OJSC Dixy Group

International Financial Reporting Standards

Consolidated financial statements and Auditors' report

For the year ended 31 December 2011

OJSC Dixy Group

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Contents

Independent auditors' report 1

Financial statements

Consolidated statement of financial position 3
Consolidated statement of comprehensive income 4
Consolidated statement of cash flows 5
Consolidated statement of changes in equity 7

Notes to the consolidated financial statements 8

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Independent auditors' report

To the Shareholders and the Board of Directors of OJSC Dixy Group

We have audited the accompanying consolidated financial statements of OJSC Dixy Group and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

17 May 2012

OJSC Dixy Group

Consolidated statement of financial position at 31 December 2011

(in thousands Russian roubles, unless otherwise indicated)

	Note	2011	2010 (Note 2.2)
Assets			
Non-current assets			
Property, plant and equipment	6	24,529,085	12,835,446
Capital advances		2,224,283	942,112
Goodwill	7	17,665,526	358,478
Other intangible assets	8	3,078,570	298,851
Initial lease costs		85,105	144,205
Loans		123	5,047
Trade and other receivables	11	-	2,724
Deferred tax asset	23	539,592	397,482
		48,122,284	**14,984,345**
Current assets			
Inventories	10	7,855,779	3,873,123
Trade and other receivables	11	2,641,382	1,514,900
Taxes recoverable and prepayments	9	1,863,335	974,930
Income tax prepayments		173,194	138,806
Loans		129,072	134,066
Initial lease costs		31,994	45,446
Cash and cash equivalents	12	2,383,651	1,596,680
		15,078,407	**8,277,951**
Total assets		**63,200,691**	**23,262,296**
Equity and liabilities			
Equity attributable to equity holders of the Parent			
Share capital	13	1,248	860
Additional paid-in capital	13	20,437,555	4,828,806
Treasury shares	13	(554)	(717,401)
Retained earnings		2,976,625	1,916,147
		23,414,874	**6,028,412**
Non-controlling interest		286	-
Total equity		**23,415,160**	**6,028,412**
Non-current liabilities			
Borrowings	15	9,809,737	6,038,938
Finance leases	16	87,270	242,377
Unfavourable operating lease agreements		168,584	-
Deferred tax liability	23	1,238,788	234,733
		11,304,379	**6,516,048**
Current liabilities			
Trade and other payables	17	15,893,465	7,208,994
Borrowings	15	11,258,982	6,442
Current portion of Bonds	14	-	2,929,452
Finance leases	16	145,191	161,878
Advances from customers		145,964	69,270
Tax liability, other than income taxes	18	701,607	278,217
Income taxes payable		245,635	62,375
Unfavourable operating lease agreements		71,954	-
Provisions for liabilities and charges	25	18,354	1,208
		28,481,152	**10,717,836**
		39,785,531	**17,233,884**
Total equity and liabilities		**63,200,691**	**23,262,296**

Signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 17 May 2012

Fedor Rybasov, General Director

Irina Kobyakina, Head of IFRS Reporting

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

OJSC Dixy Group

Consolidated statement of comprehensive income

For the year ended 31 December 2011

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2011	2010 (Note 2.2)
Revenue	19	102,317,348	64,236,167
Cost of sales	20	(74,585,732)	(48,770,791)
Gross profit		**27,731,616**	**15,465,376**
Selling, general and administrative expenses	21	(24,275,462)	(13,777,960)
Operating profit		**3,456,154**	**1,687,416**
Finance income	22	34,561	26,520
Finance costs	22	(1,325,031)	(738,551)
Foreign exchange loss, net		(18,217)	(104,162)
Profit before income tax		**2,147,467**	**871,223**
Income tax expense	23	(1,045,699)	(613,380)
Profit for the year		**1,101,768**	**257,843**
Total comprehensive income for the year		**1,101,768**	**257,843**
Attributable to:			
Equity holders of the Parent		1,101,828	257,666
Equity holders of the non-controlling interest		(60)	177
		1,101,768	**257,843**
Profit per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)	24	10.14	3.07

