

**O'Key Group S.A.**  
**(formerly named Dorinda Holding S.A.)**

**Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
(with the report of the Réviseur d'Entreprises  
Agrée thereon)

23, rue Beaumont

L-1219 Luxembourg

R.C.S. Luxembourg: B 80.533

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## Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

'000 RUB	Note	2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment Property	16	517 000	1 567 424
Property, plant and equipment	14	17 533 638	18 995 363
Construction in progress	14	1 204 602	974 042
Intangible assets	15	559 252	481 426
Long-term loans issued		1 338	9 362
Deferred tax asset	18	194 009	243 107
Other non-current assets	17	4 194 648	3 622 627
<b>Total non-current assets</b>		<b>24 204 487</b>	<b>25 893 351</b>
<b>Current assets</b>			
Inventories	19	5 995 208	5 145 489
Trade and other receivables	20	1 276 531	980 402
Prepayments for current assets		677 703	463 162
Short-term loans issued		31	1 724
Cash and cash equivalents	21	5 707 185	1 462 312
<b>Total current assets</b>		<b>13 656 658</b>	<b>8 053 089</b>
<b>Total assets</b>		<b>37 861 145</b>	<b>33 946 440</b>

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 65.

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

'000 RUB	Note	2010	2009
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	22	<b>12 481 451</b>	<b>7 135 792</b>
<b>Non-current liabilities</b>			
Loans and borrowings	24	7 869 355	9 026 488
Deferred income tax liability	18	496 164	392 541
Deferred income		-	1 108
Other non-current liabilities		1 101 942	-
<b>Total non-current liabilities</b>		<b>9 467 461</b>	<b>9 420 137</b>
<b>Current liabilities</b>			
Loans and borrowings	24	3 702 261	6 439 677
Trade and other payables	25	11 736 964	10 800 614
Current income tax payable		473 008	150 220
<b>Total current liabilities</b>		<b>15 912 233</b>	<b>17 390 511</b>
<b>Total liabilities</b>		<b>25 379 694</b>	<b>26 810 648</b>
<b>Total equity and liabilities</b>		<b>37 861 145</b>	<b>33 946 440</b>

Approved for issue and signed on 27 April 2011.

  
 Member of Board of Directors

  
 Member of Board of Directors

  
 Pryanikov D.N.  
 Financial Director

Approved for issue and signed on 27 April 2011.

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 65.

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

'000 RUB	Note	2010	2009
Revenue	7	82 666 633	67 874 615
Cost of goods sold		(64 742 611)	(53 106 388)
<b>Gross profit</b>		<b>17 924 022</b>	<b>14 768 227</b>
General, selling and administrative expenses	8	(12 407 970)	(10 303 667)
Other operating income and expenses	9	274 827	(846 307)
<b>Operating profit</b>		<b>5 790 879</b>	<b>3 618 253</b>
Finance income	11	16 583	37 791
Finance costs	11	(1 354 208)	(1 683 931)
Foreign exchange losses	12	(112 174)	(320 812)
<b>Profit before income tax</b>		<b>4 341 080</b>	<b>1 651 301</b>
Income tax expense	13	(1 338 086)	(936 879)
<b>Profit for the year</b>		<b>3 002 994</b>	<b>714 422</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		150 319	30 063
Revaluation of property, plant and equipment	14	721 306	(47 300)
Change in fair value of hedges	11	140 765	22 266
Income tax on other comprehensive income	13	(172 414)	5 007
<b>Other comprehensive income for the year, net of income tax</b>		<b>839 976</b>	<b>10 036</b>
<b>Total comprehensive income for the year</b>		<b>3 842 970</b>	<b>724 458</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (RUB)	23	<b>11.7</b>	<b>6.6</b>

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 65.

## Consolidated Statement of Changes in Equity for the year ended 31 December 2010

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2009		1 027	111	3 663 596	(122 940)	(1 101 997)	3 773 360	76 373	6 289 530
<b>Total comprehensive income for the year</b>									
Profit for the year		-	-	-	-	714 422	-	-	714 422
<b>Other comprehensive income</b>									
Foreign currency translation differences		-	-	-	-	-	-	30 063	30 063
Revaluation of property, plant and equipment	14	-	-	-	-	-	(47 300)	-	(47 300)
Change in fair value of hedges	11	-	-	-	22 266	-	-	-	22 266
Income tax on other comprehensive income	13	-	-	-	(4 453)	-	9 460	-	5 007
<b>Total other comprehensive income</b>		-	-	-	17 813	-	(37 840)	30 063	10 036
<b>Total comprehensive income for the year</b>		-	-	-	17 813	714 422	(37 840)	30 063	724 458
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Issue of shares	22	108 788	-	13 016	-	-	-	-	121 804
Total contributions by and distributions to owners		108 788	-	13 016	-	-	-	-	121 804
Balance at 31 December 2009		109 815	111	3 676 612	(105 127)	(387 575)	3 735 520	106 436	7 135 792

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 65.

## Consolidated Statement of Changes in Equity for the year ended 31 December 2010

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2010		109 815	111	3 676 612	(105 127)	(387 575)	3 735 520	106 436	7 135 792
<b>Total comprehensive income for the year</b>									
Profit for the year		-	-	-	-	3 002 994	-	-	3 002 994
<b>Other comprehensive income</b>									
Foreign currency translation differences		-	-	-	-	-	-	150 319	150 319
Revaluation of property, plant and equipment	14	-	-	-	-	-	721 306	-	721 306
Change in fair value of hedges	11	-	-	-	140 765	-	-	-	140 765
Income tax on other comprehensive income	13	-	-	-	(28 153)	-	(144 261)	-	(172 414)
<b>Total other comprehensive income</b>		-	-	-	112 612	-	577 045	150 319	839 976
<b>Total comprehensive income for the year</b>		-	-	-	112 612	3 002 994	577 045	150 319	3 842 970
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Issue of shares	22	9 625	-	5 226 994	-	-	-	-	5 236 619
Interim dividends paid	22	-	-	-	-	(587 489)	-	-	(587 489)
Distributions to shareholders	6	-	-	-	-	(3 146 441)	-	-	(3 146 441)
Revaluation reserve on disposed assets	22	-	-	-	-	949 905	(949 905)	-	-
Total contributions by and distributions to owners		9 625	-	5 226 994	-	(2 784 025)	(949 905)	-	1 502 689
Balance at 31 December 2010		119 440	111	8 903 606	7 485	(168 606)	3 362 660	256 755	12 481 451

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 65.

## Consolidated Statement of Cash Flows for the year ended 31 December 2010

'000 RUB	Note	2010	2009
<b>Cash flows from operating activities</b>			
Profit before income tax		4 341 080	1 651 301
<i>Adjustments for:</i>			
Depreciation and amortisation	14, 15, 17	1 573 527	1 361 306
Loss on disposal of property, plant and equipment, investment property, intangible assets and other non-current assets	9	63 539	37 321
(Gain)/loss from revaluation of investment property	16	(7 964)	81 215
Impairment of non-current assets	15, 17	-	134 445
Revaluation of property, plant and equipment	9	(396 541)	618 078
Finance income	11	(16 583)	(37 791)
Finance costs	11	1 354 208	1 683 931
Foreign exchange losses less gains	12	112 174	320 812
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>7 023 440</b>	<b>5 850 618</b>
Change in net trade and other receivables		(146 061)	231 646
Change in inventories		(850 239)	(1 204 885)
Change in trade and other payables		1 394 376	675 396
Change in deferred income		(1 108)	(13 345)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>7 420 408</b>	<b>5 539 430</b>
Interest paid		(1 421 815)	(1 933 703)
Income tax paid		(887 673)	(733 479)
<b>Net cash from operating activities</b>		<b>5 110 920</b>	<b>2 872 248</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and initial cost of land lease		(3 240 166)	(3 221 703)
Purchase of lease rights		-	(46 624)
Purchase of other intangible assets		(216 204)	(65 876)
Proceeds from sales of property, plant and equipment and investment property		55 319	16 256

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 65.



