O'Key Group S.A.

Consolidated Financial Statements for the year ended 31 December 2012

(with the report of the Réviseur d'Entreprises Agréé thereon)

23, rue Beaumont

L-1219 Luxembourg

R.C.S. Luxembourg: B 80.533

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O'KEY GROUP S.A., which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. 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 judgement of the Réviseur d'Entreprises agréé, 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 Réviseur d'Entreprises agréé 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 the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. as of December 31, 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated Directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The Corporate Governance Statement of the Annual Report 2012 which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law.

Luxembourg, April 25, 2013

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

Thierry Ravasio

KPM.001

'000 RUB	Note	2012	2011
ASSETS			
Non-current assets			
Investment property	16	632 000	573 000
Property, plant and equipment	14	25 692 464	20 435 107
Construction in progress	14	1 720 181	3 136 848
Intangible assets	15	566 595	518 099
Deferred tax asset	18	375 126	356 034
Other non-current assets	17	7 905 066	5 530 502
Total non-current assets		**36 891 432**	**30 549 590**
Current assets			
Inventories	19	9 212 315	7 917 657
Trade and other receivables	20	1 917 634	1 924 108
Prepayments for current assets		856 948	398 595
Cash and cash equivalents	21	4 535 693	2 941 947
Total current assets		**16 522 590**	**13 182 307**
Total assets		**53 414 022**	**43 731 897**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 59.

'000 RUB	Note	2012	2011
EQUITY AND LIABILITIES			
Equity	22	**18 090 056**	**14 303 743**
Non-current liabilities			
Loans and borrowings	24	9 863 769	6 768 282
Deferred income tax liability	18	667 719	470 839
Other non-current liabilities		1 056 447	1 137 192
Total non-current liabilities		**11 587 935**	**8 376 313**
Current liabilities			
Loans and borrowings	24	3 826 135	5 302 948
Trade and other payables	25	19 613 734	15 337 559
Current income tax payable		296 162	411 334
Total current liabilities		**23 736 031**	**21 051 841**
Total liabilities		**35 323 966**	**29 428 154**
Total equity and liabilities		**53 414 022**	**43 731 897**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 59.

'000 RUB	Note	2012	2011
Revenue	6	117 333 236	93 134 430
Cost of goods sold		(89 706 251)	(71 853 387)
Gross profit		**27 626 985**	**21 281 043**
General, selling and administrative expenses	7	(20 363 950)	(15 749 895)
Other operating income and expenses	8	63 180	(142 628)
Operating profit		**7 326 215**	**5 388 520**
Finance income	11	11 428	25 216
Finance costs	11	(1 035 206)	(777 463)
Foreign exchange gain/(losses)	12	165 683	(266 619)
Profit before income tax		**6 468 120**	**4 369 654**
Income tax expense	13	(1 789 259)	(1 129 774)
Profit for the year		**4 678 861**	**3 239 880**
Other comprehensive income			
Foreign currency translation differences for foreign operations		23 963	(58 636)
Change in fair value of hedges and reclassification from hedging reserve	11	(103 746)	201 422
Income tax on other comprehensive income	13	20 749	(40 285)
Other comprehensive income for the year, net of income tax		**(59 034)**	**102 501**
Total comprehensive income for the year		**4 619 827**	**3 342 381**
Earnings per share			
Basic and diluted earnings per share (RUB)	23	**17.4**	**12.0**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 59.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2011		**119 440**	**111**	**8 903 606**	**7 485**	**2 446 795**	**256 755**	**11 734 192**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	3 239 880	-	**3 239 880**
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(58 636)	**(58 636)**
Change in fair value of hedges and reclassification from hedging reserve	11	-	-	-	201 422	-	-	**201 422**
Income tax on other comprehensive income	13	-	-	-	(40 285)	-	-	**(40 285)**
Total other comprehensive income		-	-	-	**161 137**	-	**(58 636)**	**102 501**
Total comprehensive income for the year		-	-	-	**161 137**	**3 239 880**	**(58 636)**	**3 342 381**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	22	-	-	-	-	(772 830)	-	**(772 830)**
Allocation to legal reserve	22	-	10 486	-	-	(10 486)	-	-
Total contributions by and distributions to owners		-	**10 486**	-	-	**(783 316)**	-	**(772 830)**
Balance at 31 December 2011		**119 440**	**10 597**	**8 903 606**	**168 622**	**4 903 359**	**198 119**	**14 303 743**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 59.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2012		**119 440**	**10 597**	**8 903 606**	**168 622**	**4 903 359**	**198 119**	**14 303 743**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	4 678 861	-	**4 678 861**
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	23 963	**23 963**
Change in fair value of hedges and reclassification from hedging reserve	11	-	-	-	(103 746)	-	-	**(103 746)**
Income tax on other comprehensive income	13	-	-	-	20 749	-	-	**20 749**
Total other comprehensive income		-	-	-	**(82 997)**	-	**23 963**	**(59 034)**
Total comprehensive income for the year		-	-	-	**(82 997)**	**4 678 861**	**23 963**	**4 619 827**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Interim dividends paid	22	-	-	-	-	(833 514)	-	(833 514)
Total contributions by and distributions to owners		-	-	-	-	**(833 514)**	-	**(833 514)**
Balance at 31 December 2012		**119 440**	**10 597**	**8 903 606**	**85 625**	**8 748 706**	**222 082**	**18 090 056**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 59.

'000 RUB	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		6 468 120	4 369 654
Adjustments for:			
Depreciation and amortisation	14, 15, 17	2 149 949	1 977 278
Loss on disposal of property, plant and equipment, investment property, intangible assets and other non-current assets	8	40 267	18 620
Gain from revaluation of investment property	16	(50 350)	(18 633)
Finance income	11	(11 428)	(25 216)
Finance costs	11	1 035 206	777 463
Foreign exchange (gain)/losses	12	(165 683)	266 619
Cash from operating activities before changes in working capital and provisions		**9 466 081**	**7 365 785**
Change in net trade and other receivables		(759 441)	113 696
Change in inventories		(1 294 658)	(1 922 449)
Change in trade and other payables		4 416 811	3 142 085
Cash flows from operations before income taxes and interest paid		**11 828 793**	**8 699 117**
Interest paid		(1 231 380)	(902 149)
Income tax paid		(1 659 749)	(1 396 052)
Net cash from operating activities		**8 937 664**	**6 400 916**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(8 350 612)	(8 623 578)
Purchase of intangible assets		(168 478)	(115 249)
Proceeds from sales of property, plant and equipment and investment property		16 640	19 703
Loans issued		-	1 369
Interest received		11 428	25 216
Net cash used in investing activities		**(8 491 022)**	**(8 692 539)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 59.

