# OJSC Russian Sea Group

**Consolidated Financial Statements**
for the year ended 31 December 2013

# OJSC RUSSIAN SEA GROUP

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## OJSC RUSSIAN SEA GROUP

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation and fair presentation of the consolidated statement of financial position of OJSC Russian Sea Group and its subsidiaries (the "Group") as at 31 December 2013 and the related consolidated statements of comprehensive income, cash flows and changes in equity for the year ended 31 December 2013 in accordance with International Financial Reporting Standards.

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

On behalf of the Group's management, the consolidated financial statements for the year ended 31 December 2013 were authorised for issue on 18 April 2014 by:

| | |
|---|---|
| **D. Dangauer** | **D. Minchev** |
| Chief Executive Officer | Chief Financial Officer |

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Moscow, 125047
Russia

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**INDEPENDENT AUDITOR'S REPORT**

To: Shareholders of Open Joint Stock Company Russian Sea Group

We have audited the accompanying consolidated financial statements of OJSC Russian Sea Group and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2013, and notes comprising 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

**Opinion**

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

Deloitte & Touche

18 April 2014
Moscow, Russian Federation

A. Sedov, Partner
(certificate no 01-000487 dated 13 February 2012)

ZAO Deloitte & Touche CIS

The Entity: OJSC Russian Sea Group

Certificate of registration in the Unified State Register series 78 №006024638 of 10.12.2007, issued by Saint Petersburg Inspectorate of the Russian Ministry of Taxation № 15.

Address: Russia, 121353, Moscow, str. Belovezhskaya, 4.

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

**OJSC RUSSIAN SEA GROUP**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AT 31 DECEMBER 2013**
***(in thousands of Russian Roubles)***

| | Notes | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 662,257 | 444,408 |
| Intangible assets | 9 | 46,159 | 51,889 |
| Deferred tax assets | 30 | 96,003 | 51,235 |
| Long-term investments | 14 | 194,000 | - |
| | | **998,419** | **547,532** |
| **Current assets** | | | |
| Inventories | 10 | 1,068,069 | 859,041 |
| Biological assets | 11 | 1,351,166 | 322,749 |
| Trade and other receivables, net | 12 | 1,074,081 | 923,708 |
| VAT recoverable | | 99,851 | 34,065 |
| Advances paid to suppliers, net | 13 | 322,067 | 193,723 |
| Loans given to third parties | | 227 | 189 |
| Income tax receivable | | 20,031 | 71,089 |
| Held for trading derivatives that are not designated in hedge accounting relationships | 15 | - | 314 |
| Cash and cash equivalents | 16 | 361,756 | 640,894 |
| Assets classified as held for sale | 17 | - | 2,141,738 |
| | | **4,297,248** | **5,187,510** |
| **Total assets** | | **5,295,667** | **5,735,042** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 33 | 7,953,765 | 7,953,765 |
| Share premium | 33 | 654,035 | 654,035 |
| Treasury shares | 33 | (1,103) | - |
| Effect from reorganization of the Group under common control | | (5,187,469) | (7,230,687) |
| Accumulated deficit | | (3,194,880) | (1,588,077) |
| | | **224,348** | **(210,964)** |
| **Non-current liabilities** | | | |
| Long-term borrowings | 20 | 424,850 | 2,011,332 |
| | | **424,850** | **2,011,332** |
| **Current liabilities** | | | |
| Short-term borrowings | 21 | 2,276,297 | 1,709,306 |
| Bonds payable | 22 | 546,104 | 495,919 |
| Trade payables | 18 | 1,483,564 | 1,026,414 |
| Other payables | 19 | 66,116 | 32,316 |
| Advances received from customers | | 229,498 | 277,892 |
| VAT payable | | 36,156 | 76,446 |
| Other taxes payable | 23 | 6,335 | 1,590 |
| Held for trading derivatives that are not designated in hedge accounting relationships | 15 | 2,399 | 9,684 |
| Liabilities directly associated with assets classified as held for sale | 17 | - | 305,107 |
| | | **4,646,469** | **3,934,674** |
| **Total liabilities** | | **5,071,319** | **5,946,006** |
| **Total equity and liabilities** | | **5,295,667** | **5,735,042** |

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

On behalf of the Group's management, the consolidated financial statements for the year ended 31 December 2013 were authorised for issue on 18 April 2014 by:

**D. Dangauer**
Chief Executive Officer

**D. Minchev**
Chief Financial Officer

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013
***(in thousands of Russian Roubles)***

| | Notes | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6 | 18,044,646 | 16,008,257 |
| Cost of sales | 24 | (16,155,471) | (14,460,504) |
| Gain on revaluation of biological assets | 11 | 452,040 | - |
| **Gross profit** | | **2,341,215** | **1,547,753** |
| Selling and distribution costs | 25 | (1,133,688) | (1,191,657) |
| General and administrative expenses | 26 | (339,585) | (289,384) |
| Other operating income | 28 | 26,825 | 10,724 |
| Other operating expenses | 29 | (9,424) | (45,397) |
| Interest income | | 15,165 | 2,567 |
| Interest expense | 21 | (349,554) | (224,034) |
| Exchange (loss)/gain | 15 | (47,550) | 82,868 |
| **Profit/(loss) before income tax** | | **503,404** | **(106,560)** |
| Income tax (expense)/benefit | 30 | (50,618) | 4,231 |
| **Net profit/(loss) for the year, being total comprehensive income /(loss) for the year from continuing operations** | | **452,786** | **(102,329)** |
| **Discontinued operations** | | | |
| **Net loss for the year from discontinued operations** | 31 | **(16,371)** | **(1,004,411)** |
| **NET PROFIT/(LOSS) FOR THE YEAR, BEING TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | **436,415** | **(1,106,740)** |
| **Basic and diluted earnings/(loss) per share (Russian Roubles) from continuing operations** | 32 | **5.69** | **(1.29)** |
| **Basic and diluted loss per share (Russian Roubles) from discontinued operations** | 32 | **(0.21)** | **(12.63)** |
| **Basic and diluted earnings/(loss) per share (Russian Roubles) from continuing and discontinued operations** | 32 | **5.48** | **(13.92)** |

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

On behalf of the Group's management, the consolidated financial statements for the year ended 31 December 2013 were authorised for issue on 18 April 2014 by:

**D. Dangauer**
Chief Executive Officer

**D. Minchev**
Chief Financial Officer

## OJSC RUSSIAN SEA GROUP

### CONSOLIDATED STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED 31 DECEMBER 2013
***(in thousands of Russian Roubles)***

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| **Cash flows from continuing operating activities:** | | |
| Profit/(loss) before income tax | 503,404 | (106,560) |
| Adjustments to reconcile profit/(loss) before income tax to cash generated from operating activities: | | |
| Depreciation of property, plant and equipment (Note 8) | 17,488 | 28,232 |
| Amortisation of intangible assets (Note 9) | 5,781 | 2,476 |
| Interest income | (15,165) | (2,567) |
| Interest expense | 374,651 | 224,034 |
| Government subsidies | (25,097) | - |
| Exchange loss/(gain) | 47,550 | (82,868) |
| (Gain)/loss on disposal of property, plant and equipment (Notes 28, 29) | (319) | 1,066 |
| Stocktake shortages (Note 25) | 34,117 | 5,495 |
| Reversal of allowance for doubtful accounts receivable (Note 12) | (8,380) | (16,377) |
| Impairment of advances paid (Note 13) | 132 | 9,967 |
| Gain on revaluation of biological assets | (452,040) | - |
| **Operating profit before working capital changes** | **482,122** | **62,898** |
| Movements in working capital: | | |
| (Increase)/decrease in inventory and biological assets | (760,745) | 806,001 |
| Increase in trade and other receivables | (142,617) | (143,537) |
| (Increase)/decrease in VAT recoverable | (65,786) | 25,219 |
| Increase in advances paid to suppliers, net | (104,792) | (87,960) |
| Increase/(decrease) in trade payables | 392,838 | (646,035) |
| Increase/(decrease) in other payables | 5,110 | (7,497) |
| (Decrease)/increase in advances received from customers | (48,394) | 244,327 |
| (Decrease)/increase in VAT payable | (40,290) | 48,548 |
| Increase in other taxes payable | 4,745 | 2,045 |
| **Cash (used in)/generated from continuing operations** | **(277,809)** | **304,009** |
| Income tax received | 47,131 | 4,682 |
| Interest received | 15,165 | 2,569 |
| Interest paid | (377,637) | (212,377) |
| **Net cash (used in)/generated from continuing operating activities** | **(593,150)** | **98,883** |
| **Net cash generated from/(used in) discontinued operating activities** | **244,499** | **(210,846)** |
| **Net cash used in continuing and discontinued operating activities** | **(348,651)** | **(111,963)** |
| **Cash flows from continuing investing activities:** | | |
| Payments for property, plant and equipment | (305,736) | (204,706) |
| Proceeds from disposal of property, plant and equipment | 4,753 | 1,220 |
| Purchase of intangible assets | (425) | (4,952) |
| Purchase of promissory notes (Note 14) | (194,000) | - |
| Loans given to third and related parties | - | (139) |
| Proceeds from disposal of CJSC Russian Sea | 1,525,622 | - |
| **Net cash generated from/(used in) continuing investing activities** | **1,030,214** | **(208,577)** |
| **Net cash used in discontinued investing activities** | **(3,776)** | **(52,079)** |
| **Net cash generated from/(used in) continuing and discontinued investing activities** | **1,026,438** | **(260,656)** |

## OJSC RUSSIAN SEA GROUP

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2013**
***(in thousands of Russian Roubles)***

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| **Cash flows from continuing financing activities:** | | |
| Proceeds from bond issuance (Note 22) | 265,407 | 728,149 |
| Repayments of bond issuance (Note 22) | (215,222) | (232,230) |
| Purchase of treasury shares | (1,103) | - |
| Proceeds from short-term loans | 2,518,744 | 2,277,036 |
| Repayments of short-term loans | (2,826,393) | (3,553,685) |
| Proceeds from long-term loans | 1,399,169 | 2,011,332 |
| Repayments of long-term loans | (2,111,010) | - |
| **Net cash (used in)/generated from continuing financing activities** | **(970,408)** | **1,230,602** |
| **Net cash used in discontinued financing activities** | - | **(675,342)** |
| **Net cash (used in)/generated from continuing and discontinued financing activities** | **(970,408)** | **555,260** |
| **Net (decrease)/increase in cash and cash equivalents** | **(292,621)** | **182,641** |
| Effect of exchange rate fluctuations on cash and cash equivalents | 13,483 | (17,443) |
| Reclassification to assets held for sale | - | (30,747) |
| **Cash and cash equivalents at the beginning of the year** | **640,894** | **506,443** |
| **Cash and cash equivalents at the end of the year** | **361,756** | **640,894** |

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

On behalf of the Group's management, the consolidated financial statements for the year ended 31 December 2013 were authorised for issue on 18 April 2014 by:

**D. Dangauer**
Chief Executive Officer

**D. Minchev**
Chief Financial Officer

# OJSC RUSSIAN SEA GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2013
***(in thousands of Russian Roubles)***

| | Equity attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | Treasury shares | Effect from reorganiza-tion of the Group under common control | Accumu-lated deficit | Total equity |
| **Balance at 31 December 2011** | **7,953,765** | **654,035** | **-** | **(7,230,687)** | **(481,337)** | **895,776** |
| Total comprehensive loss for the year | - | - | - | - | (1,106,740) | **(1,106,740)** |
| **Balance at 31 December 2012** | **7,953,765** | **654,035** | **-** | **(7,230,687)** | **(1,588,077)** | **(210,964)** |
| Total comprehensive income for the year | - | - | - | - | 436,415 | **436,415** |
| Treasury shares (Note 33) | | | (1,103) | | | **(1,103)** |
| Transfer of effect from reorganization related to disposal of CJSC Russian Sea to retained earnings (Note 31) | - | - | - | 2,043,218 | (2,043,218) | **-** |
| **Balance at 31 December 2013** | **7,953,765** | **654,035** | **(1,103)** | **(5,187,469)** | **(3,194,880)** | **224,348** |

The notes on pages 9 to 53 are an integral part of these consolidated financial statements.