## Consolidated Statement of Cash Flows for the year ended 31 December 2010

'000 RUB	Note	2010	2009
Loans issued / (reimbursed)		(8 705)	-
Interest received		16 583	28 332
<b>Net cash used in investing activities</b>		<b>(3 393 173)</b>	<b>(3 289 615)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		27 696 985	17 166 280
Repayment of borrowings		(29 888 926)	(17 125 503)
Interim dividends paid		(587 489)	-
Disposal of subsidiaries net of cash disposed	6	(775 295)	-
Guarantee received	14	914 307	-
Issue of shares		5 084 051	121 804
Repayment of finance lease payables		(39 435)	(34 236)
<b>Net cash from financing activities</b>		<b>2 404 198</b>	<b>128 345</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4 121 945</b>	<b>(289 022)</b>
Cash and cash equivalents at beginning of year		1 462 312	1 673 466
Effect of exchange rate fluctuations on cash and cash equivalents		122 928	77 868
<b>Cash and cash equivalents at end of year</b>	21	<b>5 707 185</b>	<b>1 462 312</b>

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 65.

## **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 2010 for O’Key Group S.A., formerly named Dorinda Holding S.A., (the “Company”) 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.

In June 2010 the Company has changed its legal name from Dorinda Holding S.A. to O’Key Group S.A.

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. In November 2010 the Group completed its public offering of 15 974 000 newly issued ordinary shares at USD 11 each and placed global depository receipts (“GDR’s”) on the London Stock Exchange. For more details on shares offering refer to note 22 below.

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 2010 the Group operated 58 stores (31 December 2009: 46 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 27 April 2011.

### (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;
- Land, buildings and investment property are 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 2010 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 30.4769; EUR 1 = RUB 40.3331 (2009: USD 1 = RUB 30.2442; EUR 1 = RUB 43.3883).

### (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 numerous 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.

**Impairment of non-current assets.** The recoverable amount of non-current assets is determined as the higher of fair value less costs to sell and value in use. The details are set out in notes 15 and 17.

**Revenue recognition.** The Group has recognised revenue amounting to RUB 81 688 million for sales of goods during 2010 (2009: RUB 67 031 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.

**Assumptions in revaluing land and buildings and investment properties.** Fair value of the Group's land and buildings and investment property is determined by registered independent appraisers with appropriate recognised professional qualification and recent experience in the location and type of the property valued. The detailed approaches are outlined in note 14.

**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.

**(e) Changes in accounting policies**

With effect from 1 January 2010, the Group changed its accounting policies in relation to classification of leases of land.

**(i) Classification of leases of land**

As at 1 January 2010 the Group has reassessed its classification of all unexpired long-term land leases either as operating or finance leases. Since 1 January 2010 the Group performs such assessment for all new land leases.

Previously all land leases were treated as operating leases. The change in accounting policy was due to adoption of amendments to IAS 17 *Leases* introduced by *Improvements to IFRS April 2009* which became effective as at 1 January 2010. After the amendments long-term land leases are classified as finance or operating leases in accordance with the general criteria in IAS 17.

The land title does not pass to the Group at the end of lease term. The rent paid to landlord is reset from time to time following changes in the market. At inception of land leases the present value of minimum lease payments is substantially less than fair value of leased land. The Group regularly performs comparison of purchase of land versus long-term rent and consistently concludes that long-term rent of land is more beneficial than purchase.

The reassessment did not result in reclassification. As at 31 December 2010 the Group classifies all long-term land leases as operating leases.

**(f) Changes in estimates**

Starting from 2010 the Group changed functional currency of O'Key Group S.A. from EUR to USD, because USD better reflects primary economic environment in which the Company operates, specifically USD is the currency in which most of funds from financing activities are generated.

### **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, except as explained in note 2(e), which addresses changes in accounting policies.

**(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) Investments in Joint Ventures**

Joint Ventures are jointly controlled entities, whereby the Company and other parties undertake an economic activity that is subject to joint control. Jointly controlled entities are accounted for using proportional consolidation method, whereby the Company's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Company's financial statements. Where a sale of assets to joint ventures occurred, and these assets were retained by the joint venture, the Company recognized only that portion of the gain or loss that is attributable to the interests of the other venturers. When a purchase of assets from joint ventures occurred, the Company's share in the profits from this transaction is not recognized until the assets are resold.

**(iii) 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. Foreign currency differences arising in retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**(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, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

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 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**

Property, plant and equipment are stated at cost for equipment and other fixed assets and stated at revalued amounts for land and buildings, as described below, less accumulated depreciation and provision for impairment, where required. 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other 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) Revaluation of land and buildings**

Land and buildings are measured at fair value, based on periodic valuation by external independent appraisers. A revaluation increase on land and buildings is recognised directly in the revaluation reserve in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on land and buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income. When a revalued asset is sold, the amount included in the revaluation reserve is transferred to retained earnings.

**(iv) Depreciation**

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

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

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 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 |

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 vary from 3 to 7 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 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.

**(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, unwinding of the discount on provisions and impairment losses recognised on financial assets. 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 2010, 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.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition 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 the first half of 2011. 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.

- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet determined the potential effect of the amendment.
- 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 not earlier than 1 January 2011. 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) Land and buildings, 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 land and buildings and investment property portfolio 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 based on broker quotes. Those quotes are tested for reasonableness 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.

**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 adjusted earnings before interest, tax, depreciation and amortization (EBITDA). 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 2010 is as follows:

'000 RUB	2010	2009
Revenue	82 666 633	67 874 615
EBITDA	7 126 676	5 813 297

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

'000 RUB	2010	2009
EBITDA	7 126 676	5 896 309
Revaluation gain/(loss)	404 505	(699 293)
Loss from disposal of non-current assets	(63 539)	(37 321)
Loss from write-off of receivables	(66 395)	(2 110)
Impairment of receivables	(36 841)	(43 581)
Depreciation and amortisation	(1 573 527)	(1 361 306)
Impairment losses	-	(134 445)
Finance income	16 583	37 791
Finance costs	(1 354 208)	(1 683 931)
Foreign exchange losses	(112 174)	(320 812)
Profit before income tax	4 341 080	1 651 301
Income tax	(1 338 086)	(936 879)
Profit for the year	3 002 994	714 422

## 6 Distribution of assets

On 23 December 2010 the Group disposed of its 100% owned subsidiaries Denovex Limited, Dextenco Co Limited, Filorus Limited, Lonmax Limited, Macropia Limited, Naviline Limited, Ricandano Co Limited, Gelarous Co Limited, Lefkosan Co Limited, Siltom Holdings Limited, LLC Dorinda Invest, LLC Premium, LLC BC Okkervil, LLC Elart, LLC Legion, LLC Rampazh, LLC Dorinda-Murmansk, LLC N.E.F.-Saint-Petersburg, LLC Region to an entity controlled by the shareholder group (see note 1(a)).