'000 RUB	Note	2012	2011
Cash flows from financing activities			
Proceeds from borrowings		7 500 000	16 971 297
Repayment of borrowings		(5 530 804)	(16 800 281)
Dividends paid		(833 514)	(772 830)
Proceeds from issue of shares in 2010		-	152 568
Net cash from/(used in) financing activities		**1 135 682**	**(449 246)**
Net increase/(decrease) in cash and cash equivalents		**1 582 324**	**(2 740 869)**
Cash and cash equivalents at beginning of year		2 941 947	5 707 185
Effect of exchange rate fluctuations on cash and cash equivalents		11 422	(24 369)
Cash and cash equivalents at end of year	21	**4 535 693**	**2 941 947**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 59.

1 Background

(a) Organisation and operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union for the year ended 31 December 2012 for O'Key Group S.A. and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The major shareholders of the Group are four individuals, Mr.Korzhev, Mr.Troitsky, Mr.Volchek and Mr.Teder ("the shareholder group"), who have the power to direct the transactions of the Group at their own discretion and for their own benefits. They also have a number of other business interests outside of the Group.

As at 31 December 2012 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs).

Related party transactions are detailed in Note 30.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'KEY". At 31 December 2012 the Group operated 83 stores (31 December 2011: 71 stores).

The Company's registered address is: Luxembourg 23, rue Beaumont, L-1219 Luxembourg.

(b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and were authorised for issue by the Board of Directors on 22 April 2013.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are stated at fair value;
- Liabilities incurred in cash-settled share-based payment transactions are remeasured at fair value;
- Investment property is remeasured at fair value.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles.

The results and financial position of the Group entities, which functional currencies are different from Russian Roubles, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of the year end;
- profit and loss items for each statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 30.3727; EUR 1 = RUB 40.2286 (2011: USD 1 = RUB 32.1961; EUR 1 = RUB 41.6714).

(d) Use of estimates and judgments

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

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

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

Tax legislation. The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to

Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 29.

Revenue recognition. The Group has recognised revenue amounting to RUB 115 903 million for sales of goods during 2012 (2011: RUB 92 197 million). According to the Group's policy customers have the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

Deferred tax asset recognition. The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on the expectations of future income that are believed to be reasonable under the circumstances.

Determination of net realizable value of inventory. The Group performs analysis of stock for write-off as at each reporting date and writes down inventories to their net realizable value when necessary. For details of approach used for determination of net realizable value refer to note 19.

Determination of fair value of liabilities incurred in cash-settled share-based payment transactions. The Group remeasures liabilities incurred in cash-settled share-based payment transactions at fair value as at each reporting date, which requires making judgments and assumptions about future market and vesting conditions.

3 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(c) Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

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

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

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

(iii) ***Derivative financial instruments***

The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the

respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

(d) Transactions with owners

(i) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Distributions to owners/contributions from owners

The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholders) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of

dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other income" in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- Buildings — 30 years
- Machinery and equipment, auxiliary facilities — 2-20 years
- Motor vehicles — 5-10 years
- Leasehold improvements — over the term of underlying lease
- Other fixed assets — 2-10 years

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

(f) Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property, including investment property under construction, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss. If fair value of investment property under construction is not reliably

determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iii) Amortisation

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- lease rights 5-10 years
- software licenses 1-7 years
- other intangible assets 1-5 years

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

(h) Leased assets

(i) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including

those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortized using straight-line method over the period of lease being up to 51 years.

(ii) Finance leases

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as other payables (long-term accounts payable for amounts due after 12 months from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of goods for resale includes its purchase price and related transportation costs, as well as other related logistic costs.

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

(j) Impairment

(i) Financial assets

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

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

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to

whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

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

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

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

(k) Employee benefits

(i) ***Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) ***Other long-term employee benefits***

Other long-term employee benefits represent long-service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(iii) ***Short-term benefits***

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

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iv) ***Cash-settled share-based payment transactions***

The fair value of the amount payable to employees in respect of cash-settled share-based payment transactions is recognised as an employee expense in profit and loss with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes of the fair value of the liability are recognised as personnel expenses in profit or loss.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, returns and discounts.

(i) ***Goods sold***

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register.

(ii) ***Services***

Revenue from services rendered is recognised in profit or loss when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments

receivable are recognized as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(n) Cost of sales

Cost of sales include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories, primarily in the form of volume discounts and slotting fees. These bonuses are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of sales.

(o) Finance income and costs

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

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

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

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

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Value added tax

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The

Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013 and the amendments to IFRS 9 introduced in December 2011 will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2014. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive

income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012. The Group has not yet analysed the likely impact of the amendment to IAS 1 on presentation of the consolidated financial statements.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the allocation of maintenance and insurance responsibilities between the Group and the lessee.

(b) Non-derivative financial assets

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

(c) Derivatives

The fair value of interest rate and foreign exchange swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(e) Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of Company's historic volatility), expected term of the instruments, expected dividends and the risk-free interest rate.

5 Operating segments

The Group is engaged in management of retail stores located in Russia and has identified retail operations as a single reportable segment. Although the Group is not exposed to concentration of sales to individual customers, all the Group's sales are in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

The Group identified its operating segments in accordance with the criteria set in IFRS 8 *Operating Segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources within the Group.

The Group's chief operating decision maker has been determined as the CEO.

The Group operating segments represent individual retail stores. Due to similar economic characteristics (refer below) they were aggregated in one reportable segment.

Within the reportable segment all business components demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the Group manages its operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the Group's activities are mainly limited to Russia which has a uniform regulatory environment.

The CEO assesses the performance of the operating segment based on earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for one-off items. EBITDA is non-GAAP measure. Other information provided to the CEO is measured in a manner consistent with that in the consolidated financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements as described in note 3.

