**807,164**
(Loss)/profit per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)		**(3.54)**	**6.47**

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

PJSC Dixy Group

Interim consolidated statement of cash flows

For the six months ended 30 June 2016

(in thousands of Russian roubles, unless otherwise indicated)

	Note	For the six months ended 30 June 2016	2015
		(unaudited)	
Cash flows from operating activities			
(Loss)/profit before income tax		(173,847)	842,029
Adjustments for:			
Depreciation of property, plant, equipment and investment property		3,970,166	3,393,859
Amortisation of intangible assets		269,865	205,006
Amortisation of initial lease costs		34,561	18,620
Amortisation of unfavourable lease commitments		(6,784)	(26,532)
Loss on disposals of property, plant, equipment, intangible assets and investment property		92,652	46,295
Increase in provision for impairment of taxes recoverable and prepayments		150,755	66,194
Increase/(decrease) in provision for impairment of trade and other receivables		43,143	(38,431)
Write down of inventory to net realizable value		153,351	103,041
Decrease in provision for loans		(94)	-
Share of net loss of an associate		-	54,357
Loss on disposal of non-controlling interest		-	132
Finance costs		2,304,848	2,250,363
Finance income		(40,060)	(54,559)
Share-based payment expense		69,769	-
Foreign exchange (gain)/losses, net		(104,303)	127,285
Operating cash flows before working capital changes		**6,764,022**	**6,987,659**
(Increase)/decrease in trade and other receivables		(2,721,632)	208,720
Decrease/(Increase) in inventories		3,576,092	(1,638,950)
Decrease/(Increase) in operating lease deposits		52,573	(86,609)
Decrease in taxes recoverable and prepayments		1,382,815	2,013,186
Decrease in trade and other payables		(3,334,179)	(3,409,545)
Increase in tax liability, other than income tax		1,160,567	273,606
(Decrease)/Increase in advances from customers		(344)	77,579
Cash generated from operations		**6,879,914**	**4,425,646**
Income tax paid		(190,066)	(852,092)
Interest paid		(2,481,188)	(2,158,857)
Net cash from operating activities		**4,208,660**	**1,414,697**
Cash flows from investing activities			
Purchase of property, plant and equipment and investment property		(2,893,175)	(4,284,842)
Proceeds from sale of property, plant, equipment and investment property		57,404	37,105
Proceeds from sale of intangible assets		-	8
Disbursement of loans		(280,582)	(1,001,000)
Loans repaid		-	115,017
Interest received		38,180	122,396
Purchases of intangible assets		(375,421)	(430,743)
Purchase of an associate		-	(1,776,088)
Net cash used in investing activities		**(3,453,594)**	**(7,218,147)**
Cash flows from financing activities			
Proceeds from loans and borrowings		18,747,221	6,630,555
Repayment of loans and borrowings		(19,360,527)	(2,055,556)
Buy-out of shares		(115,111)	-
Finance lease payments		(132,418)	(1,445)
Net cash (used in)/from financing activities		**(860,835)**	**4,573,554**
Net decrease in cash and cash equivalents		**(105,769)**	**(1,229,896)**
Cash and cash equivalents at the beginning of the period	8	**2,920,831**	**2,749,989**
Cash and cash equivalents at the end of the period	8	**2,815,062**	**1,520,093**

In 2016 the loan given and interest accrued in the amount of 221,940 were netted with the payable for buying out of shares.

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

PJSC Dixy Group

Interim consolidated statement of changes in equity

For the six months ended 30 June 2016

(in thousands of Russian roubles, unless otherwise indicated)

		Attributable to equity holders of the Parent							
	Note	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Share-based payment reserve	Total	Non-controlling interest	Total equity
At 1 January 2015 (audited)		**1,248**	**20,443,341**	**(554)**	**11,574,738**	**-**	**32,018,773**	**125**	**32,018,898**
Total comprehensive income for the period		-	-	-	807,421	-	**807,421**	(257)	807,164
Disposal of non-controlling interest		-	-	-	-	-	-	132	132
At 30 June 2015 (unaudited)		**1,248**	**20,443,341**	**(554)**	**12,382,159**	**-**	**32,826,194**	**-**	**32,826,194**
At 1 January 2016 (audited)		**1,248**	**20,443,341**	**(554)**	**12,163,581**	**-**	**32,607,616**	**-**	**32,607,616**
Total comprehensive loss for the period		-	-	-	(440,546)	-	**(440,546)**	-	(440,546)
Buy-out of shares		-	(337,041)	(10)	-	-	**(337,051)**	-	(337,051)
Share-based payments	5	-	-	-	-	69,769	**69,769**	-	69,769
At 30 June 2016 (unaudited)		**1,248**	**20,106,300**	**(564)**	**11,723,035**	**69,769**	**31,899,788**	**-**	**31,899,788**

1. Corporate information

PJSC Dixy Group is a public joint stock company established in January 2003 in the Russian Federation. The address of the Company's registered office is Bolshaya Ochakovskaya 47A, building 1, Moscow, Russia.