Although the majority of disposed subsidiaries did not own significant assets, some of the disposed subsidiaries owned vacant and developed land plots, long-term lease rights for several developed and vacant land plots, two trade centers for which development has not been completed and three operating O'Key hypermarkets.

Immediately after disposition, the Group leased back three operating O'Key hypermarkets and nearby areas, including parking space and other related assets, under an operating lease. Terms of the lease are such that the Group should pay rentals which will include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of Group's retail revenue from operation of these hypermarkets.

Contribution of disposed subsidiaries to Group's profit for the year was not significant.

The disposal of the subsidiaries had the following effect on the Group's assets and liabilities at the date of disposal:

'000 RUB	Note	Carrying amount at date of disposal
<b>Non-current assets</b>		
Investment property	16	1 083 803
Property, plant and equipment	14	4 017 320
Construction in progress	14	116 457
Investments		18 422
Deferred tax assets		35 017
Other non-current assets		500 578
<b>Current assets</b>		
Inventories		520

'000 RUB	Note	Carrying amount at date of disposal
Trade and other receivables		431 706
Cash and cash equivalents		790 178
<b>Non-current liabilities</b>		
Loans and borrowings		(1 626 456)
Deferred tax liabilities		(322 480)
Other non-current liabilities		(1 230 551)
<b>Current liabilities</b>		
Loans and borrowings		(142 499)
Trade and other payables		(771 875)
Current income tax payable		(10 626)
<b>Net identifiable assets and liabilities</b>		2 889 514
Excess of carrying values of net assets distributed over consideration received		2 874 631
Consideration received, satisfied in cash		14 883
Cash disposed of		(790 178)
Net cash outflow		(775 295)

Difference between net assets disposed and consideration received adjusted for tax effect of disposition (RUB 271 810 thousand) was recognized directly in equity as distributions to shareholders.

Accumulated revaluation reserve on disposed land and buildings was transferred to retained earnings in the amount of RUB 949 905 thousand net of tax effect of RUB 237 476 thousand. Transfer of revaluation reserve to retained earnings was disclosed in the Consolidated Statement of Changes in Equity in the same line as distribution of assets.

## 7 Revenue

'000 RUB	2010	2009
Sales of trading stock	77 699 520	63 540 249
Sales of self-produced catering products	3 987 986	3 490 440
Revenue from sale of goods	81 687 506	67 030 689
Rental income	705 937	636 317
Revenue from advertising services	273 190	207 609
<b>Total revenues</b>	<b>82 666 633</b>	<b>67 874 615</b>

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.

## 8 General, selling and administrative expenses

'000 RUB	Note	2010	2009
Personnel costs	10	(5 989 087)	(5 229 496)
Depreciation and amortization		(1 573 527)	(1 361 306)
Advertising and marketing		(429 923)	(363 425)
Operating leases		(1 069 935)	(672 162)
Repairs and maintenance costs		(257 120)	(239 400)
Communication and utilities		(1 101 438)	(891 509)
Materials and supplies		(357 473)	(179 146)
Security expenses		(520 781)	(428 525)
Insurance and bank commission		(327 795)	(255 827)
Legal and professional expenses		(163 292)	(133 425)
Operating taxes		(348 872)	(391 455)
Other costs		(268 727)	(157 991)
		<b>(12 407 970)</b>	<b>(10 303 667)</b>

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

'000 RUB	2010	2009
Auditors' remuneration for annual and consolidated accounts	17 165	18 916
Auditors' remuneration for other assurance services	24 511	-
Auditors' remuneration for tax advisory services	259	111
Auditors' remuneration for non-audit services	4 335	536
	<b>46 270</b>	<b>19 563</b>

## 9 Other operating income and expenses

'000 RUB	Note	2010	2009
Loss from disposal of non-current assets		(63 539)	(37 321)
Loss from write-off of receivables		(66 395)	(2 110)
Impairment of receivables	26	(36 841)	(43 581)
Gain/(loss) from revaluation of investment property	16	7 964	(81 215)
Gain/(loss) from revaluation of property, plant and equipment		396 541	(618 078)
Loss from impairment of non-current assets	15, 17	-	(134 445)
Sundry income		37 097	70 443
		<b>274 827</b>	<b>(846 307)</b>

The Group measures land and buildings at fair value. For accounting policy in respect of revaluation of land and buildings refer to note 3(e)(iii). For major assumptions underlying revaluation of land and buildings refer to note 14(a).

## 10 Personnel costs

'000 RUB	2010	2009
Wages and salaries	(3 802 377)	(3 304 911)
Contributions to state pension fund	(1 042 651)	(869 131)
Employee benefits	(1 099 679)	(1 004 008)
Other	(44 380)	(51 446)
<b>Total personnel costs</b>	<b>(5 989 087)</b>	<b>(5 229 496)</b>

During the year ended 31 December 2010 the Group employed 14 thousand employees on average (2009: 12 thousand employees on average). Approximately 95% of employees are store employees and the remaining part is office employees.

**11 Finance income and finance costs**

'000 RUB	2010	2009
<b>Recognised in profit or loss</b>		
Interest income on loans and receivables	11 116	30 479
Other finance income	5 467	7 312
<b>Finance income</b>	<b>16 583</b>	<b>37 791</b>
Interest costs on loans and borrowings	(1 237 793)	(1 687 639)
Reclassification from hedging reserve	(93 377)	-
Ineffective hedges	(22 829)	6 758
Finance leasing costs	(209)	(3 050)
<b>Finance costs</b>	<b>(1 354 208)</b>	<b>(1 683 931)</b>
<b>Net finance costs recognised in profit or loss</b>	<b>(1 337 625)</b>	<b>(1 646 140)</b>
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	16 583	37 791
Total interest expense on financial liabilities	(1 331 379)	(1 690 689)

'000 RUB	2010	2009
<b>Recognised in other comprehensive income</b>		
Change in fair value of hedges	47 388	22 266
Reclassification from hedging reserve	93 377	-
Income tax on income and expense recognised in other comprehensive income	(28 153)	(4 453)
Finance income recognised in other comprehensive income, net of tax	112 612	17 813

During 2010 the Group has capitalised interests in the value of property, plant and equipment and investment property. The amount of capitalised interest comprised RUB 89 247 thousand (2009: RUB 232 577 thousand).

In 2010 capitalisation rate of 6.4 % was used to determine the amount of borrowing costs eligible for capitalisation (2009: 7.3%).

## 12 Foreign exchange losses

During 2010 the Group had significant borrowings denominated in US dollars. The weakening of Russian Rouble during 2010 has resulted in foreign exchange loss for the year amounting to RUB 112 174 thousand (2009: RUB 320 812 thousand). In 2010 the Group has used hedging instruments to hedge foreign exchange risks.

For the current period, the Group's risk management policy is to convert majority 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 debt is hedged.