The segment information for the year ended 31 December 2012 is as follows:

'000 RUB	2012	2011
Revenue	**117 333 236**	**93 134 430**
EBITDA	**9 426 587**	**7 510 137**

A reconciliation of EBITDA to profit for the year is as follows:

'000 RUB	2012	2011
EBITDA	9 426 587	7 510 137
Revaluation of investment property	50 350	18 633
Loss from disposal of non-current assets	(40 267)	(18 620)
Loss from write-off of receivables	-	(31 973)
Reversal of impairment of receivables	39 494	61 884
Depreciation and amortisation	(2 149 949)	(1 977 278)
Impairment of raw materials (one-off)	-	(101 205)
Finance income	11 428	25 216
Finance costs	(1 035 206)	(777 463)
Foreign exchange gain/(losses)	165 683	(266 619)
Hypermarket Ozerki-accident expenses	-	(73 058)
Profit before income tax	6 468 120	4 369 654
Income tax	(1 789 259)	(1 129 774)
Profit for the year	**4 678 861**	**3 239 880**

In January 2011 section of roof of Group's hypermarket in Ozerki, Saint-Petersburg collapsed. The store was closed for repairs until September 2011. Hypermarket Ozerki-accident expenses comprise repairs and other expenses related to this accident.

6 Revenue

'000 RUB	2012	2011
Sales of trading stock	110 238 301	87 796 613
Sales of self-produced catering products	5 665 084	4 400 126
Revenue from sale of goods	115 903 385	92 196 739
Rental income	1 013 754	733 164
Revenue from advertising services	416 097	204 527
Total revenues	**117 333 236**	**93 134 430**

Total revenues comprise sale of goods, rental income from tenants which rent trade area in the Group stores and income from placing advertising in the Group stores.

7 General, selling and administrative expenses

'000 RUB	Note	2012	2011
Personnel costs	9	(10 235 867)	(7 538 304)
Depreciation and amortization		(2 149 949)	(1 977 278)
Operating leases		(2 297 963)	(1 672 616)
Communication and utilities		(1 812 353)	(1 503 215)
Security expenses		(707 348)	(659 657)
Advertising and marketing		(990 342)	(508 338)
Materials and supplies		(258 840)	(404 607)
Operating taxes		(497 603)	(369 119)
Insurance and bank commission		(505 810)	(349 383)
Repairs and maintenance costs		(452 157)	(308 122)
Legal and professional expenses		(306 150)	(261 981)
Other costs		(149 568)	(197 275)
		(20 363 950)	**(15 749 895)**

Fees billed to the Company and its subsidiaries by KPMG Luxembourg S.à r.l., and other member firms of the KPMG network during the year are as follows:

'000 RUB	2012	2011
Auditors' remuneration for annual and consolidated accounts	9 277	15 207
Auditors' remuneration for other assurance services	5 180	7 255
Auditors' remuneration for tax advisory services	816	79
Auditors' remuneration for non-audit services	-	3 735
	15 273	**26 276**

8 Other operating income and expenses

'000 RUB	Note	2012	2011
Loss from disposal of non-current assets		(40 267)	(18 620)
Loss from write-off of receivables		-	(31 973)
Reversal of impairment of receivables	26	39 494	61 884
Gain from revaluation of investment property	16	50 350	18 633
Impairment of raw materials (one-off)		-	(101 205)
Ozerki-accident expenses		-	(73 058)
Sundry income		13 603	1 711
		63 180	**(142 628)**

9 Personnel costs

'000 RUB	Note	2012	2011
Wages and salaries		(6 298 681)	(4 503 911)
Social security contributions		(2 111 328)	(1 647 603)
Employee benefits		(1 493 137)	(1 207 964)
Share-based payments	10	(81 846)	(50 961)
Other		(250 875)	(127 865)
Total personnel costs		**(10 235 867)**	**(7 538 304)**

During the year ended 31 December 2012 the Group employed 21 thousand employees on average (2011: 17 thousand employees on average). Approximately 96% of employees are store and warehouse employees and the remaining part is office employees.

10 Share-based payment arrangements

During the year ended 31 December 2011 the Group granted share appreciation rights to key management personnel and senior employees that entitle them to cash payment in the years ending 31 December 2012 and 31 December 2013. The amount of cash payments is based on share price of the Company at the dates of exercise. The payments are subject to service conditions which require employees to stay with the Group until settlement date.

The fair value of the rights granted to the employees was measured as at 31 December 2012 based on Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

The inputs used in the measurement of the fair value at 31 December 2012 were as follows:

Share price	USD 11.70
Exercise price	USD 8.88
Expected volatility	58.8%
Risk-free rate	2.5%
Annual dividend yield	0.68%
Term until exercise date	0.85 years

Total expense on share appreciation rights recognised as personnel costs in general, selling and administrative expenses in profit and loss amounted to RUB 81 846 thousand for the year ended 31 December 2012 (2011: RUB 50 961 thousand). Carrying amount of liabilities as at 31 December 2012 amounted to RUB 76 835 thousand (2011: RUB 50 961 thousand).

11 Finance income and finance costs

'000 RUB	2012	2011
Recognised in profit or loss		
Interest income on loans and receivables	10 784	24 800
Other finance income	644	416
Finance income	**11 428**	**25 216**
Interest costs on loans and borrowings	(1 014 184)	(811 783)
Reclassification from hedging reserve	(21 022)	34 320
Finance costs	**(1 035 206)**	**(777 463)**
Net finance costs recognised in profit or loss	**(1 023 778)**	**(752 247)**
The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:		
Total interest income on financial assets	**11 428**	**25 216**
Total interest expense on financial liabilities	**(1 035 206)**	**(777 463)**

'000 RUB	2012	2011
Recognised in other comprehensive income		
Change in fair value of hedges	(352 721)	310 811
Reclassification to profit and loss	248 975	(109 389)
Income tax on income and expense recognised in other comprehensive income	20 749	(40 285)
Finance (costs)/income recognised in other comprehensive income, net of tax	**(82 997)**	**161 137**

During 2012 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 229 652 thousand (2011: RUB 101 627 thousand).

In 2012 capitalisation rate of 6.97% was used to determine the amount of borrowing costs eligible for capitalisation (2011: 5.16%).