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

OJSC Dixy Group

Consolidated statement of cash flows

For the year ended 31 December 2011

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2011	2010
Cash flows from operating activities:			
Profit before income tax		2,147,467	871,223
Adjustments for:			
Depreciation of property, plant and equipment	6	2,473,805	1,646,004
Amortisation of intangible assets	8	376,608	104,970
Amortisation of initial lease costs	21	74,934	193,609
Amortisation of unfavourable lease agreements	21	(45,633)	-
Gains less losses on disposals of property, plant and equipment and intangible assets		58,115	4,883
(Decrease)/increase in provision for impairment of taxes recoverable and prepayments	21	(50,077)	107,247
(Decrease)/increase in provision for impairment of trade and other receivables	11, 21	(24,384)	22,446
Write down of inventory to net realizable value		20,591	9,671
Decrease in provision for liabilities and charges	25	(1,208)	(6,277)
Decrease in income tax provision	25	(567)	(8,738)
Finance costs	22	1,325,031	738,551
Finance income	22	(34,561)	(26,520)
Provision for impairment of property, plant and equipment	6, 21	113,663	-
Provision for impairment of capital advances	21	33,925	-
Impairment of goodwill	7, 21	-	46,125
Unrealised foreign exchange losses on borrowings		18,217	104,162
Operating cash flows before working capital changes		**6,485,926**	**3,807,356**
Increase in trade and other receivables		(359,071)	(118,956)
Increase in inventories		(2,023,361)	(561,825)
Increase in taxes recoverable and prepayments		(688,652)	(366,746)
Increase in trade and other payables		4,270,468	848,830
(Decrease)/increase in tax liability other than income tax		(63,418)	94,907
Increase/(decrease) in advances from customers		41,240	(68,697)
Cash generated from operations		**7,663,132**	**3,634,869**
Income tax paid		(1,133,181)	(762,435)
Interest paid		(1,293,766)	(887,517)
Net cash from operating activities		**5,236,185**	**1,984,917**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(8,241,602)	(1,883,923)
Proceeds from sale of property, plant and equipment		98,383	70,167
Purchase of non-controlling interest in subsidiary	13	-	(5,835)
Initial lease costs paid		(12,282)	(8,781)
Acquisition of subsidiaries, net of cash acquired	3	(13,411,963)	-
Loans repaid		5,549,349	585,634
Disbursement of loans		(5,555,097)	(562,935)
Interest received		193,687	13,720
Purchases of intangible assets		(44,221)	(24,276)
Net cash used in investing activities		**(21,423,746)**	**(1,816,229)**

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Note	2011	2010
Cash flows from financing activities:			
Proceeds from loans and borrowings		12,693,222	7,667,456
Repayment of loans and borrowings		(2,580,210)	(7,263,319)
Repayment of bonds/buy-out of bonds	14	(2,856,650)	(147,671)
Buy-out of shares	13	(411,564)	(8,017)
Proceeds from new issuance of shares	13	8,734,891	-
Proceeds from sale of treasury shares	13	1,220,973	-
Contributions from shareholders	13	392,258	-
Finance lease payments		(177,038)	(152,313)
Dividends payable to ultimate shareholder	13	(41,350)	-
Net cash from financing activities		**16,974,532**	**96,136**
Net increase in cash and cash equivalents		**786,971**	**264,824**
Cash and cash equivalents at the beginning of the year	12	**1,596,680**	**1,331,856**
Cash and cash equivalents at the end of the year	12	**2,383,651**	**1,596,680**

The following non-cash investing and financing activities were excluded from the above consolidated statement of cash flows for the year ended 31 December 2011:

- acquisition of property, plant and equipment of 69,393 (in 2010: 110,926) through finance lease.