## 13 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2009: 20%).

'000 RUB	2010	2009
Current tax expense	(1 133 667)	(909 831)
Deferred tax expense	(204 419)	(27 048)
Total income tax expense	<b>(1 338 086)</b>	<b>(936 879)</b>

### Income tax recognised directly in other comprehensive income

'000 RUB	2010			2009		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	150 319	-	150 319	30 063	-	30 063
Revaluation of property, plant and equipment	721 306	(144 261)	577 045	(47 300)	9 460	(37 840)
Change in fair value of hedges	140 765	(28 153)	112 612	22 266	(4 453)	17 813
	<b>1 012 390</b>	<b>(172 414)</b>	<b>839 976</b>	<b>5 029</b>	<b>5 007</b>	<b>10 036</b>



**Reconciliation of effective tax rate:**

<b>'000 RUB</b>	<b>2010</b>	<b>2009</b>
Profit before income tax	<b>4 341 080</b>	<b>1 651 301</b>
Income tax at applicable tax rate (2010: 20%, 2009: 20%)	(868 216)	(330 261)
Effect of income taxed at different rates	(8 814)	(5 928)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Inventory shrinkage expenses	(259 498)	(272 800)
- Other non-deductible expenses	(124 086)	(80 626)
Tax withheld on dividends received from subsidiaries	(106 092)	-
Write-off of deferred tax asset of tax losses carried forward	-	(208 985)
Adjustments to current income tax for previous periods	49 562	(38 279)
Other items	(20 942)	-
<b>Income tax expense for the year</b>	<b>(1 338 086)</b>	<b>(936 879)</b>

## 14 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
<i>Cost or deemed cost/Revalued amount</i>								
Balance at 1 January 2009	6 505 365	8 543 427	201 496	30 946	2 500 380	1 052 483	1 947 007	20 781 104
Additions	92 000	1 525 649	446 057	994	568 238	245 143	524 669	3 402 750
Transfers	-	838 739	48 302	-	38 263	-	(925 304)	-
Transfers to Investment Property	(293 712)	-	-	-	-	-	(547 503)	(841 215)
Revaluation	(203 274)	(809 764)	-	-	-	-	-	(1 013 038)
Disposals	-	-	-	(2 313)	(7 668)	(2 090)	(24 827)	(36 898)
Balance at 31 December 2009	<b>6 100 379</b>	<b>10 098 051</b>	<b>695 855</b>	<b>29 627</b>	<b>3 099 213</b>	<b>1 295 536</b>	<b>974 042</b>	<b>22 292 703</b>

'000 RUB	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Balance at 1 January 2010	6 100 379	10 098 051	695 855	29 627	3 099 213	1 295 536	974 042	22 292 703
Additions	171 848	321 208	841 588	7 552	965 095	307 578	608 983	3 223 852
Transfers	(74 924)	103 007	104 716	1 041	100 786	(1 548)	(233 078)	-
Revaluation	284 209	492 495	-	-	-	-	-	776 704
Distribution of assets	( 2 796 176)	(1 193 761)	-	(155)	(116 776)	-	(116 457)	(4 223 325)
Disposals	-	-	-	(2 670)	(27 343)	(19 103)	(28 888)	(78 004)
Balance at 31 December 2010	<b>3 685 336</b>	<b>9 821 000</b>	<b>1 642 159</b>	<b>35 395</b>	<b>4 020 975</b>	<b>1 582 463</b>	<b>1 204 602</b>	<b>21 991 930</b>
<i><b>Depreciation and impairment losses</b></i>								
Balance at 1 January 2009	-	-	(1 169)	(15 556)	(933 887)	(546 393)	(300 000)	(1 797 005)
Depreciation for the year	-	(347 660)	(41 353)	(2 109)	(530 055)	(259 070)	-	(1 180 247)
Revaluation	-	347 660	-	-	-	-	-	347 660
Transfers to Investment property	-	-	-	-	-	-	300 000	300 000
Disposals	-	-	-	1 639	3 274	1 381	-	6 294
Balance at 31 December 2009	-	-	<b>(42 522)</b>	<b>(16 026)</b>	<b>(1 460 668)</b>	<b>(804 082)</b>	-	<b>(2 323 298)</b>

'000 RUB	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Balance at 1 January 2010	-	-	(42 522)	(16 026)	(1 460 668)	(804 082)	-	(2 323 298)
Depreciation for the year	-	(385 238)	(86 408)	(3 808)	(621 987)	(291 387)	-	(1 388 828)
Revaluation	-	341 143	-	-	-	-	-	341 143
Distribution of assets	-	44 095	-	-	45 453	-	-	89 548
Disposals	-	-	-	2 670	20 395	4 680	-	27 745
Balance at 31 December 2010	-	-	<b>(128 930)</b>	<b>(17 164)</b>	<b>(2 016 807)</b>	<b>(1 090 789)</b>	-	<b>(3 253 690)</b>

*Carrying amounts*

At 1 January 2009	<b>6 505 365</b>	<b>8 543 427</b>	<b>200 327</b>	<b>15 390</b>	<b>1 566 493</b>	<b>506 090</b>	<b>1 647 007</b>	<b>18 984 099</b>
At 31 December 2009	<b>6 100 379</b>	<b>10 098 051</b>	<b>653 333</b>	<b>13 601</b>	<b>1 638 545</b>	<b>491 454</b>	<b>974 042</b>	<b>19 969 405</b>
At 31 December 2010	<b>3 685 336</b>	<b>9 821 000</b>	<b>1 513 229</b>	<b>18 231</b>	<b>2 004 168</b>	<b>491 674</b>	<b>1 204 602</b>	<b>18 738 240</b>

*Net book value had no revaluations taken place*

At 1 January 2009	<b>3 489 884</b>	<b>10 862 339</b>	<b>200 327</b>	<b>15 390</b>	<b>1 566 493</b>	<b>506 090</b>	<b>1 647 007</b>	<b>18 287 530</b>
At 31 December 2009	<b>3 596 158</b>	<b>12 720 557</b>	<b>653 333</b>	<b>13 601</b>	<b>1 638 545</b>	<b>491 454</b>	<b>974 042</b>	<b>20 087 690</b>
At 31 December 2010	<b>2 025 851</b>	<b>10 591 410</b>	<b>1 513 229</b>	<b>18 231</b>	<b>2 004 168</b>	<b>491 674</b>	<b>1 204 602</b>	<b>17 849 165</b>

Depreciation expense of RUB 1 388 828 thousand has been charged to selling, general and administrative expenses (2009: RUB 1 180 247 thousand).

**(a) Revaluation of land and buildings**

The carrying amount of land and buildings is the fair value of the land and buildings 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. Revaluation was made annually, for each reporting date.

In respect of land the appraisers have used the market approach for determining the fair value. In respect of buildings, the appraisers have used primarily the income approach and, secondary the market approach for determining the fair value of buildings. Market approach was mainly used for the buildings of supermarkets.

The market approach considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the nature, conditions and locations of the appraised property relative to the market comparative. In the income approach, an estimate is made of annual net operating income for 5 years, which is mainly based on annual net rent rate varying from RUB 5 000 to RUB 6 900 per sq. m. (2009: from RUB 4 300 to RUB 6 700 per sq.m.) and full occupancy. The annual net operating income is assumed to be constant from year 6 to perpetuity. Discount rates from 13.5% to 17.3% (2009: from 15.8% to 19.3%) were applied in the income based approach, dependent on local risk factors.

**(b) Security**

At 31 December 2010 property, plant and equipment carried at RUB 5 903 000 thousand (2009: RUB 8 333 576 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 24.

In 2010 the Group has entered into agreement with third party in relation to one of its land plots with carrying value of RUB 690 000 thousand as at 31 December 2010. 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 the amount of RUB 914 307 thousand in relation to this transaction. Guarantee received was included in other non-current liabilities.