On behalf of the Group's management, the consolidated financial statements for the year ended 31 December 2013 were authorised for issue on 18 April 2014 by:

**D. Dangauer**
Chief Executive Officer

**D. Minchev**
Chief Financial Officer

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 1. CORPORATE INFORMATION

These consolidated financial statements are prepared by Open joint stock company ("OJSC") Russian Sea Group. The principal activities of OJSC Russian Sea Group ("the Company") and its subsidiaries (collectively referred to as "the Group") are distribution and production of fish and seafood products and fish farming.

The companies of the Group are located in Russia. The Company is registered under the laws of Russia in Moscow. The Company's headquarter address is: 121353, Moscow, 4 Belovezhskaya Street, Western gate.

Currently the Group does not have a single ultimate controlling party; however, Maxim Vorobiev, Russian citizen and Guennadi Timtchenko, Finnish citizen fully own RSEA Holding Ltd. and control in equal parts 61% of the Group's shares. As at 31 December 2013 and 2012 RSEA Holding Ltd. owned 61% of total share capital, 25% of shares were owned by individuals and 14% of shares were in free float.

These consolidated financial statements were authorised for issue by the Board of Directors of the Company on 18 April 2014.

The principal activities and entities of the Group as of 31 December 2013 and 31 December 2012 were as follows:

| | | Ownership and voting interest, % | |
|---|---|---|---|
| **Name** | **Principal activity** | **31 December 2013** | **31 December 2012** |
| OJSC Russian Sea Group | Holding/managing company | n/a | n/a |
| CJSC Russian Fish Company | Distribution | 100 | 100 |
| LLC Russian Sea Delivery | Dormant | 100 | 100 |
| LLC Russian Sea – Kaliningrad | Fish and seafood processing, distribution | 100 | 100 |
| CJSC Russian Sea (Note 31) | Fish and seafood processing | - | 100 |
| LLC Trout Farm Segozerskoye | Fish farming | 100 | 100 |
| LLC Russian Sea Aquaculture | Fish farming | 100 | 100 |
| RSEA CYPRUS LIMITED | Dormant | 100 | 100 |

All subsidiaries are registered in Russia except for RSEA CYPRUS LIMITED, which is registered in Cyprus in March 2011 for the export purposes, and remains dormant as at 31 December 2013.

On 28 February 2013 OJSC Russian Sea Group finalized a series of agreements to sell CJSC Russian Sea. In consolidated financial statements of OJSC Russian Sea Group for the year ended 31 December 2012 the assets and liabilities of CJSC Russian Sea were classified as assets held for sale and liabilities directly associated with the assets held for sale.

The operations and cash flows relating to CJSC Russian Sea were classified as discontinued operations in consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2013.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

These consolidated financial statements of OJSC Russian Sea Group for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company and its subsidiaries maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAS"). The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS. These adjustments principally relate to valuation and depreciation of tangible fixed assets, valuation of biological assets, certain valuation reserves, purchase accounting for business combinations and the resulting income tax effects.

The consolidated financial statements have been prepared under the historical cost convention except for the valuation of financial instruments in accordance with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and International Financial Reporting Standard 13 "Fair value measurement" ("IFRS 13"), valuation of items of property, plant and equipment measured at fair value which was used as deemed cost of the property, plant and equipment as at the date of transition to IFRS, and valuation of biological assets and inventory measured at fair value less estimated point-of-sale costs in accordance with IAS 2 "Inventories", IAS 41 "Agriculture" ("IAS 41") and IFRS 13.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

These consolidated financial statements unless expressly indicated otherwise are presented in the national currency of the Russian Federation, RR, which is the functional currency of the Company and its subsidiaries.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Basis of Consolidation

***Subsidiaries***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised gains on transactions between Group companies are eliminated, unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***Acquisition of Subsidiaries***

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of purchase consideration over the fair value of the Group’s share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group’s share of identifiable net assets of the subsidiary acquired the difference is recognised directly in the statement of comprehensive income.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Basis of Consolidation (continued)

***Acquisition of Subsidiaries from Parties under Common Control***

Acquisition of subsidiaries from entities under common control are accounted for using the pooling of interest method. The assets and liabilities of the subsidiary transferred under common control are recorded at the carrying amounts of the transferring entity ("the Predecessor") at the date of transfer. Related goodwill inherent in the Predecessor's original acquisition, if any, is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

The financial statements are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

### 2.3 Non-Current Assets classified as Held For Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group). Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### 2.4 Cash and Cash Equivalents

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

### 2.5 Trade and Other Receivables

Trade receivables, which generally are short term, are carried at original invoice amount less an allowance for doubtful accounts receivable. Allowance is made when there is objective evidence that the Group will not be able to collect the debts.

### 2.6 Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held to maturity investments, or available for sale financial assets ("AFS"), as appropriate. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 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 marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

***Financial assets at FVTPL***

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 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. Loans and receivables (including trade and other receivables, cash, and others) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

### 2.8 Financial Liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL' or ‘other financial liabilities'. The Group determines the classification of its financial liabilities at initial recognition.

The Group’s financial liabilities include trade and other payables, loans and borrowings, bonds payable and held for trading derivatives that are not designated in hedge accounting derivatives.

***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Financial Liabilities (continued)

***Financial liabilities at FVTPL (continued)***

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses' line item.

***Other financial liabilities***

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

### 2.9 Held for trading derivatives that are not designated in hedge accounting relationships

The Group enters into derivative contracts (forward contracts) to reduce the foreign currency exchange risk. Held for trading derivatives that are not designated in hedge accounting relationships are initially accounted for in the consolidated statement of financial position at fair value on the contract date and are subsequently remeasured at fair value at the end of each reporting period. Fair value is determined on the basis of quoted prices in financial markets for identical assets/liabilities. Changes in fair value are directly recognized in profit or loss.

Level 1 approach of the fair value hierarchy was used for the purpose of presentation held for trading derivatives that are not designated in hedge accounting relationships at fair value.

### 2.10 Value Added Tax

The tax authorities permit the settlement of sales and purchases 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 end of the reporting period, 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 debtor, including VAT.

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

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on a weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### 2.12 Property, Plant and Equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost or deemed cost at the date of transition to IFRS (herein referred to as cost) less accumulated depreciation and impairment losses. Deemed cost was determined for land and buildings at 1 July 2006 by reference to their fair value through valuation by an independent appraisal company.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

| | Number of years |
|---|---|
| Buildings | 7-50 |
| Plant and machinery | 2-10 |
| Other | 3-7 |

The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Land is not depreciated.

The cost of repairs and maintenance is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of comprehensive income as incurred.

### 2.13 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 2.15 Income Taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred 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 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.

A deferred tax asset is 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 end of the reporting period.

Deferred tax assets and deferred tax liabilities can be offset only if: (a) a Group entity has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

### 2.16 Intangible Assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets have a finite life and are amortised on a straight-line basis over the useful economic lives, which is estimated between 1 and 7 years for computer software licenses and 47 years for rights of land rent and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is 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 profit or loss in the expense category consistent with the function of the intangible asset.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.17 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

### 2.18 Share capital

Ordinary shares are classified as equity.

### 2.19 Dividends

Dividends declared are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before or at the end of the reporting period. Such dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the consolidated financial statements are authorised for issue.

### 2.20 Treasury shares

The Company’s equity instruments which are reacquired (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 Company’s own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

### 2.21 Revenue Recognition

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are dispatched and legal title is passed.

Revenues are measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Expense Recognition

Expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the period to which they relate.

Advertising costs are expensed when incurred.

### 2.23 Pension Costs

Under provisions of Russian legislation, social contributions are made through a special security tax ("SSC") 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 SSC to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund varies from 22% to 10% depending on the annual gross salary of each employee. The Group's contributions relating to SSC are expensed in the year to which they relate.

### 2.24 Foreign Currency Transactions

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. All resulting differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

### 2.25 Impairment of Non-Financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. The assets subject to such assessment are primarily property, plant and equipment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## 2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.26 Agriculture

Agricultural activity is defined by the management as an activity of the biological transformation of biological assets for sale into agricultural produce or into additional biological assets. Agricultural produce is defined as the harvested product of the Group's biological assets and a biological asset is defined as a living fish. The Group has determined the groups of its biological assets to be live fish – trout and salmon – and smolt.

In accordance with IAS 41, prior to harvest, biological assets related to agricultural activity are measured at fair value less estimated point-of-sale costs, with any changes in fair value recognized in profit or loss, unless the fair value cannot be measured reliably. Point-of-sale costs include all costs that would be necessary to sell the assets. When little biological transformation has taken place since the initial cost outlay, biological assets are valued on the basis of actual costs, therefore smolt is measured at cost. The cost includes direct costs related to the management of the biological transformation of biological assets, like costs of smolt, feeds, labour costs of employees directly involved in production process, depreciation and related production overheads.

Live fish is measured at fair value in accordance with IFRS 13.

Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated point-of-sale costs at the point of harvest and is subsequently recorded as inventories and measured in accordance with the accounting principles of inventory (Note 2.11).

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a subsequent change in fair value less estimated point-of-sale costs of a biological asset is included in profit or loss for the period in which it arises as "Gain/(loss) on revaluation of biological assets".

Level 3 approach is used to determine the fair value of live fish. Significant inputs in valuations derive from observable quoted prices for similar assets (Note 4.7).