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

OJSC Dixy Group

Consolidated statement of changes in equity

For the year ended 31 December 2011

(in thousands of Russian roubles, unless otherwise indicated)

	Note	Attributable to equity holders of the Parent Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
At 31 December 2009 (as previously reported)		860	4,119,422	-	1,652,342	5,772,624	11,797	**5,784,421**
Reclassification of treasury shares	2.2	-	709,384	(709,384)	-	-	-	**-**
At 31 December 2009 (as reclassified)		**860**	**4,828,806**	**(709,384)**	**1,652,342**	**5,772,624**	**11,797**	**5,784,421**
Total comprehensive income for the year		-	-	-	257,666	257,666	177	**257,843**
Buy-out of non-controlling interest in subsidiary	13	-	-	-	6,139	6,139	(11,974)	**(5,835)**
Buy-out of shares	13	-	-	(8,017)	-	(8,017)	-	**(8,017)**
At 31 December 2010		**860**	**4,828,806**	**(717,401)**	**1,916,147**	**6,028,412**	**-**	**6,028,412**
Total comprehensive income for the year		-	-	-	1,101,828	1,101,828	(60)	**1,101,768**
Non-controlling interest arising on a business combination	3	-	-	-	-	-	346	**346**
Issue of shares	13	388	15,123,929	-	-	15,124,317	-	**15,124,317**
Contributions from shareholders	13	-	392,258	-	-	392,258	-	**392,258**
Buy-out of shares	13	-	-	(411,564)	-	(411,564)	-	**(411,564)**
Sale of treasury shares	13	-	92,562	1,128,411	-	1,220,973	-	**1,220,973**
Dividends payable to ultimate shareholder	13	-	-	-	(41,350)	(41,350)	-	**(41,350)**
At 31 December 2011		**1,248**	**20,437,555**	**(554)**	**2,976,625**	**23,414,874**	**286**	**23,415,160**

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

1 Corporate information

CJSC "Company Uniland Holding" (the "Company") was incorporated in January 2003 in Moscow, Russian Federation for the purpose of consolidation and reorganization of entities under common control. In March 2007, the Company was reorganized into an Open Joint Stock Company and renamed to "Dixy Group".

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

As of 31 December 2011 and 2010 the Group is controlled by Dixy Holding Limited (Cyprus), which as of 31 December 2011 and 2010 owned 54.42 % and 61.09%, respectively, in OJSC Dixy Group.

As of 31 December 2011 and 2010 Dixy Holding Limited (Cyprus) was 100% owned by Dixy Retail Limited (BVI), which is in its turn was 100% owned by Closed Joint-Stock Company "Trade Company Megapolis". Closed Joint-Stock Company "Trade Company Megapolis" is a part of the Mercury Group. Mercury Group is ultimately controlled by Mr. Igor Kesaev.

These consolidated financial statements of the Company were signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 17 May 2012.

2.1 Basis of preparation

The Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular Group company is resident. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

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

The functional currency of the Group's companies was determined on an entity by entity basis. In 2011 and 2010 the functional currency of all of the Group's operating companies was determined to be Russian Roubles.

The consolidated financial statements are presented in Russian Rouble and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.1 Basis of preparation (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in these financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

As at 31 December 2011 and 31 December 2010 the principal operating and holding consolidated subsidiaries of OJSC Dixy Group were:

Company	Country	Nature of operations	Ownership (%) 2011	2010
Timefield Trading & Investments Ltd	Cyprus	Financial company	100%	100%
Lexavart Holding Ltd	BVI	Holder of trademarks	100%	100%
CJSC Discount Centre	Russia	Retailing	100%	100%
CJSC DIXY Yug	Russia	Retailing	100%	100%
CJSC DIXY – Logistics	Russia	Transportation	100%	100%
CJSC Regionalnyje magaziny	Russia	Managing of Group's assets	100%	100%
LLC Yaroslavskie magaziny	Russia	Retailing	100%	100%
LLC Denver	Russia	Retailing	100%	100%
LLC Stroyregioninvest	Russia	Real estate	*	100%
LLC Interfinance	Russia	Retailing	**	100%
LLC Kalitniki	Russia	Real estate	100%	100%
LLC D-Vostok	Russia	Retailing	100%	100%
LLC Kostromatorg	Russia	Real estate	100%	100%
LLC Kaluzhskie magaziny	Russia	Retailing	100%	100%
CJSC DIXY – Petersburg	Russia	Retailing	100%	100%
CJSC Megamart – Severo-Zapad	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
LLC Severo-Zapad	Russia	Holding company	100%	100%
LLC Victoria-Finance	Russia	Financial company	100%	–
LLC Victoria Moscoviya	Russia	Retailing	100%	–
LLC Vikom-M	Russia	Wholesale	100%	–
LLC Korporasion	Russia	Managing of Group's assets	100%	–
LLC Gamma Zvezdnaya	Russia	Managing of Group's assets	100%	–
CJSC Torkas	Russia	Retailing	100%	–
LLC Baltiskie magaziny	Russia	Managing of Group's assets	100%	–
LLC Vesna	Russia	Retailing	100%	–
LLC Victoria Baltiya	Russia	Retailing	100%	–
LLC Victoria Development	Russia	Managing of Group's assets	100%	–
LLC Kopilka	Russia	Retailing	100%	–
LLC Sankt-Petersburgkie magaziny	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
CJSC Megamart	Russia	Retailing	100%	100%
LLC SPb-Leasing	Russia	Real estate	100%	100%
LLC DIXY Chelyabinsk	Russia	Retailing	100%	100%
OJSC YarTorgOdezhda	Russia	Retailing, Real estate	100%	84.8%
LLC Dixy Finance	Russia	Financing company	0%	0%

* LLC Stroyregioninvest was liquidated solvently in 2011

** LLC Interfinance were merged into LLC Kaluzhskie magaziny in 2010.

LLC Dixy Finance satisfied the criteria of SIC 12 *Consolidation – Special Purpose Entities* and accordingly is consolidated in these financial statements (refer to Note 2.3).

2.2 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2011 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010, except for the reclassifications and the adoption of new Standards and Interpretation noted below:

Reclassification of certain items of comprehensive income

- *Reclassification of transportation expenses and inventory write-down due to shrinkages and write off to net realizable value*

During 2011 the Group changed its previous format of presentation of goods transportation expenses and inventory write-down due to shrinkages and write off to net realizable value in the statement of comprehensive income that were reclassified from selling, general and administrative expenses to cost of sales. The Group believes that the reclassification will provide more useful information to users of the consolidated financial statements. The comparative statement of comprehensive income for the 2010 was prepared in a consistent format. For 2011 and 2010 transportation expenses amounted to 629,135 and 337,259, respectively. Inventory write-down due to shrinkages and write off to net realizable value for the year ended 31 December 2011 and 31 December 2010 amounted to 1,956,845 and 1,308,000, respectively.

- *Reclassification of revenue from marketing services*

During the year ended 31 December 2011 the Group changed its previous format of presentation of revenue from marketing services, which were reclassified by the Group from revenue to deduction from cost of sales. The Group believes that the reclassification will provide more useful information to users of the consolidated financial statements and make the Group's consolidated financial statements more consistent with the best accounting practices adopted in retail industry. For the year ended 31 December 2011 and 31 December 2010 revenue from marketing services amounted to 1,433,921 and 562,947, respectively.

The Group believes that the above reclassifications of consolidated statement of comprehensive income will provide more useful information to users of the consolidated financial statements.