## 15 Intangible assets

'000 RUB	Software	Lease rights	Total
<i>Cost</i>			
Balance at 1 January 2009	117 902	230 572	348 474
Additions	82 100	208 460	290 560
Transfer from other assets	-	52 443	52 443
Balance at 31 December 2009	<b>200 002</b>	<b>491 475</b>	<b>691 477</b>
Balance at 1 January 2010	200 002	491 475	691 477
Additions	216 204	-	216 204
Balance at 31 December 2010	<b>416 206</b>	<b>491 475</b>	<b>907 681</b>
<i>Amortisation and impairment losses</i>			
Balance at 1 January 2009	(64 538)	-	(64 538)
Amortisation for the year	(52 099)	(69 969)	(122 068)
Impairment losses	-	(23 445)	(23 445)
Balance at 31 December 2009	<b>(116 637)</b>	<b>(93 414)</b>	<b>(210 051)</b>
Balance at 1 January 2010	(116 637)	(93 414)	(210 051)
Amortisation for the year	(76 107)	(62 271)	(138 378)
Balance at 31 December 2010	<b>(192 744)</b>	<b>(155 685)</b>	<b>(348 429)</b>
<i>Carrying amounts</i>			
At 1 January 2009	<b>53 364</b>	<b>230 572</b>	<b>283 936</b>
At 31 December 2009	<b>83 365</b>	<b>398 061</b>	<b>481 426</b>
At 31 December 2010	<b>223 462</b>	<b>335 790</b>	<b>559 252</b>

### Amortisation and impairment charge

Amortisation of RUB 138 378 thousand has been charged to selling, general and administrative expenses (2009: RUB 122 068 thousand).

## 16 Investment property

'000 RUB	Investment property	Investment property under construction	Total investment property
<b>Investment properties at fair value as at 1 January 2009</b>	<b>1 041 642</b>	<b>-</b>	<b>1 041 642</b>
Additions	-	65 358	<b>65 358</b>
Transfers from property, plant and equipment	293 712	247 503	<b>541 215</b>
Expenditure on subsequent improvements	424	-	<b>424</b>
Fair value (loss)/gain	(173 954)	92 739	<b>(81 215)</b>
<b>Investment properties at fair value as at 31 December 2009</b>	<b>1 161 824</b>	<b>405 600</b>	<b>1 567 424</b>
<b>Investment properties at fair value as at 1 January 2010</b>	<b>1 161 824</b>	<b>405 600</b>	<b>1 567 424</b>
Additions	-	22 379	22 379
Expenditure on subsequent improvements	3 036	-	3 036
Distribution of assets	(655 824)	(427 979)	(1 083 803)
Fair value gain	7 964	-	7 964
<b>Investment properties at fair value as at 31 December 2010</b>	<b>517 000</b>	<b>-</b>	<b>517 000</b>

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. Refer to note 14.

At 31 December 2010 investment property carried at RUB 517 000 thousand (2009: RUB 1 161 824 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 24.

Direct operating expenses arising from investment property that generated rental income amounted to RUB 69 153 thousand for the year ended 31 December 2010 (2009: RUB 68 081 thousand). There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2010 (2009: Nil).

**17 Other non-current assets**

<b>'000 RUB</b>	<b>2010</b>	<b>2009</b>
Prepayments for non-current assets	383 080	688 768
Initial cost of land lease	2 433 694	2 787 467
Long-term deposits to lessors	118 081	95 359
Long-term prepayments to entities under control of shareholder group	1 230 054	-
Deferred bank commissions	29 739	51 033
	<b>4 194 648</b>	<b>3 622 627</b>

Initial cost of land lease includes purchase price and the 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:

<b>'000 RUB</b>	<b>2010</b>	<b>2009</b>
<i>Cost</i>		
<b>Balance at 1 January</b>	<b>3 290 913</b>	<b>3 299 117</b>
Additions	249 666	16 557
Distribution of assets	(517 539)	-
Disposals	(72 439)	(24 761)
<b>Balance at 31 December</b>	<b>2 950 601</b>	<b>3 290 913</b>
<i>Amortization and impairment losses</i>		
<b>Balance at 1 January</b>	<b>(503 446)</b>	<b>(335 243)</b>
Amortization charge	(46 321)	(58 991)
Impairment losses	-	(111 000)
Distribution of assets	29 020	-
Disposals	3 840	1 788
<b>Balance at 31 December</b>	<b>(516 907)</b>	<b>(503 446)</b>
<b>Net book value</b>	<b>2 433 694</b>	<b>2 787 467</b>



At 31 December 2010 initial cost of land lease carried at RUB 426 795 thousand (2009: RUB 492 683 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:

'000 RUB	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Investment property	55 309	-	-	(89 166)	55 309	(89 166)
Property, plant and equipment	-	-	(660 632)	(595 414)	(660 632)	(595 414)
Construction in progress	-	-	-	(26 838)	-	(26 838)
Intangible assets	-	-	-	(123)	-	(123)
Investments	3 365	3 327	-	-	3 365	3 327
Other non-current assets	5 522	59 028	-	-	5 522	59 028
Inventories	156 748	117 199	-	(905)	156 748	116 294
Trade and other receivables	69 037	18 768	-	(1 821)	69 037	16 947
Trade and other payables	68 496	252 805	-	-	68 496	252 805
Tax losses carry-forwards	-	113 706	-	-	-	113 706
Tax assets/(liabilities)	<b>358 477</b>	<b>564 833</b>	<b>(660 632)</b>	<b>(714 267)</b>	<b>(302 155)</b>	<b>(149 434)</b>
Set off of tax	(164 468)	(321 726)	164 468	321 726	-	-
Net tax assets/(liabilities)	<b>194 009</b>	<b>243 107</b>	<b>(496 164)</b>	<b>(392 541)</b>	<b>(302 155)</b>	<b>(149 434)</b>

**(b) Unrecognised deferred tax liability**

As at 31 December 2010 a temporary difference of RUB 11 713 761 thousand (2009: RUB 6 214 166 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 2010	Recognised in profit or loss	Recognised in hedging reserve	Recognised in revaluation reserve	Distribution to shareholders	31 December 2010
Investment property	(89 166)	19 549	-	-	124 926	55 309
Property, plant and equipment	(595 414)	(67 349)	-	(144 261)	146 392	(660 632)
Construction in progress	(26 838)	26 838	-	-	-	-
Intangible assets	(123)	123	-	-	-	-
Investments	3 327	38	-	-	-	3 365
Other non-current assets	59 028	(69 651)	-	-	16 145	5 522
Inventories	116 294	40 454	-	-	-	156 748
Trade and other receivables	16 947	52 090	-	-	-	69 037
Trade and other payables	252 805	(156 156)	(28 153)	-	-	68 496
Tax loss carry-forwards	113 706	(50 355)	-	-	(63 351)	-
	<b>(149 434)</b>	<b>(204 419)</b>	<b>(28 153)</b>	<b>(144 261)</b>	<b>224 112</b>	<b>(302 155)</b>

'000 RUB	1 January 2009	Recognised in profit or loss	Recognised in hedging reserve	Recognised in revaluation reserve	Reclassified to intangible assets	31 December 2009
Investment property	16 026	(105 192)	-	-	-	(89 166)
Property, plant and equipment	(788 874)	190 121	-	9 460	(6 121)	(595 414)
Construction in progress	53 031	(79 869)	-	-	-	(26 838)
Intangible assets	(4 533)	250	-	-	4 160	(123)
Investments	4 490	(1 163)	-	-	-	3 327
Other non-current assets	90 206	20 170	-	-	(51 348)	59 028
Inventories	85 329	30 965	-	-	-	116 294
Trade and other receivables	17 820	(873)	-	-	-	16 947
Deferred income	754	(754)	-	-	-	-
Trade and other payables	128 880	128 378	(4 453)	-	-	252 805
Tax loss carry-forwards	322 787	(209 081)	-	-	-	113 706
	<b>(74 084)</b>	<b>(27 048)</b>	<b>(4 453)</b>	<b>9 460</b>	<b>(53 309)</b>	<b>(149 434)</b>