The biological assets are recorded as current and non-current biological assets based on the operational cycle of the respective biological assets.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

### Adoption of the new standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as discussed below.

The Group has adopted the following new and amended International Accounting Standards ("IAS"), International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB in these annual consolidated financial statements:

- A package of five new and revised Standards on consolidation, joint arrangements, associates and disclosures, as well as subsequent amendments thereto, comprising:
  - IFRS 10 "Consolidated Financial Statements";
  - IFRS 11 "Joint Arrangements";
  - IFRS 12 "Disclosure of Interests in Other Entities";
  - IAS 27 "Separate Financial Statements" (as revised in 2011);
  - IAS 28 "Investments in Associates and Joint Ventures" (as revised in 2011);
  - Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" – Transition guidance;
- IFRS 13 "Fair Value Measurement";
- IAS 19 "Employee Benefits" (as revised in 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Disclosures Offsetting of Financial assets and Financial Liabilities;
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for accounting periods that begin on or after 1 July 2012);
- Annual Improvements to IFRSs: 2009-2011 Cycle.

The adoption of these new and revised standards and interpretations has not had an impact on consolidated financial statements of the Group for the year ended 31 December 2013.

### Standards and interpretations in issue not yet adopted

The following new or revised standards and interpretations issued by IASB and IFRIC have been published at the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2013, but are not yet effective:

- IFRS 9 "Financial Instruments"; Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial instruments: Disclosures";
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities;
- Amendments to IAS 36 "Impairment of Assets": Recoverable Amount Disclosures for Non-Financial Assets;
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement": Novation of Derivatives and Continuation of Hedge Accounting;
- IFRIC 21 "Levies";
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### IFRS 9 "Financial Instruments"

IFRS 9 is a new Standard for financial instruments that is ultimately intended to replace IAS 39 in its entirety. IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are the following:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The IASB has tentatively decided to set 1 January 2015 as the effective date for the mandatory application of IFRS 9. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

### *Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014. Retrospective application is required. The Group is currently assessing the impact of these amendments on its consolidated financial statements and does not expect the amendments to have a material impact on the Group's consolidated statement of financial position and results of operations.

### *Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities*

The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

***Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities (continued)***

- Obtains funds from one or more investors for the purpose of providing them with professional investment management services;
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measures and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

***Amendments to IAS 36 "Impairment of Assets": Recoverable Amount Disclosures for Non-Financial Assets***

Amends IAS 36 "Impairment of Assets" to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

***Amendments to IAS 39 "Financial Instruments: Recognition and Measurement": Novation of Derivatives and Continuation of Hedge Accounting***

Amends IAS 39 "Financial Instruments: Recognition and Measurement" to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

**IFRIC 21 "Levies"**

Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time;
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

Amendments become effective for accounting periods beginning on or after 1 January 2014.

In general, the amendments require retrospective application, with specific transitional provisions. The amendments are expected to have no impact on the Group's consolidated financial statements.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### *Annual Improvements to IFRSs 2010-2012 Cycle*

In December 2013 the IASB issued Annual Improvements to IFRSs: 2010-2012 Cycle, containing amendments to seven IFRSs (IFRS 2 “Share based payments”, IFRS 3 “Business Combinations”, IFRS 8 “Operating Segments”, IFRS 13 “Fair Value Measurement”, IAS 16 “Property, Plant and Equipment”, IAS 24 “Related Party Disclosures”, IAS 38 “Intangible Assets”). This is the fifth collection of amendments issued the annual improvement process, which is designed to make necessary, but non-urgent, amendments to IFRSs. The amendments are applied retrospectively and are effective for annual periods beginning on or after 1 July 2014, with earlier application permitted. Entities are permitted to early adopt any individual amendment within the Annual Improvements to IFRSs: 2010-2012 Cycle without early adoption all other amendments. The Group does not expect any significant impact on its consolidated financial statements which can be caused by these Improvements to IFRSs.

### *Annual Improvements to IFRSs 2011-2013 Cycle*

In December 2013 the IASB issued also Annual Improvements to IFRSs: 2011-2013 Cycle, incorporating amendments to four IFRSs (IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 3 “Business Combination”, IFRS 13 “Fair Value Measurement” and IAS 40 “Investment Property”). This is the sixth set of amendments issued under the annual improvement process. The amendments are applied retrospectively and are effective for annual periods beginning on or after 1 July 2014, with earlier application permitted. Entities are permitted to early adopt any individual amendment within the Annual Improvements to IFRSs: 2011-2013 Cycle without early adoption all other amendments. The Group does not expect any significant impact on its consolidated financial statements which can be caused by these Improvements to IFRSs.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management has made certain judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key judgements concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 4.1 Financial Conditions and Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern, which contemplates the realisation of assets and the liquidation of liabilities in the normal course of business.

During the past three years the Group has incurred continuous losses, which resulted in deteriorating financial position and declining liquidity. During the reporting period the financial results of the Group have improved. For the first time during the last 3 years the Group has earned net profit of 436 million rubles, compared with 1,106 million rubles net loss in 2012. Net profit from continued operations in 2013 amounted to 453 million rubles against 102 million rubles loss in 2012.

Consolidated revenue from continued operations for the year ended 31 December 2013 increased over the same period of 2012 by 13% - from 16,008 million to 18,045 million rubles.

## 4. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### 4.1 Financial Conditions and Going Concern (continued)

Selling and distribution expenses of the Group in 2013 decreased by 58 million rubles, as compared to 2012. Such decrease of expenses was achieved thorough the realization of a set of measures aimed at optimizing working capital mainly in the distribution segment.

Use of currency forwards allowed the Group to reduce exposure to fluctuations of exchange rates in 2013.

For a long time CJSC Russian Sea which comprised ready-to-eat fish and seafood product segment of the Group was the least profitable business which generated major part of the losses for the Group. Considering the poor financial performance of CJSC Russian Sea management took a decision to sell a business and finalized the sale on 28 February 2013. The consideration received from disposal of CJSC Russian Sea was used for partial repayment of short-term loans. The deal has allowed concentrating the Group efforts on more profitable and sustainable businesses: distribution of fish products and aquaculture.

The Group's fish farming operations are expanding: in June 2013 the second Atlantic salmon farm was successfully launched – Shalim in Ura-guba of Barents sea basin, Murmansk region. 12 cages and fish feeding barge were installed at the site. Currently all smolt is stocked at Shalim. The Company prepares to start operations at Titovka site in 2014.

At the trout farm in Karelia two more sites for trout farming were launched where commercial fish farming has already started. The fish harvest has started in September 2013 and will continue in 2014 until the planned volume is sold.

In the segment of fish products distribution the Group will continue to increase the sales of chilled fish in regions and strengthen the sales through retail chains by increasing sales of salmon and packaged fish products, expansion of the active customer base, and improvement of service level. For fish farming segment purchases of feeds were restructured in September – October 2013 – feeds will be acquired directly from Norway suppliers without intermediaries as it was before. The Group optimizes logistical costs and reduces stock holding costs.

In June 2013 the Group successfully redeemed bonds as part of annual offer on bonds in the amount of 209 million rubles.

During 2013 the Group has reduced its borrowings by 1,020 million rubles. In January – March 2014 the Group has repaid short-term loans in the amount of 928.7 million rubles, including 805 million rubles to Sberbank, 100 million rubles to VTB and 23.7 million rubles to Rosselkhozbank. Negotiations are in progress to refinance loans payable to Rosselkhozbank in the amount of 698 million rubles maturing in April 2014.

All of the above gives sufficient ground to management to believe that the Group will be able to continue as a going concern in foreseeable future.

### 4.2 Allowance for doubtful accounts receivable

The Group creates an allowance for doubtful accounts receivable to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2013 allowances for doubtful accounts receivable have been created in the amount of 44,544 (as at 31 December 2012– 52,924) – Note 12.

## 4. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### 4.3 Inventory Provision

The Group determines the provision for obsolete or slow moving items of inventories based on their expiration dates, expected future use and net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of sale or distribution. Selling prices and costs of sell are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

### 4.4 Litigation

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

### 4.5 Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations 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, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2013 and 2012 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

### 4.6 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 utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income of the respective tax type and in the respective jurisdiction. Various factors are used to assess the probability of the future utilization 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 that 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 the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

### 4.7 Biological Assets

Prior to harvest, biological assets related to agricultural activity are measured at fair value less estimated point-of-sale costs, with any changes in fair value recognized in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets.

Smolt (up to 200 grams for trout and 1,000 grams for salmon) is valued on the basis of actual costs since little biological transformation has taken place.

Fair value of the Group’s live fish is determined by using valuation techniques, as there are no observable market prices for live fish. The fair value of live fish is determined based on the expected cash flow from the sale of the fish after harvest.

## 4. ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### 4.7 Biological Assets (continued)

The cash flow was calculated based on the following key assumptions:

- Live weight of fish was adjusted for gutting coefficient 16%;
- The market prices for 1,000 g of salmon were determined based on actual spot prices published at fishpool.eu at the reporting date;
- As price published at fishpool.eu reflects the average total weekly market price for salmon delivered FCA Oslo, market prices were adjusted for increment related to transportation costs, customs broker services, import customs duties and VAT, as well as for the stage of growth for the salmon between 1,000 g and 2,000 g fish.
- Actual selling prices at the reporting date were used for trout;
- Expected selling expenses include eviscerating and packing costs.

All assumptions used in calculation of cash flows except for market prices are based on actual results for the prior periods.

Significant assumptions for the determination of the fair value of biological assets are gutting coefficients and prices. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the gutting coefficients are 5% higher (lower), the biological assets would decrease (increase) by 65,642.
- If the market prices are 10% higher (lower), the biological assets would increase (decrease) by 109,936.

The sensitivity analysis presented above may not be representative of the actual change in the biological assets as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The biological assets are recorded as current and non-current biological assets based on the operational cycle of the respective biological assets. In general, biological assets of smolt and growing fish are recognised as current assets, because the operational cycle is less than 12 months – it takes approximately 10 months for live fish to reach market weight.

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 5. CHANGES IN THE PRESENTATION OF THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

### Reclassifications

In 2013 the Group has changed presentation of its consolidated financial statements with respect to classification of biological assets in the consolidated statement of financial position to present biological assets as a separate line item. Due to this change certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2012, has been reclassified in order to achieve comparability with the current period presentation.

| | As previously reported | Reclassification | After reclassification |
|---|---|---|---|
| **Consolidated Statement of Financial Position for the year ended 31 December 2012** | | | |
| Inventories | 1,158,619 | (322,749) | 835,870 |
| Biological assets | - | 322,749 | 322,749 |

In 2013, the Group has conducted a detailed analysis and has revised its classification of prepayments related to goods in transit with a view to improve classification of such prepayments. As a result of such analysis it was concluded that actual prepayments related to goods in transit in the amount of 23,171 should be viewed as inventories. Therefore certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2012, has been reclassified to be consistent with the classification for the year ended 31 December 2013.

| | As previously reported | Reclassification | After reclassification |
|---|---|---|---|
| **Consolidated Statement of Financial Position for the year ended 31 December 2012** | | | |
| Inventories | 835,870 | 23,171 | 859,041 |
| Advances paid to suppliers, net | 216,894 | (23,171) | 193,723 |

## 6. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and has two reportable operating segments: (1) chilled and frozen fish distribution and (2) fish farming operating activities conducted by LLC Trout Farm Segozerskoye and LLC Russian Sea Aquaculture. 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 segment profit. Segment profit is segment revenue less segment expense. Segment expense consists of cost of sales and selling and distribution costs.