12 Foreign exchange gain/(losses)

During 2012 the Group had significant borrowings denominated in US dollars. The strengthening of the Russian Rouble during 2012 has resulted in foreign exchange gain for the year amounting to RUB 165 683 thousand (2011: loss RUB 266 619 thousand). In 2012 and 2011 the Group has used hedging instruments to hedge foreign exchange risks.

The Group's risk management policy is to convert part of its USD denominated debt into RUB denominated debt. In order to comply with the Group's risk management policy, the foreign exchange risk arising from repayment of long-term USD denominated bank loan is hedged.

13 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2011: 20%).

'000 RUB	2012	2011
Current tax expense	(1 590 722)	(1 170 595)
Deferred tax (expense)/benefit	(198 537)	40 821
Total income tax expense	**(1 789 259)**	**(1 129 774)**

Income tax recognised directly in other comprehensive income

'000 RUB	2012			2011		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Foreign currency translation differences for foreign operations	23 963	-	23 963	(58 636)	-	(58 636)
Change in fair value of hedges	(103 746)	20 749	(82 997)	201 422	(40 285)	161 137
	(79 783)	**20 749**	**(59 034)**	**142 786**	**(40 285)**	**102 501**

Reconciliation of effective tax rate:

'000 RUB	2012	2011
Profit before income tax	**6 468 120**	**4 369 654**
Income tax at applicable tax rate (2012: 20%, 2011: 20%)	(1 293 624)	(873 931)
Effect of income taxed at different rates	(6 364)	2 867
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(429 269)	(307 301)
- Other non-deductible expenses	(60 507)	(58 702)
Tax withheld on dividends received from subsidiaries	(266 339)	(91 204)
Tax concessions	246 042	-
Adjustments to current income tax for previous periods	-	201 441
Other items	20 802	(2 944)
Income tax expense for the year	**(1 789 259)**	**(1 129 774)**

14 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2011	2 025 851	11 891 015	1 642 159	5 638 832	1 204 602	22 402 459
Additions	839 019	2 034 256	832 645	1 528 951	2 328 914	7 563 785
Transfers	-	267 896	51 922	51 937	(371 755)	-
Transfers to Investment property	-	-	-	-	(9 260)	(9 260)
Disposals	-	-	-	(97 600)	(15 653)	(113 253)
Balance at 31 December 2011	**2 864 870**	**14 193 167**	**2 526 726**	**7 122 120**	**3 136 848**	**29 843 731**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2012	2 864 870	14 193 167	2 526 726	7 122 120	3 136 848	29 843 731
Additions	365 412	2 191 281	826 464	1 369 292	1 085 745	5 838 194
Transfers	-	2 061 994	42 260	353 063	(2 457 317)	-
Transfers to investment property	-	-	-	-	(6 616)	(6 616)
Disposals	-	-	(2 698)	(79 851)	(38 479)	(121 028)
Balance at 31 December 2012	**3 230 282**	**18 446 442**	**3 392 752**	**8 764 624**	**1 720 181**	**35 554 281**
Depreciation and impairment losses						
Balance at 1 January 2011	-	(1 344 602)	(128 930)	(3 124 760)	-	(4 598 292)
Depreciation for the year	-	(408 279)	(190 238)	(1 161 621)	-	(1 760 138)
Transfers	-	(13)	13	-	-	-
Disposals	-	-	-	86 654	-	86 654
Balance at 31 December 2011	-	**(1 752 894)**	**(319 155)**	**(4 199 727)**	-	**(6 271 776)**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2012	-	(1 752 894)	(319 155)	(4 199 727)	-	(6 271 776)
Depreciation for the year	-	(512 673)	(294 997)	(1 131 568)	-	(1 939 238)
Transfers	-	(5 131)	(6 599)	11 730	-	-
Disposals	-	-	101	69 277	-	69 378
Balance at 31 December 2012	-	**(2 270 698)**	**(620 650)**	**(5 250 288)**	-	**(8 141 636)**
Carrying amounts						
At 1 January 2011	**2 025 851**	**10 546 413**	**1 513 229**	**2 514 072**	**1 204 602**	**17 804 167**
At 31 December 2011	**2 864 870**	**12 440 273**	**2 207 571**	**2 922 393**	**3 136 848**	**23 571 955**
At 31 December 2012	**3 230 282**	**16 175 744**	**2 772 102**	**3 514 336**	**1 720 181**	**27 412 645**

Depreciation expense of RUB 1 939 238 thousand has been charged to selling, general and administrative expenses (2011: RUB 1 760 138 thousand).

Security

At 31 December 2012 property, plant and equipment carried at RUB 6 404 435 thousand (2011: RUB 4 214 640 thousand) have been pledged to third parties as collateral for borrowings. Refer to notes 24 and 29.

In 2010 the Group has entered into agreement with third party in relation to one of its land plots with carrying value of RUB 554 967 thousand as at 31 December 2012. Under terms of this agreement the third party will build a trade center on this land plot. Upon completion of construction the Group will exchange part of land plot for part of trade center and will locate O'Key hypermarket there. In 2010 the Group received guarantee payment in relation to this transaction. Guarantee received was included in other non-current liabilities and amounted to RUB 914 307 thousand as at the date of receipt and to RUB 911 181 thousand as at 31 December 2012.

15 Intangible assets

'000 RUB	Software	Lease rights	Other intangible assets	Total
Cost				
Balance at 1 January 2011	416 206	491 475	-	907 681
Additions	101 219	-	14 030	115 249
Balance at 31 December 2011	**517 425**	**491 475**	**14 030**	**1 022 930**
Balance at 1 January 2012	517 425	491 475	14 030	**1 022 930**
Additions	168 478	-	-	**168 478**
Balance at 31 December 2012	**685 903**	**491 475**	**14 030**	**1 191 408**
Amortisation and impairment losses				
Balance at 1 January 2011	(192 744)	(155 685)	-	(348 429)
Amortisation for the year	(91 778)	(63 930)	(694)	(156 402)
Balance at 31 December 2011	**(284 522)**	**(219 615)**	**(694)**	**(504 831)**
Balance at 1 January 2012	(284 522)	(219 615)	(694)	**(504 831)**
Amortisation for the year	(54 248)	(62 975)	(2 759)	**(119 982)**
Balance at 31 December 2012	**(338 770)**	**(282 590)**	**(3 453)**	**(624 813)**

Carrying amounts	Software	Lease rights	Other intangible assets	Total
At 1 January 2011	**223 462**	**335 790**	-	**559 252**
At 31 December 2011	**232 903**	**271 860**	**13 336**	**518 099**
At 31 December 2012	**347 133**	**208 885**	**10 577**	**566 595**

Amortisation and impairment losses

Amortisation of RUB 119 982 thousand has been charged to selling, general and administrative expenses (2011: RUB 156 402 thousand).