	As previously reported	Retrospective effect of reclassification	As restated
Consolidated statement of comprehensive income			
Revenue	64,799,114	(562,947)	64,236,167
Cost of sales	(47,688,479)	(1,082,312)	(48,770,791)
Selling, general and administrative expenses	(15,423,219)	1,645,259	(13,777,960)

- *Reclassification of treasury shares*

During the year ended 31 December 2011 the Group changed its previous format of presentation of treasury shares, which were reclassified from additional paid-in capital into a separate line in the consolidated statement of financial position and the consolidated statement of changes in equity. The Group believes that the reclassification will provide more useful information to users of the consolidated financial statements and make the Group's consolidated financial statements more consistent with the best accounting practices adopted in retail industry. As of 31 December 2011, 2010 and 2009 treasury shares amounted to 554, 717,401 and 709,384, respectively.

2.2 Changes in accounting policies and disclosures (continued)

Adoption of new standards

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- IAS 24 *Related Party Disclosures (Amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)* effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)* effective 1 January 2011
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010
- *Improvements to IFRSs (issued in May 2010)* effective as of 1 January 2011

The adoption of these standards and interpretations are described below:

IAS 24 Related Party Disclosures (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements. Therefore the amendment of the interpretation has no effect on the financial position or performance of the Group.

2.2 Changes in accounting policies and disclosures (continued)

Adoption of new standards (continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation has no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group. The issued amendments are listed below:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards*

The amendment applies to accounting policy changes in the year of adoption.

- *IFRS 3 Business Combinations*

The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- *IFRS 7 Financial Instruments: Disclosures*

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. This amendment has no effect on the Group's financial statement disclosures.

- *IAS 1 Presentation of Financial Statements*

The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. This amendment has no effect on the Group's financial statement disclosures.

- *IAS 34 Interim Financial Reporting*

The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

2.2 Changes in accounting policies and disclosures (continued)

Adoption of new standards (continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations* – Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005)
- IFRS 3 *Business Combinations* – Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination
- IAS 27 *Consolidated and Separate Financial Statements* – applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards
- IFRIC 13 *Customer Loyalty Programs* – in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programs

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

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

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

2.2 Changes in accounting policies and disclosures (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12 IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2.2 Changes in accounting policies and disclosures (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The adoption of this standard will have no impact on the Group's financial position or performance.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

2.3 Significant accounting judgments, estimates and assumptions (continued)

Judgements

Consolidation of a special purpose entity

In 2005 the immediate shareholder of the Company founded a wholly-owned subsidiary LLC Dixy Finance. The objective of LLC Dixy Finance is to obtain external financing and provide loans to operating companies of the Group and to pay a remuneration to the Group's management. Having analysed the criteria set out in SIC-12 *Consolidation – Special Purpose Entities,* management concluded that in substance LLC Dixy Finance represents a special purpose entity controlled by the Group and is therefore consolidated in these financial statements.

Estimates and assumptions

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. The assets subject to such assessment are primarily property, plant and equipment, goodwill, initial lease costs and other intangible assets. Goodwill (refer to Note 7) and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any non-financial assets impairment.

2.3 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In 2011, there were no changes in estimates of useful lives of property, plant and equipment.

Fair values of assets and liabilities acquired in business combinations

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

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers and contractors to make required payments or rendered services. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2011 allowances for doubtful accounts have been created in the amount of 422,731 (2010: 257,252).

Inventory provision

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

Litigations

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

2.3 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods (refer to Note 25).

Deferred tax assets

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss (refer to Note 23).

2.4 Summary of significant accounting policies

Property, plant and equipment

The Group's property, plant and equipment, except for assets acquired prior to 1 January 2003, are stated at historical cost less accumulated depreciation and any impairment in value. Property, plant and equipment acquired before 1 January 2003 is stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002, less accumulated depreciation and any impairment in value.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Group companies estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in profit or loss. An impairment loss recognized for an asset in previous years is reversed if there is any indication that impairment loss may no longer exist or may have decreased.

After initial recognition property, plant and equipment is measured at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met.

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated using the straight-line basis over the useful life of the asset as follows:

	Useful lives in years
Buildings	30
Renovation of stores	5
Equipment	3-5

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is derecognised.