The segments are determined based on internal reporting to the chief operating decision makers – the Management Board of OJSC Russian Sea Group.

In December 2012 the Group announced its intention to sell CJSC Russian Sea which fully represented the ready-to-eat fish and seafood segment. Therefore the operations relating to CJSC Russian Sea and ready-to-eat fish and seafood segment respectively were classified as discontinued operations.

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 6. SEGMENT INFORMATION (CONTINUED)

| Year ended 31 December 2013 | Chilled and frozen fish distribution | Fish farming | Eliminations | Group |
|---|---|---|---|---|
| Sales to external customers | 18,039,104 | 5,542 | - | 18,044,646 |
| Inter-segment sales | 18,605 | 133,267 | (151,872) | - |
| **Total revenue** | **18,057,709** | **138,809** | **(151,872)** | **18,044,646** |
| Gain on revaluation of biological assets | **-** | **452,040** | **-** | **452,040** |
| Segment profit [1] | **763,807** | **440,213** | **3,507** | **1,207,527** |
| General and administrative expenses | | | | (339,585) |
| Other operating income | | | | 26,825 |
| Other operating expenses | | | | (9,424) |
| Interest income | | | | 15,165 |
| Interest expense | | | | (349,554) |
| Exchange gain | | | | (47,550) |
| **Profit before income tax** | | | | **503,404** |
| Segment assets | 2,723,501 | 2,434,664 | - | 5,158,165 |
| Unallocated assets[2] | | | | 137,502 |
| **Total assets** | | | | **5,295,667** |
| Segment liabilities | 2,843,695 | 1,536,058 | - | 4,379,753 |
| Unallocated liabilities[2] | | | | 691,566 |
| **Total liabilities** | | | | **5,071,319** |
| Additions to segment non-current assets | 1,056 | 295,921 | - | 296,977 |
| Additions to unallocated non-current assets | | | | 465 |
| Depreciation and amortisation of fixed and intangible assets | 7,402 | 9,263 | - | 16,665 |
| Unallocated depreciation and amortisation of fixed and intangible assets | | | | 6,604 |
| **EBITDA[3]** | | | | **908,612** |
| **Net debt/EBITDA[4]** | | | | **3.17** |

[1] Inter-segment sales are based on 3.05% mark up for the year ended 31 December 2013 (year ended 31 December 2012: 3.01%).

[2] Unallocated assets and liabilities include assets classified as held for sale, liabilities directly associated with assets classified as held for sale, and assets and liabilities of the managing company OJSC Russian Sea Group.

[3] EBITDA is a primary measure monitored by the Management Board and defined as profit before tax less general and administrative expenses and other income and expenses before depreciation and amortization.

[4] Net debt is defined as total borrowings and bonds payable less cash and cash equivalents.

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 6. SEGMENT INFORMATION (CONTINUED)

| Year ended 31 December 2012 | Chilled and frozen fish distribution | Fish farming | Eliminations | Group |
|---|---|---|---|---|
| Sales to external customers | 15,950,273 | 57,984 | - | 16,008,257 |
| Inter-segment sales | 136,604 | 59,066 | (195,670) | - |
| **Total revenue** | **16,086,877** | **117,050** | **(195,670)** | **16,008,257** |
| Segment profit[1] | **384,319** | **(26,967)** | **(1,256)** | **356,096** |
| General and administrative expenses | | | | (289,384) |
| Other operating income | | | | 10,724 |
| Other operating expenses | | | | (45,397) |
| Interest income | | | | 2,567 |
| Interest expense | | | | (224,034) |
| Exchange gain | | | | 82,868 |
| **Loss before income tax** | | | | **(106,560)** |
| Segment assets | 2,550,248 | 965,934 | - | 3,516,182 |
| Unallocated assets[2] | | | | 2,218,860 |
| **Total assets** | | | | **5,735,042** |
| Segment liabilities | 3,822,406 | 982,804 | - | 4,805,210 |
| Unallocated liabilities[2] | | | | 1,140,796 |
| **Total liabilities** | | | | **5,946,006** |
| Additions to segment non-current assets | 7,866 | 225,858 | - | 233,724 |
| Additions to unallocated non-current assets | | | | 55,840 |
| Depreciation and amortisation of fixed and intangible assets | 5,891 | 24,817 | - | 30,708 |
| **EBITDA[3]** | | | | **62,747** |
| **Net debt/EBITDA[4]** | | | | **56.98** |

The Group considers that there is only one geographical segment – Russian Federation.

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties include shareholders, key management, entities under common ownership and control, and entities over which the Group has significant influence.

The nature of the related party relationships for those related parties with whom the Group entered into transactions for the year ended 31 December 2013 and for the year ended 31 December 2012 or had balances outstanding as of 31 December 2013 and as at 31 December 2012 is detailed below.

***Balances with Related Parties:***

| Description | Interest and other receivables | Cash and cash equivalents | Other payables to related parties |
|---|---|---|---|
| **31 December 2013** | | | |
| Entities under common control (C) | 8,130 | - | - |
| Entities under common control (E) | - | - | 197 |
| **31 December 2012** | | | |
| Entities under common control (A) | - | 2,389 | - |
| Entities under common control (D) | 60 | - | 73 |

***Transactions with Related Parties:***

| Description | Relationship | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|---|
| Purchases | Entity under common control (F) | 8,614 | - |
| Other operating income | Entity under common control (C) | 2,880 | 196 |
| Purchases | Key management personnel (B) | 1,614 | - |
| Purchases | Entity under common control (E) | 145 | - |
| Other operating income | Key management personnel (D) | 77 | 79 |
| Short-term loans received from related parties | Entities under common control (G) | - | 350,000 |
| Short-term loans repaid to related parties | Entities under common control (G) | - | 350,000 |
| Bonds issued to related parties | Entities under common control (H) | - | 350,000 |
| Payments made | Entities under common control (A) | - | 4,614 |
| Purchases | Entity under common control (D) | - | 2,040 |
| Purchases | Entity under common control (B) | - | 2,014 |
| Interest accrued and paid on short-term loans | Entities under common control (G) | - | 1,865 |

(A) Cash and cash equivalents represent current bank accounts denominated in Euro and US$.

(B) Purchases represented consulting services and rent of office equipment.

(C) Other operating income represented rent of office.

(D) Sales of office equipment and ready-to-eat production sales.

(E) Transaction related to marketing expenses.

(F) Purchases of ready-to-eat production.

(G) Short-term loan denominated in RR received from related parties with an interest rate of 9.75% p.a.

(H) Transaction related to issue of 350,000 bonds to the related party.

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### *Compensation to Key Management Personnel*

Key management personnel comprised 5 persons as at 31 December 2013 (31 December 2012: 16 persons). Total compensation to key management personnel, all of which represented short-term employee benefits (monthly payroll and bonuses), included in general and administrative expenses in the consolidated statement of comprehensive income amounted to 75,660 for the year ended 31 December 2013 (74,979 for the year ended 31 December 2012).

### *Shareholders of the Group*

As of 31 December 2013 and as of 31 December 2012 the registered shareholders of OJSC Russian Sea Group and their respective ownership and voting rights were as follows:

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| RSEA HOLDINGS LIMITED | 61% | 61% |
| Members of Board of Directors | 25% | 25% |
| Free float | 14% | 14% |
| | **100%** | **100%** |

All shares bear equal voting rights.

## 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consist of the following:

| | **Land** | **Buildings** | **Plant and machinery** | **Other** | **Assets under construc-tion** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 January 2013** | **-** | **69,247** | **353,161** | **103,553** | - | **525,961** |
| Additions | - | - | - | - | 297,441 | **297,441** |
| Disposals | - | - | (1,214) | (8,489) | - | **(9,703)** |
| Transfers | - | 13,085 | 265,870 | 11,311 | (290,266) | **-** |
| **Balance at 31 December 2013** | **-** | **82,332** | **617,817** | **106,375** | **7,175** | **813,699** |
| **Accumulated depreciation** | | | | | | |
| **Balance at 1 January 2013** | **-** | **(1,511)** | **(50,432)** | **(29,610)** | **-** | **(81,553)** |
| Depreciation charge | **-** | (2,197) | (57,123) | (15,837) | **-** | **(75,157)** |
| Depreciation on disposals | **-** | - | 624 | 4,644 | **-** | **5,268** |
| **Balance at 31 December 2013** | **-** | **(3,708)** | **(106,931)** | **(40,803)** | **-** | **(151,442)** |
| **Net Book Value** | | | | | | |
| **Balance at 1 January 2013** | **-** | **67,736** | **302,729** | **73,943** | **-** | **444,408** |
| **Balance at 31 December 2013** | **-** | **78,624** | **510,886** | **65,572** | **7,175** | **662,257** |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Land | Buildings | Plant and machinery | Other | Assets under construc-tion | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 January 2012** | **8,716** | **593,642** | **768,896** | **410,217** | **38,038** | **1,819,509** |
| Additions | - | - | - | - | 269,292 | **269,292** |
| Disposals | - | - | (19,262) | (24,746) | - | **(44,008)** |
| Transfers | - | 3,754 | 258,007 | 27,803 | (289,564) | **-** |
| Reclassification to assets held for sale | (8,716) | (528,149) | (654,480) | (309,721) | (17,766) | **(1,518,832)** |
| **Balance at 31 December 2012** | **-** | **69,247** | **353,161** | **103,553** | - | **525,961** |
| **Accumulated depreciation** | | | | | | |
| **Balance at 1 January 2012** | - | **(65,895)** | **(278,788)** | **(80,742)** | - | **(425,425)** |
| Depreciation charge | - | (16,851) | (118,940) | (47,120) | - | **(182,911)** |
| Depreciation on disposals | - | - | 15,747 | 20,450 | - | **36,197** |
| Reclassification to assets held for sale | - | 81,235 | 331,549 | 77,802 | - | **490,586** |
| **Balance at 31 December 2012** | **-** | **(1,511)** | **(50,432)** | **(29,610)** | **-** | **(81,553)** |
| **Net Book Value** | | | | | | |
| **Balance at 1 January 2012** | **8,716** | **527,747** | **490,108** | **329,475** | **38,038** | **1,394,084** |
| **Reclassification to assets held for sale** | **(8,716)** | **(446,914)** | **(322,931)** | **(231,919)** | **(17,766)** | **(1,028,246)** |
| **Balance at 31 December 2012** | **-** | **67,736** | **302,729** | **73,943** | **-** | **444,408** |

There were no idle or fully depreciated items as at 31 December 2013 and 2012.