Since 24 May 2007 shares of PJSC Dixy Group are listed on the Russian Stock Exchange.

As at 30 June 2016 and 31 December 2015 PJSC Dixy Group and its subsidiaries ("the Group") were controlled by Dixy Holding Limited (Cyprus), which as at 30 June 2016 owned 51.42% (31 December 2015: 54.42%) in PJSC Dixy Group. The Group is ultimately controlled by Mr. Igor Kesaev.

These interim condensed consolidated financial statements of the Group were signed and authorized for release by the General Director and the Head of IFRS Reporting of PJSC Dixy Group on 24 August 2016.

2.1 Basis of preparation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2015.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new Standards and Interpretation listed below:

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

These amendments require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting.

2.1 Basis of preparation and accounting policies (continued)

Significant accounting policies (continued)

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

The amendments clarify that revenue-based methods cannot be used to reflect the consumption of the future economic benefits enclosed in the asset.

- *Amendments to IAS 1 Presentation of Financial Statements*

These amendments are aimed at improving the quality of financial reporting.

3. Seasonality of operation

Due to the seasonal nature of the Group's operations, higher revenues in all operating segments (Note 4) are usually expected in the second half of the year. Higher sales during the fourth quarter are mainly attributable to the increase in customer demand for food and beverages during the peak holiday season (Christmas and New Year eve period).

4. Segment information

For management purposes, the operations of the Group are classified in accordance with the formats of shops on three operating segments:

- Dixy – representing retail sales through a chain of neighbourhood stores, which are present in Central, North-West and Chelyabinsk region.
- Megamart – representing retail sales through chains of compact hypermarkets and economy supermarkets (Minimart), which are present in Ural region.
- Victoria – representing retail sales through a chain of compact hypermarkets and neighbourhood stores in Kaliningrad and Moscow region.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the interim condensed consolidated financial statements. The Group corporate expenses are managed on a group basis and are not allocated to operating segments.

Corporate expenses include payroll of head office employees, amortisation and depreciation of corporate assets and other expenses related to general management of the Group. Corporate non-current assets include trademarks, software and other non-current assets used for general management of the Group.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. During the six months ended 30 June 2016 and 30 June 2015 there were no material transfers between reportable operating segments.

4. Segment information (continued)

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2016 and 30 June 2015 is set out below:

	Dixy	Megamart	Victoria	Adjustments	Group
Six months ended 30 June 2016 (unaudited)					
Total segment revenue	129,917,771	9,413,223	18,841,899	-	**158,172,893**
Loss before taxation	4,123,108	942,024	767,310	(6,006,289)[(A)]	**(173,847)**
Depreciation and amortisation	3,324,501	142,182	524,761	248,587[(B)]	**4,240,031**
Other non-cash expenses					
Amortisation of initial lease costs and unfavourable lease rights	(19,735)	-	(8,042)	-	**(27,777)**

(A) Segment loss before taxation does not include corporate expenses of (3,845,804), finance costs of (2,304,848), finance income of 40,060 and net foreign exchange gain of 104,303;

(B) Segment depreciation and amortisation do not include depreciation and amortisation of corporate assets.

	Dixy	Megamart	Victoria	Adjustments	Group
Six months ended 30 June 2015 (unaudited)					
Total segment revenue	105,903,904	9,133,716	16,581,374	-	**131,618,994**
Profit before taxation	3,828,306	1,079,642	782,578	(4,848,497)[(A)]	**842,029**
Depreciation and amortisation	2,848,160	121,766	497,952	130,987[(B)]	**3,598,865**
Other non-cash expenses					
Amortisation of initial lease costs and unfavourable lease rights	(18,293)	-	10,381	-	**(7,912)**

(A) Segment profit before taxation does not include corporate expenses of (2,525,408), finance costs of (2,250,363), finance income of 54,559 and net foreign exchange loss of (127,285);

(B) Segment depreciation and amortisation do not include depreciation and amortisation of corporate assets.

5. Balances and transactions with related parties

Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify, account and properly disclose transactions with related parties.