16 Investment property

'000 RUB	Investment property
Investment properties at fair value as at 1 January 2011	**517 000**
Transfers from property, plant and equipment	9 260
Expenditure on subsequent improvements	28 107
Fair value gain	18 633
Investment properties at fair value as at 31 December 2011	**573 000**
Investment properties at fair value as at 1 January 2012	**573 000**
Transfers from property, plant and equipment	6 616
Expenditure on subsequent improvements	2 034
Fair value gain	50 350
Investment properties at fair value as at 31 December 2012	**632 000**

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued.

The appraisers used income approach for determining the fair value. An estimate was made of annual net operating income for 5 years which is mainly based on annual net rent rate of RUB 4 600 per sq. m. (2011: RUB 5 400) and expected occupancy of 93% (2011: 60-80%). The annual net operating income was assumed to be constant from year 6 to perpetuity. Discount rate of 17.8% (2011: 17%) was applied to discount future cash flows.

Direct operating expenses arising from investment property that generated rental income amounted to RUB 83 363 thousand for the year ended 31 December 2012 (2011: RUB 70 773 thousand). There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2012 (2011: Nil).

17 Other non-current assets

'000 RUB	2012	2011
Initial cost of land lease	3 991 382	3 369 934
Long-term prepayments to entities under control of shareholder group	952 302	1 045 171
Prepayments for non-current assets	2 677 459	978 490
Long-term deposits to lessors	159 525	125 406
Deferred bank commissions	-	11 501
Other non-current receivables	124 398	-
	7 905 066	**5 530 502**

Initial cost of land lease includes purchase price and costs directly attributable to acquisition of lease rights and is amortised over the period of the lease (49-51 years).

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2017. Related party transactions are detailed in note 30.

Movements in the carrying amount of initial cost of land lease were as follows:

'000 RUB	2012	2011
Cost		
Balance at 1 January	**3 946 624**	**2 950 601**
Additions	717 434	1 008 702
Disposals	(19 501)	(12 679)
Balance at 31 December	**4 644 557**	**3 946 624**
Amortization and impairment losses		
Balance at 1 January	**(576 690)**	**(516 907)**
Amortization charge	(90 729)	(60 738)
Disposals	14 244	955
Balance at 31 December	**(653 175)**	**(576 690)**
Net book value	**3 991 382**	**3 369 934**

At 31 December 2012 initial cost of land lease carried at RUB 456 971 thousand (2011: RUB 349 591 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 24.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Investment property	-	9 391	(21 135)	-	(21 135)	9 391
Property, plant and equipment	-	33 711	(448 858)	(520 773)	(448 858)	(487 062)
Construction in progress	-	-	(59 064)	(20 325)	(59 064)	(20 325)
Intangible assets	-	-	(1 609)	(2 667)	(1 609)	(2 667)
Other non-current assets	54 320	88 621	-	(104 065)	54 320	(15 444)
Inventories	232 008	257 552	-	-	232 008	257 552
Trade and other receivables	160 769	110 865	(285 600)	(49 493)	(124 831)	61 372
Trade and other payables	158 138	82 378	(81 562)	-	76 576	82 378
Tax assets/(liabilities)	**605 235**	**582 518**	**(897 828)**	**(697 323)**	**(292 593)**	**(114 805)**
Set off of tax	(230 109)	(226 484)	230 109	226 484	-	-
Net tax assets/(liabilities)	**375 126**	**356 034**	**(667 719)**	**(470 839)**	**(292 593)**	**(114 805)**

(b) Unrecognised deferred tax liability

As at 31 December 2012 a temporary difference of RUB 16 851 838 thousand (2011: RUB 14 104 538 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

(c) Movement in temporary differences during the year

'000 RUB	1 January 2012	Recognised in profit or loss	Recognised in hedging reserve	31 December 2012
Investment property	9 391	(30 526)	-	(21 135)
Property, plant and equipment	(487 062)	38 204	-	(448 858)
Construction in progress	(20 325)	(38 739)	-	(59 064)
Intangible assets	(2 667)	1 058	-	(1 609)
Other non-current assets	(15 444)	69 764	-	54 320
Inventories	257 552	(25 544)	-	232 008
Trade and other receivables	61 372	(206 952)	20 749	(124 831)
Trade and other payables	82 378	(5 802)	-	76 576
	(114 805)	**(198 537)**	**20 749**	**(292 593)**

'000 RUB	1 January 2011	Recognised in profit or loss	Recognised in hedging reserve	31 December 2011
Investment property	55 309	(45 918)	-	9 391
Property, plant and equipment	(473 818)	(13 244)	-	(487 062)
Construction in progress	-	(20 325)	-	(20 325)
Intangible assets	-	(2 667)	-	(2 667)
Investments	3 365	(3 365)	-	-
Other non-current assets	5 522	(20 966)	-	(15 444)
Inventories	156 748	100 804	-	257 552
Trade and other receivables	69 037	32 620	(40 285)	61 372
Trade and other payables	68 496	13 882	-	82 378
	(115 341)	**40 821**	**(40 285)**	**(114 805)**

19 Inventories

'000 RUB	2012	2011
Goods for resale	9 128 059	7 955 952
Raw materials and consumables	341 346	344 634
Write-down to net realisable value	(257 090)	(382 929)
	9 212 315	**7 917 657**

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 257 090 thousand as at 31 December 2012 (2011: RUB 382 929 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

The write-down is included in cost of goods sold.

20 Trade and other receivables

'000 RUB	Note	2012	2011
Trade receivables		98 370	45 883
VAT receivable		1 196 210	936 920
Prepaid taxes		197 935	183 433
Foreign exchange and interest rate swap receivables	26	-	320 167
Other receivables		425 119	437 705
		1 917 634	**1 924 108**

Taxes prepaid include RUB 130 638 thousand of prepaid income tax (2011: RUB 176 783 thousand).