Production equipment with a carrying amount of approximately 420,131 and buildings with a carrying amount of approximately 78,301 respectively has been pledged as at 31 December 2013 (as at 31 December 2012: 477,376 (including 282,707 classified as assets held for sale) and 269,853 (including 188,609 classified as assets held for sale)) to secure borrowings of the Group (Notes 20, 21, 22). The pledge agreements related to the assets classified as assets held for sale were annulated during February 2013 in the course of sale of CJSC Russian Sea (Notes 4, 17, 31).

For the year ended 31 December 2013 depreciation charge in the amount of 51,888 was capitalized in biological assets (For the year ended 31 December 2013: 152,203).

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 9. INTANGIBLE ASSETS

| | Rights of land rent | Computer software licenses | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 1 January 2013** | **47,062** | **26,345** | **73,407** |
| Additions | 77 | 349 | 426 |
| **Balance at 31 December 2013** | **47,139** | **26,694** | **73,833** |
| **Accumulated amortization** | | | |
| **Balance at 1 January 2013** | **(5,190)** | **(16,328)** | **(21,518)** |
| Amortization charge | (2,331) | (3,450) | (5,781) |
| **Balance at 31 December 2013** | **(7,521)** | **(19,778)** | **(27,299)** |
| **Net Book Value** | | | |
| **Balance at 1 January 2013** | **41,872** | **10,017** | **51,889** |
| **Allocation of amortization expenses to discontinued operations** | **-** | **(375)** | **(375)** |
| **Balance at 31 December 2013** | **39,618** | **6,541** | **46,159** |

| | Rights of land rent | Computer software licenses | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 1 January 2012** | **41,186** | **24,005** | **65,191** |
| Additions | 5,876 | 11,509 | 17,385 |
| **Balance at 31 December 2012** | **47,062** | **35,514** | **82,576** |
| **Accumulated amortization** | | | |
| **Balance at 1 January 2012** | **(3,377)** | **(10,790)** | **(14,167)** |
| Amortization charge | (1,813) | (6,678) | (8,491) |
| **Balance at 31 December 2012** | **(5,190)** | **(17,468)** | **(22,658)** |
| **Net Book Value** | | | |
| **Balance at 1 January 2012** | **37,809** | **13,215** | **51,024** |
| **Reclassification to assets held for sale** | **-** | **(8,029)** | **(8,029)** |
| **Balance at 31 December 2012** | **41,872** | **10,017** | **51,889** |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 10. INVENTORIES

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Goods for resale | 1,005,088 | 829,542 |
| Raw materials | 62,981 | 29,499 |
| | **1,068,069** | **859,041** |

As of 31 December 2013 inventories in the amount of 833,000 (as of 31 December 2012: 789,888) were pledged (Notes 20, 21, 22).

## 11. BIOLOGICAL ASSETS

Biological assets as at 31 December 2013 comprise 5,175 tones of live fish (1,279 tones as at 31 December 2012) and 881 tones of smolt (617 tones as at 31 December 2012).

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Balance at the beginning of the year | 322,749 | 177,403 |
| Increase due to incurred expenses | 720,309 | 298,918 |
| Transferred to inventories | (111,596) | (111,216) |
| Write-off as a result of stock-count | (32,336) | (42,356) |
| Change in fair value less estimated point-of-sale costs | 452,040 | - |
| | **1,351,166** | **322,749** |

On 31 December 2013 total amount of commitments for the acquisition of biological assets for 2014 amounted to 127,173 (on 31 December 2012: nil).

As of 31 December 2013 biological assets (smolt salmon) in the amount of 835,812 (as of 31 December 2012: 86,243) were pledged (Notes 20, 21, 22).

## 12. TRADE AND OTHER RECEIVABLES, NET

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Trade receivables | 1,107,255 | 894,023 |
| Other receivables | 11,370 | 82,609 |
| Less: Allowance for doubtful accounts receivable | (44,544) | (52,924) |
| | **1,074,081** | **923,708** |

The following table summarises the changes in the allowance for doubtful accounts receivable for the year ended 31 December 2013 and 2012:

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 12. TRADE AND OTHER RECEIVABLES, NET (CONTINUED)

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Balance at the beginning of the year | 52,924 | 80,167 |
| Reversal of allowance due to accounts receivable write-off | (15,907) | (52,263) |
| Recognition of allowance for doubtful accounts receivable | 7,527 | 54,329 |
| Reclassification to assets held for sale | - | (29,309) |
| | **44,544** | **52,924** |

Trade receivables are non-interest bearing and are normally settled within 90-120 days.

Included in the Group's total trade and other receivables are debtors with a carrying amount of 26,656 and 95,113 as at 31 December 2013 and 31 December 2012 respectively, which are past due at the respective reporting date and which the Group considers to be fully recoverable. The Group does not hold any collateral over these outstanding balances.

Maturity profile of trade and other receivables is summarised in the  Note 35.6.

Trade receivables as at 31 December 2013 include 100,623 (as at 31 December 2012: 128,336) subject to factoring agreement with VTB. Average effective rate for the factoring agreement is 12% for 2013 and 2012. According to the factoring agreement risks and rewards on the receivables are not transferred to the factor-company in the case of customers' default to pay. Therefore these amounts are continued to be treated as trade receivables with the liabilities to VTB being shown in other advances received.

## 13. ADVANCES PAID TO SUPPLIERS, NET

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Advances paid for raw fish and seafood | 223,100 | 178,229 |
| Other | 147,294 | 63,863 |
| Less: Impairment of advances paid | (48,327) | (48,369) |
| | **322,067** | **193,723** |

## 14. LONG-TERM INVESTMENTS

Long-term investments as at 31 December 2013 were denominated in RR and comprised promissory notes issued to the Group by Rosselkhozbank in April 2013 in the amount of 194,000 and pledged for the loans payable to Rosselkhozbank (Notes 21 and 22).

The outstanding balances, interest rates maturity dates as at 31 December 2013 are summarised below:

| Issuance date | Par value | Number of promissory notes | Outstanding balance | Interest rate | Maturity Date |
|---|---|---|---|---|---|
| 17 April 2013 | 1,040 | 25 | 26,000 | 7.26% | On demand but not earlier than 30 April 2015 and not later than 15 May 2015 |
| 17 April 2013 | 4,800 | 35 | 168,000 | 7.26% | On demand but not earlier than 29 April 2016 and not later than 16 May 2016 |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 15. HELD FOR TRADING DERIVATIVES THAT ARE NOT DESIGNATED IN HEDGE ACCOUNTING RELATIONSHIPS

Held for trading derivatives that are not designated in hedge accounting relationships as at 31 December 2013 consist of the following:

| | Notional amount (thousands of units of currency to be purchased) | Fair value | |
|---|---|---|---|
| | | **Assets** | **Liabilities** |
| Foreign currency forward contracts US$/RUB | US$ 18,002 | - | 2,399 |
| | | **-** | **2,399** |

Held for trading derivatives that are not designated in hedge accounting relationships as at 31 December 2012 consist of the following:

| | Notional amount (thousands of units of currency to be purchased) | Fair value | |
|---|---|---|---|
| | | **Assets** | **Liabilities** |
| Foreign currency forward contracts US$/RUB | US$ 23,500 | 314 | 9,684 |
| | | **314** | **9,684** |

Total amount of income on held for trading derivatives that are not designated in hedge accounting relationships included in exchange gain in the consolidated statement of comprehensive income amounted to 8,831 for the year ended 31 December 2013 (31 December 2012: loss of 16,373).

## 16. CASH AND CASH EQUIVALENTS

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Russian Roubles denominated cash in banks and on hand | 115,046 | 330,126 |
| Foreign currency denominated cash in banks: | 1,333 | 2,444 |
| *- US dollars* | *1,239* | *2,247* |
| *- Euro* | *94* | *197* |
| Cash equivalents | 200,018 | 283,998 |
| Restricted cash | 45,359 | 24,326 |
| | **361,756** | **640,894** |

Current accounts in banks carry no interest.

Cash equivalents include short-term, redeemable on demand deposits with original maturity of one to ten days in the amount of 200,000 as of 31 December 2013 (as at 31 December 2012: 283,600) with interest rate 7.5% p.a. (31 December 2012: 5.3% p.a.)

Restricted cash in the amount of 45,359 is represented by letter of credit facility (31 December 2012: 24,326). The Group is unable to use any amount for any purposes except for payments to certain suppliers.

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 17. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS HELD FOR SALE

As described in the Note 4 the Group completed disposal of its ready-to-eat business on 28 February 2013. At 31 December 2012 related assets and liabilities were classified as assets held for sale and liabilities directly associated with the assets held for sale, and were as follows:

| **Assets classified as held for sale** | **Before impairment** | **Impairment** | **31 December 2012** |
|---|---|---|---|
| Property, plant and equipment (Note 8) | 1,028,246 | (544,536) | 483,710 |
| Intangible assets (Note 9) | 8,029 | (4,252) | 3,777 |
| Deferred tax assets (Note 30) | 180,400 | - | 180,400 |
| Inventories | 532,045 | - | 532,045 |
| Trade and other receivables, net | 745,789 | - | 745,789 |
| VAT recoverable | 21,336 | - | 21,336 |
| Advances paid to suppliers, net | 67,289 | - | 67,289 |
| Loans given to third parties | 2,700 | - | 2,700 |
| Income tax receivable | 73,945 | - | 73,945 |
| Cash and cash equivalents | 30,747 | - | 30,747 |
| | **2,690,526** | **(548,788)** | **2,141,738** |
| **Liabilities directly associated with assets held for sale** | | | |
| Trade payables | 149,617 | - | 149,617 |
| Other payables | 23,708 | - | 23,708 |
| Advances received from customers | 119,201 | - | 119,201 |
| Other taxes payable | 12,581 | - | 12,581 |
| | **305,107** | - | **305,107** |
| **Net assets held for sale** | **2,385,419** | **(548,788)** | **1,836,631** |

For the year ended 31 December 2012 impairment in the amount of 548,788 was recognized on the measurement to fair value less costs to sell of the aggregate carrying amount of all the assets and liabilities related to CJSC Russian Sea except for rights of land rent which were not passed to the acquirer (Note 31). The fair value less costs to sell was determined as the price of the transaction including the assignment of rights of intra-group debt claim and the related income tax benefit less the costs associated with the transaction including bonuses paid to management of the Group to effect the transaction.

## 18. TRADE PAYABLES

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Trade payables for raw fish and seafood | 1,299,954 | 864,478 |
| Trade payables for services | 183,610 | 161,936 |
| | **1,483,564** | **1,026,414** |

The average credit period approximates 30 days for the year ended 31 December 2013 and 2012. No interest is charged on the outstanding balance of trade payables during or after the credit period.