Renewals and permanent improvements to leased premises are capitalized and amortized over the expected lease term but not exceeding their useful lives. Management expects that all short term lease agreements can be prolonged. This group of assets is amortized from the month of store opening.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

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 initial lease costs) are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities

Where the Group is a lessee in a lease, which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

2.4 Summary of significant accounting policies (continued)

Finance lease liabilities (continued)

The interest cost is charged to the profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of their useful life or lease term.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually.These calculations require the use of estimates as further detailed in Note 7 Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets

All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, trademarks and favourable operating lease agreements.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is a fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licenses	5-10
Favourable lease agreements – over the lease term	5-10

Amortization periods and methods for intangible assets with finite useful lives are reviewed at least annually at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

2.4 Summary of significant accounting policies (continued)

Capital advances

Capital advances include amounts prepaid for property, plant and equipment and are measured at cost. Payments for purchases of property, plant and equipment are presented net of VAT in the cash flow statement.

Initial lease costs

Initial lease costs include lump sum amounts paid to the lessors under operating leases of stores and warehouses either for the right to conclude the lease or to finance construction and repair works on the leased assets. Initial lease costs are capitalised and charged to profit or loss on a straight-line basis over the period of lease.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. A liability is also recorded for any taxes that are payable but not declared in the tax accounts of the Group entities. This liability is released to profit or loss after three years. A provision for taxes, other than on income, is set up and recorded within selling, general and administrative expenses.

Deferred income tax is provided using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill, which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2.4 Summary of significant accounting policies (continued)

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans receivables

Loans receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade and other accounts receivable

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. Trade and other receivables mainly comprise receivables from vendors for rebates and returns.

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the profit or loss.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash transferred from stores to bank but not yet credited to bank accounts as of the reporting date is recorded as cash in transit.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

2.4 Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction from the proceeds.

Additional paid-in capital

Additional paid-in capital represents accumulated contributions made by shareholders and share premium for new shares issue transactions. Additional contributions of shareholders other than proceeds from issue of the Company's equity instruments are recorded at the fair value of the contributions received.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Value added tax

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

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable upon collection of documents required for tax deduction.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings

Borrowings are recognized initially at fair value (which is the present value of the proceeds received determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognized as interest expense over the period of the borrowings. The borrowing costs incurred on qualifying assets are capitalized and amortized over useful life of qualifying asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.4 Summary of significant accounting policies (continued)

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles (RUB), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recognized in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

All resulting differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At 31 December 2011 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 32.1961 (2010: US$ 1 = RR 30.4769) and EURO 1 = RR 41.6714 (2010: EURO = RR 40.3331).

Employee benefits

Employee benefits for the services provided during a reporting period are recognized as an expense in that reporting period. All employee benefit plans represent defined contribution plans.

State pension plan

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognized in the profit and loss as incurred.

2.4 Summary of significant accounting policies (continued)

Employee benefits (continued)

Bonuses

For each year the Group's management establishes bonus programs for middle and senior management. Bonuses are generally dependent on the achievement of certain financial performance criteria of individual business units and the Group as a whole and are calculated and accrued in the period in which the related services are rendered.

Cash-settled share-based compensation

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash (cash-settled transactions).

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

Other costs

The Group incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to selling, general and administrative expenses.

Revenue recognition

Revenue is recognized when the title to goods and the risks of ownership are transferred to the customer, provided that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized net of value added tax and discounts.

Rental income is recognised on a straight-line basis over the lease term.

Expense recognition

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

Advertising costs

Advertising costs are expensed when incurred.

2.5 Going concern

These consolidated financial statements were prepared on the basis of accounting principles applicable to a going concern, which assumes that the Group will continue operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Group has a negative working capital of 13,402,745 and 2,439,885 as at 31 December 2011 and 2010, respectively. The Group is in negotiations in respect to the refinancing of the existing facilities and expects to be successful in these efforts, however no formal commitments, except for those disclosed in Note 27, have been achieved as of the date of these consolidated financial statements.