Other receivables include RUB 345 814 thousand (2011: RUB 336 279 thousand) of bonuses receivable from suppliers.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

21 Cash and cash equivalents

'000 RUB	2012	2011
Cash on hand	341 447	283 846
RUB denominated bank current account	957 771	558 846
USD denominated bank current account	15 824	100 426
RUB term deposits (interest rate: 1.77%; 2011: 3.5%-7.06%p.a.)	65 679	151 425
Cash in transit	3 154 972	1 847 404
Cash and cash equivalents	**4 535 693**	**2 941 947**

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: Bank Saint-Petersburg, Nordea bank, OTP bank, Bank Otkrytie, Promservice bank, Sberbank, Baltiysky Bank, Raiffeisen bank, VTB bank, Credit Evropa bank, Swedbank, TransCredit bank, BSGV, Hansa Bank, Unicredit bank and Uralsib bank.

The Group's exposure to credit and currency risks related to cash and cash equivalents is disclosed in note 26.

22 Equity

Reconciliation of number of shares from 1 January to 31 December is provided in the table below.

	Ordinary shares	
Number of shares unless otherwise stated	2012	2011
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269 074 000	269 074 000
On issue at 31 December, fully paid	**269 074 000**	**269 074 000**

As at 31 December 2012 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 2011: EUR 2 691 thousand) is represented by 269 074 000 shares with a par value of 0.01 EUR each.

In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During the year ended 31 December 2012 there were no transfers to legal reserve (2011: RUB 10 486 thousand)

In February 2012 the Group paid interim dividends to shareholders in amount of RUB 833 514 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2012 amounted to RUB 3.1 (2011: RUB 2.9).

In June 2012 shareholders of the Company approved annual dividends for the year ended 31 December 2011. The amount of annual dividends for 2011 was paid by the Group to shareholders as interim dividends in 2011 in the amount of RUB 772 830 thousand.

There were no movements in additional paid-in capital during the year ended 31 December 2012.

23 Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of RUB 4 678 861 thousand (2011: RUB 3 239 880 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000, calculated as shown below. The Company has no dilutive potential ordinary shares.

Number of shares	2012	2011
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for the year ended 31 December	269 074 000	269 074 000

24 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

'000 RUB	2012	2011
Non-current liabilities		
Secured bank loans	6 236 313	5 807 982
Unsecured bonds	3 009 934	-
Unsecured loans from related parties	617 522	960 300
	9 863 769	**6 768 282**
Current liabilities		
Secured bank loans	1 819 810	1 417 354
Unsecured bank facilities	2 003 457	3 877 808
Unsecured loans from third parties	2 868	7 786
	3 826 135	**5 302 948**

As at 31 December 2012 loans and borrowings with carrying value of RUB 8 056 123 thousand (2011: RUB 7 225 336 thousand) were secured by property, plant and equipment and initial cost of land lease. Refer to note 29.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2012		31 December 2011	
'000 RUB	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	USD	LIBOR + 3.9-5%	2013	432 541	432 541	671 941	671 941
Secured bank loan	USD	LIBOR + 3.15%	2010-2015	3 954 901	3 954 901	5 095 856	5 095 856
Secured bank loan	RUB	8.5%	2015	1 168 681	1 168 681	1 457 539	1 457 539
Secured bank loan	RUB	Mosprime 1m + 3.5%	2013-2017	2 500 000	2 500 000	-	-
Unsecured bonds	RUB	10,1%	2017	3 009 934	3 009 934	-	-
Unsecured bank facility	RUB	8%	2012	-	-	302	302
Unsecured bank facility	RUB	8.85-9.85%	2012	-	-	370 090	370 090
Unsecured bank facility	RUB	6.35 - 7.9%	2012	-	-	3 507 416	3 507 416
Unsecured bank facility	RUB	8.45% - 9.03%	2013	503 457	503 457	-	-
Unsecured bank facility	RUB	8,6%	2013	1 500 000	1 500 000	-	-
Unsecured loans from related parties	USD	8%	2016	617 522	617 522	654 595	654 595
Unsecured loans from related parties	USD	8%	2013	-	-	305 705	305 705
Unsecured loans from other companies	RUB	0%	2013	2 865	2 865	2 862	2 862
Unsecured loans from other companies	RUB	7-12%	2013	3	3	10	10
Unsecured loans from other companies	RUB	0%	2012	-	-	4 914	4 914
				13 689 904	**13 689 904**	**12 071 230**	**12 071 230**

During 2012 the Group placed unsecured bonds on MICEX which expire after 5 years in 2017, however bonds holders have an option to claim repayment of bonds after 3 years.

Compliance with loan covenants

The Group monitors compliance with loan covenants on an ongoing basis. Where incompliance is unavoidable in managements' view, the Group requests waiver letters from the banks before the year-end, confirming that the banks shall not use its right to demand early redemption.

At 31 December 2012 and during the year then ended the Group complied with all loan covenants.

25 Trade and other payables

'000 RUB	Note	2012	2011
Trade payables		17 344 008	13 885 863
Advances received		181 083	120 456
Taxes payable (other than income tax)		650 827	395 160
Payables to staff		1 099 639	791 050
Foreign exchange and interest rate swap liabilities	26	32 554	-
Short-term liabilities incurred in share-based payment transactions	10	76 835	33 334
Deferred income		28 365	34 309
Other current payables		200 423	77 387
		19 613 734	**15 337 559**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

26 Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

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

(i) Exposure to credit risk

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

	Note	Carrying amount	
'000 RUB		**2012**	**2011**
Trade and other receivables	20	523 489	483 588
Interest rate and foreign exchange swap receivables		-	320 167
Cash and cash equivalents	21	4 535 693	2 941 947
		5 059 182	**3 745 702**

Due to the fact that the Group's principal activities are located in Russian Federation the credit risk is mainly associated with domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditability.