## 19. OTHER PAYABLES

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Payroll-related payables | 48,268 | 11,742 |
| Customs payable | 15,162 | - |
| Interest payable | 2,686 | 20,574 |
| | **66,116** | **32,316** |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 20. LONG-TERM BORROWINGS

Long-term borrowings as at 31 December 2013 and at 31 December 2012 were denominated in RR and comprised the following credit facilities:

| Bank | Outstanding balance as at 31 December 2013 | Maturity Date | Credit facility limit |
|---|---|---|---|
| Rosselkhozbank | 220,546 | December 2016 | 476,500 |
| Rosselkhozbank | 204,304 | April 2021 | 228,000 |
| | **424,850** | | |

| Bank | Outstanding balance as at 31 December 2012 | Maturity Date | Credit facility limit |
|---|---|---|---|
| SPB OIL LLC | 150,000 | April 2015 | 150,000 |
| Sberbank | 900,000 | February 2014 | 900,000 |
| Sberbank | 650,000 | January 2014 | 650,000 |
| Rosselkhozbank | 311,332 | December 2016 | 311,500 |
| | **2,011,332** | | |

All long-term borrowings have fixed interest rate. The weighted average interest rate on these borrowings is 14.52% per annum, in the range of 13.98% – 15 % (2012: 11.33% per annum, in the range of 9% – 14.10% per annum).

## 21. SHORT-TERM BORROWINGS

Short-term borrowings as at 31 December 2013 and at 31 December 2012 were denominated in RR and comprised the following credit facilities:

| Bank | Outstanding balance as at 31 December 2013 | Maturity Date | Credit facility limit |
|---|---|---|---|
| Sberbank | 805,000 | February 2014 | 850,000 |
| Rosselkhozbank | 697,593 | April 2014 | 739,000 |
| MKB | 300,000 | June 2014 | 300,000 |
| Rosselkhozbank | 186,763 | July 2014 | 213,500 |
| VTB | 100,000 | January 2014 | 300,000 |
| Rosselkhozbank | 94,640 | March-December 2014 | 311,500 |
| Rosselkhozbank | 92,301 | September 2014 | 105,236 |
| | **2,276,297** | | |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 21. SHORT-TERM BORROWINGS (CONTINUED)

| Bank and credit facility agreement | Outstanding balance as at 31 December 2012 | Maturity Date | Credit facility limit |
|---|---|---|---|
| VTB | 500,000 | September 2013 | 500,000 |
| Sberbank | 300,000 | December 2013 | 300,000 |
| Rosselkhozbank | 276,291 | July 2013 | 333,500 |
| Rosselkhozbank | 277,822 | April 2013 | 278,000 |
| VTB | 249,957 | December 2013 | 249,957 |
| Rosselkhozbank | 105,236 | December 2013 | 105,236 |
| | **1,709,306** | | |

All short-term borrowings have fixed interest rate. The weighted average interest rate on these borrowings is 12.16% per annum, in the range of 10.75% – 14.60% (2012: 11.79% per annum, in the range of 10.75% – 13.37% per annum).

As at 31 December 2013 the VTB credit facility was secured by a pledge 892,858 (75%) shares of CJSC Russian Fish Company (as at 31 December 2012: 892,858 shares of CJSC Russian Fish Company and 947,820 shares of CJSC Russian Sea).

As at 31 December 2013 the Sberbank credit facilities were secured by a pledge of inventories (raw fish and fish and seafood products) in the amount of 833,000; as at 31 December 2012 – inventories (raw fish and fish and seafood products) in the amount of 966,888, including 177,000 classified as assets held for sale, production equipment in the amount of 282,707 classified as assets held for sale and land and buildings in the amount of 188,609 classified as assets held for sale (Notes 8 and 10).

As at 31 December 2013 the Rosselkhozbank long-term and short-term credit facilities were secured by a pledge of 100% interest in LLC Russian Sea Aquaculture, 1,569,131 (2%) shares of OJSC Russian Sea Group (as at 31 December 2012: pledge of 100% interest in LLC Russian Sea Aquaculture and 100% interest in LLC Trout Farm Segozerskoye), by a pledge of biological assets (smolt salmon) in the amount of 835,812 (as at 31 December 2012: 86,243), by a pledge of production equipment in the amount of 420,131 (as at 31 December 2012: 194,669), by a pledge of land and buildings in the amount of 78,301 (as at 31 December 2012: 81,244) and by a pledge of property acquired in the future in the amount 192,859 (as at 31 December 2012: 1,815) and pledge of promissory notes issued by Rosselkhozbank in the amount of 194,000 (as at 31 December 2012: nil) (Note 14).

The loan agreements with VTB establish certain financial covenants which should be maintained by the Group. As at 31 December 2013 the Group was in breach of two covenants (aggregated amount of financial assets of OJSC Russian Sea Group and CJSC Russian Fish Company limited to 700,000 and 20% target revenue growth of CJSC Russian Fish Company) in relation to the short-term loan agreements with VTB. No measures were taken by the bank as a result of such noncompliance as at 31 December 2013 and subsequent to 31 December 2013 up to the date of authorization of these consolidated financial statements for issue. In January 2014 the full amount of borrowings due to VTB was repaid, and the management strongly believes that no further sanctions will be implemented in relation to covenants breach.

In December 2013 the Group received government grants from the Fishery Committee of the Murmansk region in the amount of 25,097 as compensation of interest expenses of the loans purposed to acquisition of property, plant and equipment.

Total interest expense net of government grants received for continuing operations was as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Interest expense | 374,651 | 224,034 |
| Government grants | (25,097) | - |
| | **349,554** | **224,034** |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 22. BONDS PAYABLE

During the year ended 31 December 2013 the Group sold additional 265,407 bonds at par.

During the year ended 31 December 2013 215,222 bonds were repaid to bondholders in the amount of 215,222 and interest paid in the amount of 58,208.

The bonds are due on 23 June 2015, and the bondholders have a put option exercisable on June 2014. Therefore the bonds are classified as current liabilities.

Interest on bonds is payable on a half-year basis. Total interest accrued on bonds during the reporting period amounted to 57,733 (for the year ended 31 December 2012: 68,864).

The outstanding balances, coupon rates on the bonds payable and maturity dates are summarised below:

| | Outstanding balance | Coupon rate | Maturity Date |
|---|---|---|---|
| As at 31 December 2013 | 546,104 | 12.5% | 23 June 2015 |
| As at 31 December 2012 | 495,919 | 12.5% | 23 June 2015 |

## 23. OTHER TAXES PAYABLE

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Social security tax | 6,279 | - |
| Property tax and other taxes | 56 | 1,590 |
| | **6,335** | **1,590** |

## 24. COST OF SALES

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Cost of goods for resale – distribution | 16,043,875 | 14,349,288 |
| Cost of fish raised | 92,468 | 32,528 |
| Materials and components used in production | 13,509 | 19,464 |
| Production overheads | 2,898 | 37,591 |
| Direct labour costs | 2,221 | 10,450 |
| Depreciation | 500 | 11,183 |
| | **16,155,471** | **14,460,504** |

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 25. SELLING AND DISTRIBUTION COSTS

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Transport | 656,291 | 696,544 |
| Payroll and related taxes | 199,810 | 184,012 |
| Warehouse rent | 136,346 | 166,281 |
| Inventory write-offs as a result of stock take | 34,117 | 5,495 |
| Certification | 20,860 | 13,639 |
| Commission fees | 12,638 | 16,938 |
| Recognition of allowance for doubtful accounts receivable | 8,380 | 22,542 |
| Advertising | 6,616 | 7,439 |
| Insurance of goods in transit | 384 | 533 |
| Impairment of advances paid | 132 | 11,296 |
| Other | 58,114 | 66,938 |
| | **1,133,688** | **1,191,657** |

## 26. GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Payroll and related taxes | 173,349 | 128,157 |
| Rent and maintenance of buildings | 47,169 | 36,296 |
| Audit and consulting | 28,539 | 30,895 |
| Depreciation and amortization | 22,769 | 19,525 |
| Bank charges | 22,206 | 27,696 |
| Travel expenses | 9,031 | 8,748 |
| Taxes other than income tax | 8,999 | 8,639 |
| Communication services | 4,878 | 6,257 |
| Entertainment expenses | 1,301 | 3,015 |
| Security | 111 | 1,631 |
| Other | 21,233 | 18,525 |
| | **339,585** | **289,384** |

## 27. RETIREMENT BENEFIT PLANS

The statutory retirement age is 55 for women and 60 for men, in accordance with the Russian Federation Labour Code.

The Group does not offer a private pension plan to its employees. In accordance with Russian tax legislation, the Group pays statutory social security tax (at maximum rate 30.2%). This tax is regressive and comprises social insurance, contributions to the State Pension Fund and the State Medical Fund. The total contribution paid to the State Pension Fund during the year ended 31 December 2013 and during the year ended 31 December 2012 was equal to 57,436 and 44,315 respectively (for continuing operations). The Company has not reserved or accrued for pension, retirement or similar benefit obligations to Directors or senior executives. No Directors or senior executives have service contracts with the Company which offers them benefits upon termination of their respective appointments.

Total contributions for social security funds amounted to 73,053 during the year ended 31 December 2013 (for the year ended 31 December 2012: 56,678) (for continuing operations).

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 28. OTHER OPERATING INCOME

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Fines and penalties | 14,351 | 1,576 |
| Income from sub-rent | 6,882 | 459 |
| Gain on disposal of property, plant and equipment | 319 | - |
| Other | 5,273 | 8,689 |
| | **26,825** | **10,724** |

## 29. OTHER OPERATING EXPENSES

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Fines and penalties | 3,662 | 39,280 |
| Loss on disposal of property, plant and equipment | - | 1,066 |
| Charity | - | 180 |
| Other | 5,762 | 4,871 |
| | **9,424** | **45,397** |

## 30. INCOME TAX

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Income tax expense – current | 16,653 | 31,370 |
| Deferred tax benefit – origination and reversal of temporary differences | (44,768) | (35,601) |
| Deferred tax related to losses incurred on disposal of subsidiary, attributable to discontinued operations (Note 31) | 78,733 | - |
| **Income tax expense/(benefit)** | **50,618** | **(4,231)** |

The Group has tax losses that are available for ten-years period for offset against future taxable profits of the companies in which they arose. Deferred tax assets have been recognized in respect of these losses as they have arisen in subsidiaries that are expected to be profitable in the future periods.

Companies domiciled in Russia that do not have the status of an agricultural producer are subject to a 20% corporate income tax. Companies domiciled in Russia that do have the status of an agricultural producer are exempt from corporate income tax on profits realized from the sale of agricultural produce. LLC Trout Farm Segozerskoye and LLC Russian Sea Aquaculture have the status of agricultural producers and are exempt from corporate income tax.