In 2011 and 2010, the Group generated profit for the year of 1,101,768 and 257,843, respectively. Also in 2011 and 2010 the Group generated positive net cash from operating activities of 5,236,185 and 1,984,917, respectively. Management has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future.

3 Business combination

On 15 June 2011, the Group acquired a 100% equity interest in OJSC GK Victoria, a holding company that operates the neighbourhood store, supermarket and cash&carry formats. As at 15 June 2011 OJSC GK Victoria and its subsidiaries had 251 stores with total space of over 277,242 thousand square meters in Moscow, St. Petersburg and also in Kaliningrad and Tula regions. The purpose of this transaction is an increase of concentration in Moscow and St. Petersburg and extension of the Group operations to Kaliningrad and Tula regions.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree’s identifiable net assets.

3 Business combination (continued)

The fair value of the identifiable assets and liabilities of OJSC GK Victoria as at the date of acquisition was:

	Fair value recognised on acquisition
Property, plant and equipment (Note 6)	7,223,377
Capital advances	62,348
Intangible assets (Note 8)	3,133,835
Deferred tax asset	143,292
Other non-current assets	4,558
Inventories	1,824,762
Trade and other receivables	824,083
Taxes recoverable and prepayments	375,560
Loans	799,226
Cash and cash equivalents	1,051,541
	15,442,582
Borrowings	(5,456,851)
Finance leases	(3,687)
Unfavourable operating lease agreements	(286,607)
Trade and other payables	(4,228,552)
Advances from customers	(59,182)
Tax liability, other than income taxes	(517,782)
Income taxes payable	(145,268)
Provisions for liabilities and charges (Note 25)	(19,957)
Deferred tax liabilities	(1,178,469)
	(11,896,355)
Total identifiable net assets at fair value	**3,546,227**
Non-controlling interest	(346)
Total net assets, attributable to the Company	**3,545,881**
Goodwill arising on acquisition (Note 7)	17,307,048
Purchase consideration	**20,852,929**

	2011
Purchase consideration	20,852,929
Less cash acquired with acquisition of subsidiary	(1,051,541)
Less consideration settled through transfer of OJSC Dixy Group shares (16,341,254 number of shares transferred)	(6,389,425)
Net cash used in acquisition, net of cash acquired	**13,411,963**

The fair value of the trade and other receivables excluding indemnification asset of 155,431 amounts to 668,652. The gross amount of trade receivables is 796,241 excluding indemnification asset. As at the acquisition date trade and other receivables at nominal value of 127,589 were impaired and fully provided for.

The purchase consideration comprises cash and cash equivalents paid of 13,463,504, fair value of the Group's shares transferred to former owners of OJSC GK Victoria in the amount of 6,389,425 (16,341,254 number of shares transferred) and contingent consideration of 1,000,000 paid in 2011.

3 Business combination (continued)

The selling shareholders of OJSC GK Victoria have contractually agreed to indemnify potential tax, operating lease and other contingencies that may become payable in respect of the OJSC GK Victoria companies. Indemnification arrangement is unlimited for potential tax and title contingencies, however is capped to certain other risks. As collateral for the above indemnification arrangement part of the consideration in the amount of 3,000,000 was transferred by the Group to an escrow fund, which will become available in full amount to former shareholders of OJSC GK Victoria within three years. An indemnification asset of 155,431, equivalent to the fair value of the indemnified liability, has been recognised by the Group in trade and other receivables.

Acquisition-related costs recognised as selling, general and administrative expenses in the consolidated statement of comprehensive income amounted to 36,683.

Goodwill in the amount of 17,307,048 is attributable to the business concentration in the Moscow, Kaliningrad and St. Petersburg and to expected cost synergies from the business combination. None of the goodwill recognised is expected to be deductible for tax purposes, whether in whole or in part.