5. Balances and transactions with related parties (continued)

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the six-month period ended 30 June 2016 and 30 June 2015 or had significant balances outstanding at 30 June 2016 and 31 December 2015 are detailed below:

	Entities under common control	
	30 June 2016 (unaudited)	31 December 2015 (audited)
Trade receivables	49,894	2,325
Prepayments	598	459
Other receivables	18,731	4,077
Trade and other payables	708,657	778,765

	Key Management personnel	
	30 June 2016 (unaudited)	31 December 2015 (audited)
Other receivables	841,758	-
Loans	60,616	-

The income and expense items with related parties for the six months ended 30 June 2016 and 30 June 2015 were as follows:

	Entities under common control	
	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Interest income	-	50,911
Profit from disposal of fixed assets	44,951	26,596
Transportation expenses	97,324	56,591
Maintenance of software	14,060	24,192

	Key management personnel	
	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Interest income	1,974	-

Loans issued to key management personnel

The Group granted Russian rouble 12.52% interest bearing loans of 280,582 to key management personnel mainly to finance acquisition of Company's shares under the share based program. The loans were partially settled, the remaining part as at 30 June 2016 is secured with the shares and repayable in November 2016.

5. Balances and transactions with related parties (continued)

Purchase of goods

During the six months ended 30 June 2016 the Group purchased goods for resale in the normal course of business in the amount of 4,202,572 (2015: 3,345,960) from entities under control of the ultimate controlling party.

Purchase of property, plant and equipment

During the six months ended 30 June 2016 the Group purchased trucks in the normal course of business in the amount of 350,583 (2015: nil), from entities under common control of the ultimate controlling party.

Compensation to key management personnel

Share based payments

Under the share based program, share options of the Company are granted to key management personnel with no vesting conditions. The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options can be exercised any time during the employment period. There are no cash settlement alternatives.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions on which the share options were granted.

Share options held by key management personnel under the scheme to purchase ordinary shares have the following exercise prices:

			30 June 2016 (unaudited)	31 December 2015 (audited)
Date of grant	Expiry date	Exercise price in Russian ruble	Number outstanding	Number outstanding
2016	Employment period	337	658,848	–

Short-term employee benefits

During the six months ended 30 June 2016 compensation paid to nineteen (during the six months ended 30 June 2015: twelve) directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results, all of which represent short-term employee benefits as defined in IAS 19, *Employee Benefits*.

Total compensation to key management personnel included in selling, general and administrative expenses in the interim consolidated statement of comprehensive income for the six months ended 30 June 2016 and 30 June 2015 amounted to 793,556 and 336,984, respectively.

6. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment during the six-months ended 30 June 2016 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2015 (audited)	**913,678**	**21,138,036**	**13,834,251**	**26,079,906**	**324,913**	**62,290,784**
Additions	4,353	-	-	-	2,799,185	**2,803,538**
Transfers	-	779,558	565,359	1,460,645	(2,805,562)	**-**
Transfers to investment property	-	(14,099)	-	-	-	**(14,099)**
Disposals	(5,004)	-	(195,865)	(601,878)	-	**(802,747)**
At 30 June 2016 (unaudited)	**913,027**	**21,903,495**	**14,203,745**	**26,938,673**	**318,536**	**64,277,476**
Accumulated depreciation and impairment						
At 31 December 2015 (audited)	**-**	**3,568,160**	**7,988,561**	**13,134,282**	**-**	**24,691,003**
Disposals	-	-	(99,758)	(555,830)	-	**(655,588)**
Depreciation charge	-	396,775	1,280,492	2,292,899	-	**3,970,166**
Transfers to investment property	-	(44,180)	(5,449)	-	-	**(49,629)**
At 30 June 2016 (unaudited)	**-**	**3,920,755**	**9,163,846**	**14,871,351**	**-**	**27,955,952**
Net book value						
At 31 December 2015 (audited)	**913,678**	**17,569,876**	**5,845,690**	**12,945,624**	**324,913**	**37,599,781**
At 30 June 2016 (unaudited)	**913,027**	**17,982,740**	**5,039,899**	**12,067,322**	**318,536**	**36,321,524**

The carrying value of equipment held under finance lease contracts at 30 June 2016 as 1,358,537 (31 December 2015: 1,513,235). Additions during 6 month 2016 amounted to nil (6 month 2015 nil). The leased assets are pledged as security for the related finance lease liabilities (refer to Note 11).

7. Inventories

	30 June 2016 (unaudited)	31 December 2015 (audited)
Goods for resale (net of write-down to net realizable value of 933,869 (31 December 2015: 780,518)	18,537,513	22,259,805
Raw materials and operating supplies (at cost)	32,273	39,424
Total inventories at the lower of cost or net realisable value	**18,569,786**	**22,299,229**

Inventory write-down due to shrinkages identified during the physical inventory counting during the six months ended 30 June 2016 and 30 June 2015 comprised 4,655,503 and 4,678,687, respectively. No inventory was pledged as at 30 June 2016 and 31 December 2015.