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 30. INCOME TAX (CONTINUED)

The reconciliation of theoretical income tax at 20%, effective in the Russian Federation, to the actual tax expense recorded in the Group's consolidated statement of comprehensive income is as follows:

| | **Year ended 31 December 2013** | **Year ended 31 December 2012** |
|---|---|---|
| **Profit/(loss) before income tax from continuing operations** | **503,404** | **(106,560)** |
| Theoretical tax expense/(benefit) at statutory rate (20%) | 100,681 | (21,312) |
| *Tax effect of items which are not deductible or assessable for taxation purposes:* | | |
| Effect of different tax rate of the subsidiaries granted the status of an agricultural producer | (71,902) | 15,483 |
| Effect of expenses that are not deductible in determining taxable profit | 24,122 | 7,866 |
| Other | (2,283) | (6,268) |
| **Income tax expense/(benefit)** | **50,618** | **(4,231)** |

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized as at 31 December 2013 amounted to 181,319 (31 December 2012: 1,929,238). No liabilities have been recognized in respect of these differences and it is probable that such differences will not be reversed in the foreseeable future.

Movements in deferred tax balances were as follows:

| | | **Differences recognition and reversal** | | **Reclassification** | | | |
|---|---|---|---|---|---|---|---|
| | **31 December 2011** | **Continued operations** | **Discontinued operations** | **to assets held for sale** | **31 December 2012** | **Differences recognition and reversal** | **31 December 2013** |
| Tax effects of deductible temporary differences – asset/(liability): | | | | | | | |
| Accruals | (5,881) | 599 | 3,667 | 2,809 | 1,194 | 21,700 | 22,894 |
| Trade and other receivables | 16,917 | 5,431 | 19,954 | (29,343) | 12,959 | (1,936) | 11,023 |
| Intangible assets | - | - | - | - | - | 3,793 | 3,793 |
| Inventories | 9,353 | (3,454) | 17,338 | (24,413) | (1,176) | (513) | (1,689) |
| Property, plant and equipment | (4,817) | (760) | 292 | 3,223 | (2,062) | (79) | (2,141) |
| Tax losses carried forward | 130,473 | 33,785 | 8,738 | (132,676) | 40,320 | 21,803 | 62,123 |
| **Total net deferred tax asset** | **146,045** | **35,601** | **49,989** | **(180,400)** | **51,235** | **44,768** | **96,003** |

The recognition and reversals of temporary differences primarily relates to the following:

- Depreciation of property, plant and equipment in excess of depreciation for tax purposes;
- Impairment of trade receivables; and
- Difference in inventory valuation between accounting and tax books.

At 31 December 2013 deferred tax assets related to net operating losses incurred for the year ended 31 December 2013 amounted to 62,123 (at 31 December 2012: 55,803). The management considers that the full amount of deferred tax assets recognized at 31 December 2013 will be utilized (at 31 December 2012: 15,483 has been considered as not utilizable) and is confident that any remaining unutilized tax losses will be utilized in the future, as there is a 10-year carry-forward period before expiration. Deferred tax related to net operating losses incurred in the reporting period in the amount of 21,803 may be utilized till 2023 and deferred tax related to net operating losses incurred on begin of reporting period in the amount 40,320 may be utilized till 2022.

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 31. DISCONTINUED OPERATIONS AND DISPOSAL OF SUBSIDIARY

During 2013 the Group finalized a series of agreements to sell CJSC Russian Sea which comprised ready-to-eat fish and seafood product segment on 28 February 2013 to the third party investor.

Operations relating to CJSC Russian Sea were classified as discontinued operations in the consolidated statement of comprehensive income for the years ended 31 December 2013 and 31 December 2012.

### Net assets of CJSC Russian Sea at the date of disposal

| | |
|---|---|
| **Assets** | |
| Property, plant and equipment | 488,757 |
| Intangible assets | 3,211 |
| Deferred tax assets | 184,284 |
| Inventories | 439,995 |
| Trade and other receivables, net | 462,555 |
| VAT recoverable | 1,282 |
| Advances paid to suppliers, net | 23,400 |
| Income tax receivable | 73,946 |
| Cash and cash equivalents | 8,778 |
| | **1,686,208** |
| **Liabilities** | |
| Trade payables | 105,860 |
| Other payables | 13,955 |
| Advances received from customers | 5,227 |
| Other taxes payable | 12,740 |
| | **137,782** |
| **Net assets disposed of** | **1,548,426** |
| **Loss on disposal** | |
| Cash consideration received in 2013 | 1,534,400 |
| Advance payment received in 2012 | 60,000 |
| Net assets disposed of | (1,548,426) |
| Costs associated with disposal | (61,326) |
| **Loss on disposal of subsidiary** | **(15,352)** |

Costs associated with disposal include bonuses paid to the management of the Group for completing the transaction.

### Loss for the period from discontinued operations

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2012** |
| Revenue | 219,392 | 1,988,665 |
| Cost of sales | (122,843) | (1,260,237) |
| **Gross profit** | **96,549** | **728,428** |
| Selling and distribution expenses | (112,743) | (734,158) |
| General and administrative expenses | (37,985) | (254,103) |
| Other operating income | 1,098 | 4,408 |
| Other operating expenses | (5,661) | (19,236) |
| Interest income | 16 | 1,500 |
| Interest expense | (38,610) | (266,415) |
| Exchange gain/(loss) | 977 | (2,785) |
| **Loss before income tax** | **(96,359)** | **(542,361)** |
| **Income tax benefit** | 16,607 | 86,738 |
| Impairment recognized on the measurement to fair valued less costs to sell of disposal group constituting the discontinued operation | - | (548,788) |
| | **(79,752)** | **(1,004,411)** |
| Loss on disposal of subsidiary constituting the discontinued operation | (15,352) | - |
| Income tax benefit (Note 30) | 78,733 | - |
| | **63,381** | - |
| **Net loss for the period from discontinued operations** | **(16,371)** | **(1,004,411)** |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 31. DISCONTINUED OPERATIONS AND DISPOSAL OF SUBSIDIARY (CONTINUED)

Income tax benefit in the amount of 78,733 was recognized on the loss on the assignment of rights of intra-group debt and on costs associated with disposal, and was included in the calculation of the loss from discontinued operations.

### Net cash proceeds from disposal

| | |
|---|---|
| Cash consideration received in 2013 | 1,534,400 |
| Cash disposed of | (8,778) |
| **Net cash proceeds** | **1,525,622** |

Following the disposal of CJSC Russian Sea a related portion of the effect from reorganization of the Group under common control was transferred to retained earnings in the amount of 2,043,218.

## 32. EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding treasury shares. The Group has no dilutive potential ordinary shares; therefore, the diluted loss per share equal basic loss per share.

Earnings/(loss) per share calculated for the periods are as follows:

| **Continuing operations** | **Year ended 31 December 2013** | **Year ended 31 December 2012** |
|---|---|---|
| Weighted average number of ordinary shares outstanding | 79,499,050 | 79,537,651 |
| Profit/(loss) for the year from continuing operations attributable to owners of the parent | 452,786 | (102,329) |
| Basic and diluted earnings/(loss) per share from continuing operations, RR | 5.69 | (1.29) |
| **Discontinued operations** | | |
| Weighted average number of ordinary shares outstanding | 79,499,050 | 79,537,651 |
| Loss for the year from discontinued operations attributable to owners of the parent | (16,371) | (1,004,411) |
| Basic and diluted loss per share from discontinued operations, RR | (0.21) | (12.63) |
| **Continuing and discontinued operations** | | |
| Weighted average number of ordinary shares outstanding | 79,499,050 | 79,537,651 |
| Profit/(loss) for the year attributable to owners of the parent | 436,415 | (1,106,740) |
| Basic and diluted earnings/(loss) per share from continuing and discontinued operations, RR | 5.48 | (13.92) |

### *Dividends*

In accordance with Russian legislation, earnings available for dividends are limited to retained earnings of OJSC Russian Sea Group, calculated in accordance with statutory rules in local currency.

No dividends were declared or paid during the year ended 31 December 2013 and 2012 and subsequent to 31 December 2013 up to the date of authorization of these consolidated financial statements for issue.

## 33. SHARE CAPITAL AND EQUITY

As at 30 June 2009 the authorised and issued number of the Company's ordinary shares amounted to 72,306,874 with a par value of 100 RR per share. All the issued shares were exchanged for the interests in the Group subsidiaries previously held by the Company's shareholder Corsico Ltd.

In November 2008 the Group acquired 3,615,254 of its ordinary shares for cash consideration of 415,758. The difference of 54,233 between par value of the treasury shares and consideration paid was recorded in retained earnings.

In April 2010 the Group held an initial public offering of its shares by listing its shares on the Russian Stock Exchange (RTS) and Moscow Interbank Currency Exchange (MICEX), which subsequently merged into Micex-RTS stock exchange. The offering consisted of 3,615,254 treasury shares and an offering by the shareholder of 11,384,746 of existing shares. Total quantity of shares issued to free float comprised 15,000,000 shares. Subsequently the Group issued to public investors 7,230,777 additional shares, each with a nominal value of 100 RR per share. The additional ordinary shares issued have the same rights as the other shares in issue. The fair value of the listed shares amounted to 0.174 (US$ 6.00 per share).The related transaction costs amounting to 127,150 with tax effect 16,890 have been netted off with the deemed proceeds.

As a result of shares issues during the year 2010 share capital of the Group as of 31 December 2010 amounted to 7,953,765 comprising 79,537,651 shares and there were no changes as at 31 December 2013 and for the year then ended.

In December 2013 the Group acquired 38,600 of its ordinary shares through purchases on the Micex-RTS stock exchange. The total amount paid to acquire the shares was 1,103. The shares are held as treasury shares. The Group has the right to re-issue these shares at a later date. All shares acquired by the Group were fully paid.

## 34. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

### 34.1 Russian Federation risk

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Company is at this stage difficult to determine.

### 34.2 Taxation

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transaction to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities.

## 34. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

### 34.2 Taxation (continued)

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Management's estimate of the amount of possible liabilities, including fines that could be incurred in the event that the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group was 13,257 as at 31 December 2012. During the year 2013 the Group neither recognized nor reversed any amount of tax provision for income and other taxes. Therefore as at 31 December 2013 the balance of tax provision remained unchanged and amounted to 13,257. The Group has not identified any other possible tax contingencies for the year ended 31 December 2013.

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 Russia rate for each day of delay for late payment of such amount. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed twice the amount of the Group's profit before income tax expense.

Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in the accompanying financial statements.

### 34.3 Operating leases

The Group had no non-cancellable operating leases as at 31 December 2013 and 31 December 2012.

### 34.4 Capital expenditure commitments

As at 31 December 2013 the Group has contracted 78,330 in respect of acquisition of property, plant and equipment (as at 31 December 2012: nil).

### 34.5 Insurance Policies

The Group holds no insurance policies in relation to its property, plant and equipment, operations, or in respect of public liability.

### 34.6 Environmental matters

The Group's management believes that it is in compliance with applicable legislation and is not aware of any potential environmental claims. Therefore, no liabilities associated with such costs are recorded as of 31 December 2013 and 31 December 2012.