(ii) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of the customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'Key

outlets. Thus, the credit risk in part of Trade receivables is mostly managed through procedures for selection of suppliers and tenants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Impairment losses

The aging of trade and other receivables at the reporting date was:

'000 RUB	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not overdue and past due less than 90 days	436 509	-	422 770	-
Past due 90-180 days	22 227	-	21 527	-
Past due 180-360 days	10 595	-	10 262	-
More than 360 days	75 635	(21 477)	73 255	(44 226)
	544 966	**(21 477)**	**527 814**	**(44 226)**

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

'000 RUB	2012	2011
Balance at beginning of the year	44 226	108 422
Impairment loss recognised	-	31 973
Impairment loss reversed	(22 749)	(61 884)
Impairment loss utilised	-	(34 285)
Balance at end of the year	**21 477**	**44 226**

The management has performed thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than 1 year. Based on past experience the management believes that normally the balances outstanding less than 360 days should not be impaired.

(iii) Cash and cash equivalents

The Group held cash and cash equivalents of RUB 4 535 693 thousand at 31 December 2012 (2011: RUB 2 941 947 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated AAA based on Standard and Poor's national rating for Russian Federation and AAA based on Moody's Investors Service national rating for Russian Federation.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 2.5;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

(i) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including future interest payments:

2012

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loans	8 056 123	(9 172 269)	(1 054 656)	(1 113 462)	(7 004 151)
Unsecured bonds	3 009 934	(3 916 444)	(151 085)	(151 085)	(3 614 274)
Unsecured bank facilities	2 003 457	(2 046 007)	(2 046 007)	-	-
Unsecured loans from related parties	617 522	(769 789)	(24 363)	(24 363)	(721 063)
Unsecured loans from other companies	2 868	(2 868)	(1)	(2 867)	-
Trade and other payables	18 644 070	(18 644 070)	(18 644 070)	-	-
Other non-current liabilities	911 181	(911 181)	-	-	(911 181)
Derivative financial assets					
Foreign exchange and interest rate swap liability	32 554	(466 376)	(114 132)	(102 648)	(249 596)
	33 277 709	**(35 929 004)**	**(22 034 314)**	**(1 394 425)**	**(12 500 265)**

During 2012 the Group placed unsecured bonds on MICEX which expire after 5 years in 2017, however bonds holders have an option to claim repayment of bonds after 3 years, thus 3 years period is used for contractual cash flows calculation purposes.

2011

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loans	7 225 336	(8 077 028)	(885 672)	(853 208)	(6 338 148)
Unsecured bank facilities	3 877 808	(4 026 728)	(3 994 472)	(32 256)	-
Unsecured loans from related parties	960 300	(1 047 602)	(37 886)	(37 886)	(971 830)
Unsecured loans from other companies	7 786	(7 798)	(4 935)	(2 863)	-
Trade and other payables	14 754 300	(14 754 300)	(14 754 300)	-	-
Other non-current liabilities	965 883	(965 883)	-	-	(965 883)
Derivative financial assets					
Foreign exchange and interest rate swap receivables	(320 167)	(350 286)	(101 830)	(87 244)	(161 212)
	27 471 246	**(29 229 625)**	**(19 779 095)**	**(1 013 457)**	**(8 437 073)**

There are no payments due after 5 years.

(d) Market risk

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

The Group buys derivatives in order to manage market risk. All such transactions are carried out within the guidelines set in Group's policy on hedging market risk. The Group applies hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group holds its business in Russian Federation and mainly collects receivables nominated in Russian Roubles. However financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar.

Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its

exposure is kept to acceptable level by keeping proportion of financial assets and liabilities in foreign currencies to total financial liabilities at acceptable level. From time to time the Group converts assets and liabilities from one currency to another. The Group regularly considers necessity of using derivatives to hedge its exposure to currency risk. During 2012 the Group used currency swap in order to hedge currency risk on loan denominated in US Dollars.

Exposure to currency risk

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

'000 RUB	USD-denominated 2012	USD-denominated 2011
Trade and other receivables	3 346	41 632
Secured bank loans	(4 387 442)	(5 767 797)
Unsecured loans from related parties	(617 522)	(960 300)
Trade and other payables	(11 250)	(118 925)
Other non-current liabilities	(911 181)	(965 883)
Foreign exchange and interest rate swap receivables	-	320 167
Foreign exchange and interest rate swap liabilities	(32 554)	-
Gross exposure	**(5 956 603)**	**(7 451 106)**
Of which carrying amount of hedged secured bank loans	3 954 901	5 095 856
Net exposure	**(2 001 702)**	**(2 355 250)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
Russian Rouble equals	**2012**	**2011**	**2012**	**2011**
US Dollar	31.0930	29.3874	30.3727	32.1961

Sensitivity analysis

A 10% strengthening of the RUB against USD at 31 December 2012 would have increased equity by RUB 592 405 thousand (2011: RUB 745 111 thousand) and profit or loss by RUB 196 915 thousand (2011: RUB 267 542 thousand). This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

A weakening of the RUB against USD at 31 December would have had the equal but opposite effect on equity and profit and loss, on the basis that all other variables remain constant.

(ii) Interest rate risk

The Group has material exposure to interest rate risk. As at 31 December 2012 66% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2011: 76%).

The Group uses swaps to hedge its exposure to variability of interest and exchange rates. As at 31 December 2012 the Group had foreign exchange and interest swap agreement with a bank. Under this agreement the Group swaps LIBOR rate for fixed rate and swaps USD for RUB at fixed rate. At inception, the swap had maturity of five years.

The Group hedged 57% (2011: 88%) of its borrowings with variable rate applying this hedge.

Profile

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

	Carrying amount	
'000 RUB	**2012**	**2011**
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(6 802 462)	(6 303 433)
Variable rate instruments		
Financial assets	-	320 167
Financial liabilities	(6 919 996)	(5 767 797)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	Profit or loss		Equity	
'000 RUB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2012				
Variable rate instruments	(68 801)	68 801	-	-
Interest rate swap	39 485	(39 485)	40 618	5 160
Cash flow sensitivity (net)	**(29 316)**	**29 316**	**40 618**	**5 160**

	Profit or loss		Equity	
'000 RUB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2011				
Variable rate instruments	(57 575)	57 575	-	-
Interest rate swap	50 870	(50 870)	80 942	(57 177)
Cash flow sensitivity (net)	**(6 705)**	**6 705**	**80 942**	**(57 177)**

(e) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 4. Fair value of Group's financial assets and liabilities approximates their carrying amounts.