## 19 Inventories

'000 RUB	2010	2009
Goods for resale	6 022 609	4 997 712
Raw materials and consumables	287 597	313 387
Write-down to net realisable value	(314 998)	(165 610)
	<b>5 995 208</b>	<b>5 145 489</b>

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 314 998 thousand as at 31 December 2010 (2009: RUB 165 610 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	2010	2009
Trade receivables		64 966	85 293
VAT receivable		604 032	517 069
Prepaid taxes		23 748	46 763
Foreign exchange and interest rate swap receivables	26	21 896	6 758
Other receivables		561 889	324 519
		<b>1 276 531</b>	<b>980 402</b>

Taxes prepaid include RUB 17 879 thousand of prepaid Income tax (2009: RUB 40 144 thousand).

Other receivables include RUB 349 173 thousand (2009: RUB 302 527 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	2010	2009
Cash on hand	204 284	153 282
RUB denominated bank current account	683 249	610 850
USD denominated bank current account	54 280	12 373
RUB term deposits (interest rate: 3.2% p.a.- 5.75% p.a.; 2009 – 7.7% p.a.)	3 942 129	11 204
Cash in transit	823 243	674 603
Cash and cash equivalents	<b>5 707 185</b>	<b>1 462 312</b>

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: 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.

<i>Number of shares unless otherwise stated</i>	<b>Ordinary shares</b>	
	<b>2010</b>	<b>2009</b>
Par value	EUR 0.01	EUR 10
On issue at 1 January	253 100	3 100
Split of shares	252 846 900	-
Issued for cash	15 974 000	250 000
On issue at 31 December, fully paid	269 074 000	253 100

As at 31 December 2010 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 2009: EUR 2 531 thousand) is represented by 269 074 000 shares (2009: 253 100 shares) with a par value of 0.01 EUR (2009: 10 EUR) each.

In October 2010 share capital of O'Key Group S.A. was restructured in the form of share split in proportion of 1000/1 (from 253 100 shares with par value of 10 EUR each to 253 100 000 shares with par value of 0.01 EUR each).

In November 2010 O'Key Group S.A. issued 15 974 000 ordinary shares with par value of 0.01 EUR each. In November 2010 the Group completed its public offering of newly issued shares at USD 11 each and placed GDR's on London Stock Exchange.

Gross proceeds from shares offering amounted to RUB 5 411 517 thousand. Costs directly attributable to shares offering amounted to RUB 174 898 thousand. Net proceeds from shares offering amounted to RUB 5 236 619 thousand. Excess of net proceeds over par value of newly issued shares was recognised in additional paid-in capital in the amount of RUB 5 226 994 thousand.

The Rouble value of the subscribed capital is determined with application of RUB/EUR historical exchange rate as at the date of each equity transaction.

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.

In August 2010 the Group paid interim dividends to shareholders in amount of RUB 587 489 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Movements in Revaluation reserve and additional paid-in capital were as follows:

<b>‘000 RUB</b>	<b>Revaluation reserve for property, plant and equipment</b>	<b>Additional paid- in capital</b>	<b>Total</b>
<b>At 1 January 2009</b>	<b>3 773 360</b>	<b>3 663 596</b>	<b>7 436 956</b>
Revaluation loss	(47 300)	-	(47 300)
Income tax effect	9 460	-	9 460
Issue of shares	-	13 016	13 016
<b>At 31 December 2009</b>	<b>3 735 520</b>	<b>3 676 612</b>	<b>7 412 132</b>
Revaluation gain	721 306	-	721 306
Revaluation reserve on disposed assets	(1 187 381)	-	(1 187 381)
Income tax effect	93 215	-	93 215
Issue of shares	-	5 226 994	5 226 994
<b>At 31 December 2010</b>	<b>3 362 660</b>	<b>8 903 606</b>	<b>12 266 266</b>

## 23 Earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of RUB 3 002 994 thousand (2009: RUB 714 422 thousand), and a weighted average number of ordinary shares outstanding of 255 582 203 (2009: 107 894 521), calculated as shown below. The Company has no dilutive potential ordinary shares.

<i>Number of shares</i>	<b>2010</b>	<b>2009</b>
Issued shares at 1 January	253 100	3 100
Effect of share split in 2010	252 846 900	107 786 626
Effect of shares issued	2 482 203	104 795
Weighted average number of shares for the year ended 31 December	255 582 203	107 894 521

For more details on share split and issue of shares refer to note 22 above.

## 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	2010	2009
<i>Non-current liabilities</i>		
Secured bank loans	6 960 333	7 677 614
Unsecured loans from Related parties	909 022	1 348 874
	<b>7 869 355</b>	<b>9 026 488</b>
<i>Current liabilities</i>		
Secured bank loans	1 796 655	5 622 922
Unsecured loans from Related parties	-	813 884
Unsecured bank facilities	1 902 747	-
Unsecured loans from third parties	2 859	2 871
	<b>3 702 261</b>	<b>6 439 677</b>

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of RUB 8 756 988 thousand (2009: RUB 12 146 747 thousand). Refer to notes 14, 16 and 17.

**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

'000 RUB	Currency	Nominal interest rate	Year of maturity	31 December 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	USD	LIBOR + 3.9-5%	2013	838 165	838 165	1 032 439	1 032 439
Secured bank loan	USD	LIBOR + 5%	2012-2014	-	-	575 421	575 421
Secured bank loan	USD	9.2-10%	2011	-	-	963 373	963 373
Secured bank loan	USD	LIBOR + 3.15%	2010-2015	5 677 945	5 677 945	6 061 058	6 061 058
Secured bank loan	RUB	7%	2011-2012	735 290	735 290	1 586 613	1 586 613
Secured bank loan	RUB	12.75-16.25%	2012-2014	-	-	1 962 301	1 962 301
Secured bank loan	RUB	10%	2010	-	-	452 558	452 558
Secured bank loan	RUB	10%	2010	-	-	50 178	50 178
Secured bank loan	RUB	9.2-10.5%	2010	-	-	36 595	36 595
Secured bank loan	RUB	13-13.25%	2010	-	-	150 000	150 000
Secured bank loan	RUB	12,5%	2010	-	-	430 000	430 000
Secured bank loan	RUB	8.5%	2015	1 505 588	1 505 588	-	-
Unsecured bank loan	RUB	5%	2011	1 302 298	1 302 298	-	-
Unsecured bank loan	RUB	6,75%	2011	600 449	600 449	-	-
Unsecured loans from related parties	USD	8%	2013	619 640	619 640	1 172 973	1 172 973
Unsecured loans from related parties	USD	10%	2010	-	-	175 901	175 901
Unsecured loans from related parties	USD	8%	2013	289 382	289 382	813 884	813 884
Unsecured loans from other companies	RUB	0%	2011	2 859	2 859	2 871	2 871
				<b>11 571 616</b>	<b>11 571 616</b>	<b>15 466 165</b>	<b>15 466 165</b>

**(b) Breach of loan covenant**

The Group monitors compliance with loan covenants on an ongoing basis. Where incompliance is unavoidable in managements' view, the Group obtains 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 2010 the Group complied with all loan covenants.