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 35.1 Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments.

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | **Fair value** | **Net carrying value** | **Fair value** | **Net carrying value** |
| **Financial assets** | | | | |
| Cash and cash equivalents (Note 16) | 361,756 | 361,756 | 640,894 | 640,894 |
| Trade and other receivables, net (Note 12) | 1,074,081 | 1,074,081 | 923,708 | 923,708 |
| Held for trading derivatives that are not designated in hedge accounting relationships (Note 15) | - | - | 314 | 314 |
| Short-term loans given to third parties | 227 | 227 | 189 | 189 |
| Long-term investments (Note 14) | 194,000 | 194,000 | - | - |
| **Financial liabilities** | | | | |
| Trade payables (Note 18) | 1,483,564 | 1,483,564 | 1,026,414 | 1,026,414 |
| Other payables (Note 19) | 66,116 | 66,116 | 32,316 | 32,316 |
| Held for trading derivatives that are not designated in hedge accounting relationships (Note 15) | 2,399 | 2,399 | 9,684 | 9,684 |
| Long-term borrowings (Note 20) | 424,850 | 424,850 | 2,011,332 | 2,011,332 |
| Short-term borrowings (Note 21) | 2,276,297 | 2,276,297 | 1,709,306 | 1,709,306 |
| Bonds payable (Note 22) | 552,930 | 546,104 | 495,820 | 495,919 |

The fair value of financial assets and financial liabilities approximates their carrying amounts due to their short maturity and the fact that the impact of discounting of the long-term loans is not significant.

### 35.2 Financial risk management objectives and policies

The Group's principal financial instruments comprise bank borrowings, and cash and cash equivalents. The main purposes of these financial instruments are to raise finance for the Group's operations.

The Group has various other financial assets and liabilities such as trade receivables, derivative financial assets and liabilities held for trading, short-term and long-term financial assets and trade payables, which relate directly to its operations. During the year the Group did not undertake active trading in financial instruments.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency exchange risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

### 35.3 Foreign exchange risk

As described below, the Group has substantial US$, Euro and Norwegian krone denominated trade payables. Therefore, the Group is exposed to foreign exchange risk.

The Group monitors the foreign exchange risk by following changes in exchange rates in the currencies in which its cash, payables and receivables are denominated. The Group enters into derivative contracts (foreign currency forward contracts) that aim to reduce the foreign currency exchange risk.

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### 35.3 Foreign exchange risk (continued)

The table below shows the sensitivity to a reasonably possible change in US$, Euro and Norwegian krone ("NOK") exchange rate, with all other variables held constant, of the Group's loss before tax:

| | Increase/ decrease in US$ rate | Effect on profit/(loss) before tax, RR |
|---|---|---|
| At 31 December 2013 | | |
| US$/Roubles exchange rate | +10% | 1,453 |
| US$/Roubles exchange rate | -10% | (1,453) |
| At 31 December 2012 | | |
| US$/Roubles exchange rate | +10% | (78,857) |
| US$/Roubles exchange rate | -10% | 78,857 |

| | Increase/ decrease in EUR rate | Effect on profit/(loss) before tax, RR |
|---|---|---|
| At 31 December 2013 | | |
| Euro/Roubles exchange rate | +10% | (51) |
| Euro/Roubles exchange rate | -10% | 51 |
| At 31 December 2012 | | |
| Euro/Roubles exchange rate | +10% | 1,792 |
| Euro/Roubles exchange rate | -10% | (1,792) |

| | Increase/ decrease in NOK rate | Effect on profit/(loss) before tax, RR |
|---|---|---|
| At 31 December 2013 | | |
| NOK/Roubles exchange rate | +10% | 1,272 |
| NOK/Roubles exchange rate | -10% | (1,272) |
| At 31 December 2012 | | |
| NOK/Roubles exchange rate | +10% | 2,361 |
| NOK/Roubles exchange rate | -10% | (2,361) |

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

| | US$ | | Euro | | NOK | |
|---|---|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| **Assets** | | | | | | |
| Trade and other receivables | 14,544 | 89,254 | 185 | 3,037 | - | 40 |
| Cash and cash equivalents | 1,239 | 2,247 | 31,617 | 21,251 | 13,836 | 27,074 |
| Held for trading derivatives that are not designated in hedge accounting relationships | - | 314 | - | - | - | - |
| **Total assets** | **15,783** | **91,815** | **31,802** | **24,288** | **13,836** | **27,114** |
| **Liabilities** | | | | | | |
| Trade and other payables | (1,185) | (870,698) | (33,728) | (6,370) | (1,117) | (3,506) |
| Held for trading derivatives that are not designated in hedge accounting relationships | (2,399) | (9,684) | - | - | - | - |
| **Total liabilities** | **(3,584)** | **(880,382)** | **(33,728)** | **(6,370)** | **(1,117)** | **(3,506)** |
| **Total net liabilities** | **12,199** | **(788,567)** | **(1,926)** | **17,918** | **12,719** | **23,608** |

*(All amounts in thousands of Russian Roubles, if not otherwise indicated)*

## 35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### 35.4 Interest rate risk

As at 31 December 2013 and 2012 the Group is not exposed to interest rate risk because no funds were borrowed at floating interest rates as of that date (Notes 20, 21, 22).

### 35.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is substantially dependent on external funding of its working capital and therefore its operations may be adversely affected in the case of failure to negotiate with the credit institutions (banks) renewal and/or expansion of short-term credit facilities on a regular basis and such adverse effect may be significant.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments. The Group performs continuous monitoring of cash deficit risks and continuous monitoring of repayment of its financial liabilities on time. The Group performs annual, monthly and daily planning to control cash flows.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments including interest.

**31 December 2013**

| | Weighted average effective interest rate | Total | Less than 3 months | 3 to 6 months | 6 to 12 months |
|---|---|---|---|---|---|
| Trade payables | - | 1,483,564 | 1,483,564 | - | - |
| Short-term borrowings | 12.16% | 2,363,471 | 984,433 | 1,046,228 | 332,810 |
| Bonds | 12.50% | 580,236 | - | 580,236 | - |
| **Total** | | **4,427,271** | **2,467,997** | **1,626,464** | **332,810** |

| | Weighted average effective interest rate | Total | 1 to 2 years | 2 to 3 years | 3 to 4 years |
|---|---|---|---|---|---|
| Long-term borrowings | 14.52% | 758,765 | 155,073 | 246,160 | 357,532 |
| **Total** | | **758,765** | **155,073** | **246,160** | **357,532** |

**31 December 2012**

| | Weighted average effective interest rate | Total | Less than 3 months | 3 to 6 months | 6 to 12 months |
|---|---|---|---|---|---|
| Trade payables | - | 1,026,424 | 1,026,424 | - | - |
| Short-term borrowings | 11.79% | 1,856,724 | - | 287,231 | 1,569,493 |
| Bonds | 12.50% | 526,150 | - | 526,150 | - |
| **Total** | | **3,409,298** | **1,026,424** | **813,381** | **1,569,493** |

| | Weighted average effective interest rate | Total | 1 to 2 years | 2 to 3 years | 3 to 4 years |
|---|---|---|---|---|---|
| Long-term borrowings | 11.33% | 2,402,040 | 1,734,921 | 181,438 | 485,681 |
| **Total** | | **2,402,040** | **1,734,921** | **181,438** | **485,681** |

***(All amounts in thousands of Russian Roubles, if not otherwise indicated)***

## 35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### 35.5 Liquidity risk (continued)

Amount of long-term, short-term borrowings and bonds disclosed in the table above includes future interest expense on those loans and bonds in accordance with their contractual maturity, regardless of the fact of early repayment.

### 35.6 Credit Risk

Financial assets, which potentially are subject to credit risk, consist principally of trade receivables and short-term financial assets including loans given to third parties and held for trading derivatives. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Sales to customers are made in accordance with annually approved Marketing and Credit policy. The Group regularly monitors sales and receivables conditions using effective internal control procedures. Short-term financial assets representing seasonal loans to fishing companies are provided upon investigation by the Group of the vendor solvency and reputation and upon passage of sufficient time since establishment of relations with them.

The carrying amount of accounts receivable, net of allowance for doubtful accounts receivable and the carrying amount of short-term financial assets, represents the maximum amount exposed to credit risk. Although collection of receivables could be affected by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings and are considered to have minimal risk of default.

The table below summarises the Group's trade receivables ageing.

| | | | Not impaired but past due | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Neither impaired nor past due | less 1 month | 1-2 months | 2-3 months | 3 to 6 months | > 6 months |
| 31 December 2013 | 1,062,711 | 1,039,055 | 13,131 | 82 | 165 | 7,242 | 3,036 |
| 31 December 2012 | 841,099 | 745,986 | 29,507 | 20,008 | 18,891 | 12,473 | 14,234 |

The table below summarises the ageing of Group's short-term financial assets, including loans given to third parties and held for trading derivatives that are not designated in hedge accounting relationships.

| | | | Not impaired but past due | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Neither impaired nor past due | less 1 month | 1-2 months | 2-3 months | 3 to 6 months | > 6 months |
| 31 December 2013 | 227 | 227 | - | - | - | - | - |
| 31 December 2012 | 503 | 503 | - | - | - | - | - |

The table below summarises the ageing of Group's long-term financial assets, including loans given to third parties.

| | Total | 1 to 2 years | 2 to 3 years | 3 to 4 years |
|---|---|---|---|---|
| 31 December 2013 | 224,976 | - | 28,517 | 196,459 |
| 31 December 2012 | - | - | - | - |

## 35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### 35.7 Concentration of credit risk

Trade receivables consist of a large number of customers. Apart from Auchan LLC, the largest customer of the Group, the Group does not have significant credit risk exposure to any single counterparty. Concentration of credit risk related to Auchan LLC did not exceed 15% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 10% of gross monetary assets at any time during the year.

The Group has no significant concentrations of credit risk but is exposed to general risk of the global credit crisis and its effects on the Group's customers.

### 35.8 Capital Risk Management

Capital represents residual value in the Group's net assets attributable to its stakeholders after deducting all liabilities. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. 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 amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## 36. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2014 Maxim Vorobiev, the Chairman of the Board of Directors at Russian Sea Group, acquired 1.03% of the Group's shares increasing his aggregate interest. The shares were acquired in the open market, the ownership of the Group's major shareholder RSEA Holdings Limited (60.936%) did not change.

In January – March 2014 the Group has repaid short-term loans in the amount of 928.7 million rubles, including 805 million rubles to Sberbank, 100 million rubles to VTB and 23.7 million rubles to Rosselkhozbank.

On behalf of the Group's management, the consolidated financial statements for the year ended 31 December 2013 were authorised for issue on 18 April 2014 by:

**D. Dangauer**
Chief Executive Officer

**D. Minchev**
Chief Financial Officer