8. Cash and cash equivalents

	30 June 2016 (unaudited)	31 December 2015 (audited)
Cash on hand – Russian roubles	689,624	898,990
Russian rouble denominated bank balances due on demand	218,832	216,900
US$ denominated bank balances due on demand	6,414	18,354
Russian rouble denominated time deposits	958,101	-
Cash in transit – Russian roubles	942,091	1,786,587
Total cash and cash equivalents	**2,815,062**	**2,920,831**

9. Share capital and equity

Issued and additional paid-in capital

As at 30 June 2016 the Group had 124,750,000 (31 December 2015: 124,750,000) authorized ordinary shares of which 1,025,898 (31 December 2015: 1,500) ordinary shares were held as treasury stock. All ordinary shares are fully paid. Ordinary shares have par value of 0.01 Russian rouble per share. The shares rank equally. Each share carries one vote.

Dividends paid and proposed

No dividends were paid during the six months ended 30 June 2016 and 30 June 2015.
No dividends were declared or paid subsequent to 30 June 2016 up to the date of authorization of these interim condensed consolidated financial statements for issue.

10. Loans and borrowings

Terms and conditions in respect of borrowings are detailed below:

	Maturity			Interest rate		Collateral			
Source of financing	30 June 2016 (unaudited)	31 December 2015 (audited)	Currency	30 June 2016 (unaudited)	31 December 2015 (audited)	30 June 2016 (unaudited)	31 December 2015 (audited)	30 June 2016 (unaudited)	31 December 2015 (audited)
Long term bank loans	2017-2020	2017-2018	RUB	11.70%-12.65%	11.45%-14.35%	-	-	20,740,906	25,767,841
Short term bank loans	2016-2017	2016	RUB	11.60%-12.30%	12.20%-13.00%	-	-	12,046,826	6,970,194
Bank overdrafts	2016	2016	RUB	-	13.10%-13.99%	-	-	-	722,066
								32,787,732	33,460,101

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its interest rate exposures.

In accordance with terms and conditions of certain borrowing agreements the Group has to maintain certain ratios – maximum level of Total Financial Debt (Net Debt) / EBITDA, minimum level of EBITDA / Interest expense. As of 30 June 2016 and 31 December 2015 the Group was in compliance with externally imposed capital requirements.

11. Finance lease

Minimum lease payments under finance leases and their present values were as follows:

	Due in 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 30 June 2016	470,333	1,113,354	1,583,687
Less future finance charges	(172,191)	(190,722)	**(362,913)**
Present value of minimum lease payments at 30 June 2016	298,142	922,632	1,220,774
Minimum lease payments at 31 December 2015	470,333	1,348,520	1,818,853
Less future finance charges	(194,689)	(270,972)	**(465,661)**
Present value of minimum lease payments at 31 December 2015	275,644	1,077,548	1,353,192

The Group entered into finance leases for various items of equipment (refer to Note 6).

The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Finance lease payables are stated in Russian roubles.

12. Income taxes

Income tax expense comprises the following:

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Current income tax charge	546,007	827,440
Adjustment in respect of current income tax of previous years	(60,771)	(377,830)
Deferred income tax credit charge	(218,537)	(414,745)
Income tax expense	266,699	34,865

13. Contingencies, commitments and operating risks

Operating environment of the Group

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 was impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as by sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained at high levels following the Central Bank of Russia's key rate increase in December 2014 with a subsequent gradual reduction in 2016. The combination of the above resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking the appropriate measures to support the sustainability of the Group's business in the current circumstances.

13. Contingencies, commitments and operating risks (continued)

Tax legislation

The Group's main subsidiaries, from which the Group's income is derived, operates in Russia. Russian tax, currency and customs 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's subsidiary may be challenged by the relevant regional and federal authorities.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 30 June 2016 and 31 December 2015. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

Although historically there have been no significant liabilities arising from tax assessments, the potential for assessments over amounts provided or accrued remains. Management estimates that the order of magnitude as at 30 June 2016 of potential liabilities that have not been provided for because management believes they are less than probable amounts to 341,244 (31 December 2015: 323,443).

Litigation

The Group is involved in litigations which arise from time to time in the course of its business activities. At 30 June 2016 the Group recognized a provision in the amount of 61,500 (31 December 2015: nil) regarding such litigations.

14. Events after the reporting date

There were no significant events after the reporting date.