**25 Trade and other payables**

'000 RUB	Note	2010	2009
Trade payables		10 505 712	9 625 067
Advances received		130 878	117 996
Taxes payable (other than income tax)		388 238	318 711
Payables to staff		634 130	564 081
Interest rate swap liabilities	26	28 611	131 409
Finance lease liability		-	39 226
Other current payables		49 395	4 124
		<b>11 736 964</b>	<b>10 800 614</b>

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) *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.

**(ii) Investments**

As at 31 December 2010 the Group has insignificant amount of loans issued, consequently credit risk is considered to be insignificant.

**(iii) 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:

'000 RUB	Note	Carrying amount	
		2010	2009
Trade and other receivables	20	626 855	416 570
Loans issued		1 369	11 086
Cash and cash equivalents	21	5 707 185	1 462 312
		<b>6 335 409</b>	<b>1 889 968</b>

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.

**Impairment losses**

The aging of trade receivables at the reporting date was:

'000 RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not overdue and past due less than 90 days	517 257	-	307 071	-
Past due 90-180 days	64 818	-	6 414	-
Past due 180-360 days	18 997	-	20 704	-
More than 360 days	134 205	(108 422)	187 304	(104 923)
	<b>735 277</b>	<b>(108 422)</b>	<b>521 493</b>	<b>(104 923)</b>

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

'000 RUB	2010	2009
Balance at beginning of the year	104 923	179 921
Impairment loss recognised	36 841	43 581
Impairment loss utilised	(33 342)	(118 579)
Balance at end of the year	108 422	104 923

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 180 days should not be impaired.

**(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:

**2010**

<b>'000 RUB</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0-6 mths</b>	<b>6-12 mths</b>	<b>1-5 yrs</b>
<b>Non-derivative financial liabilities</b>					
Secured bank loans	8 756 988	(9 932 166)	(1 190 180 )	(1 009 730)	(7 732 256)
Unsecured bank loans	1 902 747	(1 971 644)	(1 355 222)	(616 422)	-
Unsecured loans from related parties	909 022	(1 072 397)	(35 863)	(35 863)	(1 000 671)
Unsecured loans from other companies	2 859	(2 861)	(1)	(2 860)	-
Trade and other payables	11 189 237	(11 189 237)	(11 189 237)	-	-
Other non-current liabilities	914 307	(914 307)	-	-	(914 307)
<b>Derivative financial liabilities</b>					
Foreign exchange and interest rate swap receivables	(21 896)	(798 194)	(162 365)	(145 995)	(489 834)
Interest rate swap liability	28 611	(28 696)	(13 147)	(13 325)	(2 224)
	<b>23 681 875</b>	<b>(25 909 502)</b>	<b>(13 946 015)</b>	<b>(1 824 195)</b>	<b>(10 139 292)</b>

**2009**

<b>'000 RUB</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0-6 mths</b>	<b>6-12 mths</b>	<b>1-5 yrs</b>
<b>Non-derivative financial liabilities</b>					
Secured bank loans	13 300 536	(14 586 404)	(4 357 466)	(1 787 706)	(8 441 232)
Unsecured bank loans	2 162 758	(2 660 634)	(40 360)	(854 913)	(1 765 361)
Unsecured loans from related parties	2 871	(2 874)	(6)	(2 868)	-
Trade and other payables	10 193 272	(10 193 272)	(10 193 272)	-	-
Finance lease liabilities	39 226	(40 560)	(33 060)	(7 500)	-
<b>Derivative financial liabilities</b>					
Interest rate swap liability	131 409	(132 276)	(89 646)	(42 630)	-
	<b>25 830 072</b>	<b>(27 616 020)</b>	<b>(14 713 810)</b>	<b>(2 695 617)</b>	<b>(10 206 593)</b>

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 2010 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	Euro- denominated	USD- denominated	Euro- denominated
	2010	2010	2009	2009
Trade and other receivables	193 709	9 082	28 532	81 342
Secured bank loans	(6 516 110)	-	(8 632 291)	-
Unsecured bank loans	-	-	-	-
Unsecured loans from related parties	(909 022)	-	(2 162 758)	-
Trade and other payables	(93 495)	(50 912)	(24 427)	(2 216)
Finance lease liabilities	-	-	(39 226)	-
Other non-current liabilities	(914 307)	-	-	-
Foreign exchange and interest rate swap receivables	21 896	-	-	-
Interest rate swap liabilities	(28 611)	-	(131 409)	-
Gross exposure	<b>(8 245 940)</b>	<b>(41 830)</b>	<b>(10 961 579)</b>	<b>79 126</b>
Foreign exchange and interest rate swap	<b>5 677 945</b>	-	-	-
Net exposure	<b>(2 567 995)</b>	<b>(41 830)</b>	<b>(10 961 579)</b>	<b>79 126</b>

The following significant exchange rates applied during the year:

Russian Rouble equals	Average rate		Reporting date rate	
	2010	2009	2010	2009
US Dollar	30.3692	31.7231	30.4769	30.2442
Euro	40.2980	44.1320	40.3331	43.3883

**Sensitivity analysis**

A 10% strengthening of the RUB, as indicated below, against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. 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 2009.

'000 RUB	Equity	Profit or loss
<b>2010</b>		
USD (10% strengthening)	256 800	272 992
EUR (10% strengthening)	4 183	4 183
<b>2009</b>		
USD (10% strengthening)	1 096 158	1 083 017
EUR (10% strengthening)	-	(7 913)

A weakening of the RUB against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, 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 2010 70 % of the Group's financial liabilities were subject to re-pricing within 6 months after the reporting date (2009: 83%).

The Group also uses interest rate swaps to hedge its exposure to variability of interest and exchange rates. As at 31 December 2010, the Group has entered into three agreements with VTB Bank and Morgan Stanley & Co International Plc. Under these agreements the Group swaps LIBOR rate for fixed rate varying from 1.3% to 2.3%. These swaps have maturity up to 2012.

The Group also has foreign exchange and interest swap agreement with VTB Bank. Under this agreement the Group swaps LIBOR rate for fixed rate of 9.5% and swaps USD for RUB at fixed rate of 30.4 RUB/USD. At inception, the swap had maturity of five years.

The Group hedged 87% (2009: 95%) of its borrowings with variable rate applying these hedges.

**Profile**

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

'000 RUB	Carrying amount	
	2010	2009
<b>Fixed rate instruments</b>		
Financial assets	1 369	22 290
Financial liabilities	(5 055 560)	(7 649 878)
<b>Variable rate instruments</b>		
Financial assets	21 896	6 758
Financial liabilities	(6 544 721)	(7 986 922)



**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 2009.

'000 RUB	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>2010</b>				
Variable rate instruments	(65 049)	65 049	-	-
Interest rate swap	56 687	(56 687)	183 199	(183 199)
Cash flow sensitivity (net)	(8 362)	8 362	183 199	(183 199)
<b>2009</b>				
Variable rate instruments	(78 328)	78 328	-	-
Interest rate swap	74 216	(74 216)	79 098	(55 297)
Cash flow sensitivity (net)	(4 112)	4 112	79 098	(55 297)

**(e) Fair value hierarchy**

The Group carries derivative financial assets and liabilities at fair value. Fair value of derivative financial assets and liabilities was determined based on inputs that are not based on observable market data (unobservable inputs).