(f) Fair value hierarchy

Group's derivative financial assets and liabilities comprise foreign exchange and interest rate swap which is carried at fair value. Fair value of swap was determined based on observable market data, including forward foreign exchange and interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

27 Operating leases

Leases as lessee

The Group has both own and leased land plots. The own land plots are included in property, plant and equipment. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are capitalized as initial cost of land lease and are amortised over the period of the lease (49-51 years). The further information on leases is detailed below.

When the Group leases land plots under operating leases, the lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 49 years.

The Group also rents premises under operating leases. These leases typically run up to 10 years. Some of Group's leases are non-cancellable and contain contingent rent arrangements. The Group has subleases.

During the year ended 31 December 2012 RUB 2 388 692 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUB 90 729 thousand) in the profit and loss in respect of operating leases (2011: RUB 1 733 354 thousand).

Non-cancellable operating lease rentals are payable as follows:

RUB 000'	2012	2011
Less than one year	278 099	222 673
Between one and five years	765 382	744 618
More than five years	4 847 572	5 248 576
	5 891 053	**6 215 867**

Contingent rent recognised as an expense for the year ended 31 December 2012 amounted RUB 637 255 thousand (2011: RUB 596 634 thousand). Contingent rent is determined as excess of 3%-5% of the revenue of related stores over fixed rent rate.

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2012 RUB 1 013 754 thousand was recognised as rental income in the consolidated statement of comprehensive income (2011: RUB 733 164 thousand). All leases whether the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 28 582 thousand for the year ended 31 December 2012 (2011: RUB 4 238 thousand). Contingent rent is determined as excess of 3,5%-25% of the tenant's revenue over fixed rent rate.

28 Capital commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 5 796 762 thousand as at 31 December 2012 (2011: RUB 1 661 253 thousand).

29 Contingencies

(a) Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax

authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

The Group companies entered into intragroup transactions which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules and practical application of the law, but could be significant. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

The Group has treated bonuses received from suppliers based on clarifications issued by the Russian Ministry of Finance, and management believes that this approach is consistent with applicable tax law. However, based on uncertainty of tax legislation and recent development of court practice, the tax authorities could take a different position and attempt to assess additional tax liabilities.

The potential amount of such assessment cannot be reasonably estimated due to uncertainty of legislation and absence of practise in determining of the amount of additional tax liabilities, but could be significant. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

(c) Assets pledged or restricted

At 31 December 2012 the Group has the following assets pledged as collateral:

'000 RUB	Note	2012	2011
Fixed assets (carrying value)	14	6 404 435	4 214 640
Initial cost of land lease (carrying value)	17	456 971	349 591
Total		**6 861 406**	**4 564 231**

30 Related party transactions

(a) Major shareholders

The major shareholders of the Group are four individuals Mr. Korzhev, Mr. Troitsky, Mr. Volchek and Mr. Teder ("the shareholder group").

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 9):

'000 RUB	2012	2011
Salaries and bonuses	113 526	125 339
Social security contributions	778	660
Long-service bonus	85 425	71 839
Share-based payments	42 016	31 321
	241 745	**229 159**

In addition members of Board of Directors received remuneration in the amount of RUB 12 068 thousand for the year ended 31 December 2012 (2011: RUB 8 858 thousand) which is included in Legal and professional expenses (see note 7).

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group (see note 1(a)).

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Services provided:				
Other related parties	38 664	21 689	(5 110)	(3 786)
	38 664	**21 689**	**(5 110)**	**(3 786)**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

'000 RUB	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Lease of premises				
Other related parties	(675 140)	(647 768)	1 109 960	1 179 569
Including:				
Rental fee	(565 526)	(557 934)		
Reimbursement of utilities	(54 831)	(35 735)		
Reimbursement of other expenses	(54 783)	(54 099)		
Other services received:				
Other related parties	(15 908)	(24 036)	608	9 722
Finance costs:				
Other related parties	(49 430)	(70 169)	-	-
	(740 478)	**(741 973)**	**1 110 568**	**1 189 291**

In 2012 no finance costs from related parties were capitalized in cost of property, plant and equipment (2011: Nil).

Outstanding balance for lease of premises as at 31 December 2012 represents net balance of prepayments for rent of hypermarkets for the period until 2017 in the amount of RUB 1 168 638 thousand (2011: RUB 1 230 054 thousand) and current liabilities for rent of hypermarkets in the amount RUB 58 678 thousand (2011: RUB 50 485 thousand). Long-term part of prepayments is RUB 952 302 thousand (2011: RUB 1 045 171 thousand), refer to note 17.

All other outstanding balances are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

'000 RUB	Amount loaned 2012	Amount loaned 2011	Outstanding balance 2012	Outstanding balance 2011
Loans received:				
Other related parties	-	-	**(617 522)**	**(960 300)**

The loans from other related parties bear interest at 8% per annum and are repayable in 2016.

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

31 Subsidiaries

Subsidiary	Country of incorporation	2012 Ownership/voting	2011 Ownership/voting
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	100%
LLC O'Key Group	Russian Federation	100%	100%
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor	Russian Federation	100%	100%
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	-	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	-	100%

Subsidiary	Country of incorporation	2012 Ownership/voting	2011 Ownership/voting
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	-	100%
LLC Tagar-City	Russian Federation	100%	100%
JSC Olips D	Russian Federation	100%	100%
LLC Lux Development	Russian Federation	100%	100%
LLC Djemir Invest	Russian Federation	100%	100%
LLC Kbr-Torg	Russian Federation	100%	100%
JCS START Krasnoselsky	Russian Federation	100%	100%
LLC Fresh Market	Russian Federation	100%	100%
LLC TC Djemir	Russian Federation	100%	-
JCS START Primorsky	Russian Federation	100%	-

During 2012 the Group acquired two subsidiaries: LLC TC Djemir and JCS START Primorsky for the purpose of obtaining lease rights on the land plots. The acquisition of subsidiaries was classified as acquisition of assets, because acquired entities do not constitute a business.

Several subsidiaries were liquidated at the end of 2012: LLC Tagar, LLC Triumfalnaya Marka and JSC Baltika.

The contibution of liquidated subsidiaries to the Group's profit for the year and the effect on Group's assets and liabilities were not significant.

32 Events subsequent to the reporting date

Subsequent to the reporting date the Group has opened a hypermarket in Moscow.

In February 2013 the Group paid to shareholders dividends in the amount of USD 50,997,595 (RUB 1 538 036 thousand).