The changes in fair value of derivative financial assets and liabilities during the year were as follows:

'000 RUB	2010		2009	
	Derivative financial assets	Derivative financial liabilities	Derivative financial assets	Derivative financial liabilities
Balance at 1 January	6 758	(131 409)	-	(153 675)
Gains/(losses) on instruments held at year end, recognised in profit or loss	(6 758)	(16 071)	6 758	-
Gains on instruments held at year end, recognised in other comprehensive income	21 896	25 493	-	22 266
Gains on instruments not held at year end, recognised in other comprehensive income	-	93 376	-	-
Balance at end of the year	21 896	(28 611)	6 758	(131 409)

**(f) 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 either property, plant or equipment or investment property depending on the use of a respective land plot. 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. The Group has non-cancellable leases and contingent rent arrangements. The Group has subleases.

During the year ended 31 December 2010 RUB 1 116 256 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUB 46 321 thousand) in the profit and loss in respect of operating leases (2009: RUB 731 153 thousand).

Non-cancellable operating lease rentals are payable as follows:

<b>RUB 000'</b>	<b>2010</b>	<b>2009</b>
Less than one year	198 137	485 781
Between one and five years	558 697	1 152 053
More than five years	3 278 600	3 659 317
	<b>4 035 434</b>	<b>5 297 151</b>

Contingent rent recognised as an expense for the year ended 31 December 2010 amounted RUB 108 800 thousand (2009: RUB 13 974 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 2010 RUB 705 937 thousand was recognised as rental income

in the consolidated statement of comprehensive income (2009: RUB 636 317 thousand). The Group has no non-cancellable leases. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 20 701 thousand for the year ended 31 December 2010 (2009: RUB 109 933 thousand). Contingent rent is determined as excess of 7%-35% 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 1 877 202 thousand as at 31 December 2010 (2009: RUB 886 566 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.

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

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 Group companies have also undertaken financial intragroup transactions which if tax authorities take a different view to management may potentially lead to assessment of additional tax, fine 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.

**(c) Assets pledged or restricted**

At 31 December 2010 the Group has the following assets pledged as collateral:

<b>'000 RUB</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
Fixed assets (carrying value)	14	5 903 000	8 333 576
Investment property (carrying value)	16	517 000	1 161 824
Initial cost of land lease (carrying value)	17	426 795	492 683
<b>Total</b>		<b>6 846 795</b>	<b>9 988 083</b>

**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 10):

<b>'000 RUB</b>	<b>2010</b>	<b>2009</b>
Salaries and bonuses	168 277	79 567
Contributions to State pension fund	147	1 472
Long-service bonus	41 333	149 641
	<b>209 757</b>	<b>230 680</b>

In addition members of Board of Directors received remuneration of RUB 1 523 thousand, which is included in Legal and professional expenses (see note 8).

**(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 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Services provided:				
Other related parties	23 153	21 013	(1 694)	4 374
	<u>23 153</u>	<u>21 013</u>	<u>(1 694)</u>	<u>4 374</u>

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 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Lease of premises				
Other related parties	-	-	1 334 466	-
Other services received:				
Other related parties	(31 730)	(18 470)	11 822	(71)
Finance costs:				
Other related parties	(121 128)	(207 384)	-	-
	<u>(152 858)</u>	<u>(225 854)</u>	<u>1 346 288</u>	<u>(71)</u>

In the table above finance costs do not include RUB 1 371 thousand of interest costs, which were capitalised and thus increased initial cost of the Group's property, plant and equipment (2009: RUB 39 384 thousand).

Outstanding balance of RUB 1 334 466 thousand represents prepayments for rent of hypermarkets for the period until 2017. Long-term part of prepayments is RUB 1,230,054 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	Amount loaned	Outstanding balance	Outstanding balance
	2010	2009	2010	2009
Loans received:				
Other related parties	-	(1 288 623)	(909 022)	(2 162 758)

The loans from other related parties bear interest at 8% per annum and are repayable in 2013.

**(d) Pricing policies**

Related party transactions are not necessarily based on market prices.

During 2010 the Group disposed several subsidiaries to an entity controlled by the shareholder group. For more details on disposition refer to note 6 above.

## 31 Subsidiaries

Subsidiary	Country of incorporation	2010	2009
		Ownership/voting	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%
Stoxx Investments Ltd	BVI	-	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	-	100%
Dextenco Co. Limited	Cyprus	-	100%
Filorus Limited	Cyprus	-	100%
Legondia Co. Limited	Cyprus	100%	100%
Lonmax Limited	Cyprus	-	100%
Marcopia Limited	Cyprus	-	100%
Naviline Limited	Cyprus	-	100%
Ricandano Co. Limited	Cyprus	-	100%
LLC Dorinda Invest	Russian Federation	-	100%
LLC Premium	Russian Federation	-	100%
LLC Elart	Russian Federation	-	100%
LLC Legion	Russian Federation	-	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%	100%
LLC Dorinda-Murmansk	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%

Subsidiary	Country of incorporation	2010	2009
		Ownership/voting	Ownership/voting
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%	100%
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC N.E.F.-Saint-Petersburg	Russian Federation	-	100%
LLC Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	100%	100%
LLC Tagar-City	Russian Federation	100%	100%
LLC Region	Russian Federation	-	100%
LLC Tandem Group	Russian Federation	-	100%
JSC Olips D	Russian Federation	100%	-

The Group has 50% share in joint venture LLC Adamant-Diksi which is accounted for using proportionate consolidation method. Contribution of LLC Adamant-Diksi to the Group's profit for the year and effect on Group's assets and liabilities is not significant.

During 2010 the Group liquidated two subsidiaries: LLC Tandem Group and Stoxx Investments Ltd. The contribution of these subsidiaries to Group's profit and the effect of liquidation of the subsidiaries on the Group's assets and liabilities were not significant.

During 2010 the Group acquired subsidiary – JSC Olips D for the purpose of obtaining lease right on land plot. The acquisition of subsidiary was classified as acquisition of assets.

During 2010 the Group disposed several subsidiaries, including Denovex Ltd., Dextenco Co. Ltd., Filorus Ltd., Lonmax Ltd., Marcopia Ltd., Naviline Ltd., Ricandano Co. Ltd., LLC Dorinda Invest, LLC Premium, LLC Elart, LLC Legion, LLC Rampazh, LLC Dorinda-Murmansk, LLC N.E.F.-Saint-Petersburg, LLC Region, LLC BC Okkervil, Gelarous Co. Ltd., Lefkosan Co. Ltd., Siltom Holdings Ltd. Entities LLC BC Okkervil, Gelarous Co Limited, Lefkosan Co Limited, Siltom Holdings Limited, Rampazh LLC were established in 2010. For more details on disposition refer to note 6 above.



## **32 Events subsequent to the reporting date**

As of 25 January 2011 a 462 sq.m. (which is 5 % of total square of roof) section of roof in hypermarket in Ozerki, St Petersburg (the oldest store opened in 2002) collapsed . One employee and 21 customers were injured. The store was closed for repairs. The Group has paid financial compensation to the injured and has paid for all of the medical expenses. In addition, following the incident, the Group assessed all measures if any need to be taken as a result to ensure this issue is not repeated.

In February 2011 the Group acquired 100% share in LLC Lux Development in order to obtain rights of long-term lease of land plot in Moscow region.

In February – March 2011 the Group has opened supermarket in Saint-Petersburg and hypermarket in Novosibirsk.