During the year ended 31 December 2011 the acquired retail business contributed 21,927,668 and 318,602 to the Group's revenues and profit for the period, respectively, from the date of acquisition. If the acquisition of OJSC GK Victoria had occurred on 1 January 2011, the Group's revenues and profit for the year ended 31 December 2011 would have amounted to 121,800,351 and 1,402,813, respectively.

4 Segment information

For management purposes, the group is organised into business units based on format of its stores and has seven reportable operating segments as follows:

- Kvartal – Kaliningrad – representing retail sales through a chain of neighbourhood stores in Kaliningrad and Kaliningrad region;
- Victoria – Kaliningrad – representing retail sales through a chain of compact hypermarkets in Kaliningrad and Kaliningrad region;
- Victoria – Moscow – representing retail sales through a chain of compact hypermarkets in Moscow;
- Dixy – Moscow – representing retail sales through a chain of neighbourhood stores, which are present in Central Region (comprising Moscow and Moscow region, Yaroslavl region, Ryazan region, Tula and Kaluga);
- Dixy – St.Petersburg – a chain of neighbourhood stores, which are present in North-West Region (comprising Saint-Petersburg and neighbouring towns);
- Dixy – Chelyabinsk – representing retail sales through a chain of neighbourhood stores, which are present in Chelyabinsk Region;
- Megamart – representing retail sales through chains of compact hypermarkets and economy supermarkets (Minimart), which are present in Ural Region;

4 Segment information (continued)

Starting 2011 the number of the Group's segments increased by Kvartal-Kaliningrad, Victoria-Kaliningrad and Victoria-Moscow as a result of acquisition of OJSC GK Victoria in June 2011 (Note 3). Neighbourhood stores located in Moscow and St. Petersburg acquired through acquisition of OJSC GK Victoria were included in Dixy - Moscow and Dixy – St. Petersburg reporting segments.

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. The Group corporate expenses are managed on a group basis and are not allocated to operating segments.

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

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. During the years ended 31 December 2011 and 2010 there were no material transfers between reportable operating segments.

4 Segment information (continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2011 and 2010 is set out below:

	Dixy - Moscow	Dixy - St.Petersburg	Dixy - Chelyabinsk	Megamart	Victoria-Kaliningrad	Victoria - Moscow	Kvartal - Kaliningrad	Adjustments	Group
2011									
Total segment revenue	55,463,662	21,809,167	3,368,306	11,110,576	3,672,834	4,632,296	2,260,507	-	102,317,348
Profit before taxation	1,871,558	903,993	296,407	1,102,042	504,643	558,959	192,320	(3,282,455)(A)	2,147,467
Depreciation and amortisation	1,657,684	497,159	56,031	177,467	81,407	161,917	48,772	169,976(B)	2,850,413
Other non-cash expenses:									
Amortisation of Initial Lease costs and unfavourable lease rights	15,967	15,191	560	431	-	-	(2,848)	-	29,301
Provision for impairment of non-current assets	-	113,663	-	33,925	-	-	-	-	147,588
Tax provision	1,208	-	-	-	-	-	-	-	1,208

(A) Segment profit before taxation does not include corporate expenses of 1,973,768, finance costs of 1,325,031, finance income of 34,561 and net foreign exchange loss of 18,217.

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

	Dixy - Moscow	Dixy - St.Petersburg	Dixy - Chelyabinsk	Megamart	Adjustments	Group
2010						
Total segment revenue	33,592,800	18,110,959	3,000,140	9,532,268	-	64,236,167
Profit before taxation	239,182	1,168,949	9,185	1,008,479	(1,554,572)(C)	871,223
Depreciation and amortisation	1,149,259	347,419	84,835	169,461	-	1,750,974
Other non-cash expenses:						
Amortisation of Initial Lease costs	182,702	9,897	561	449	-	193,609
Tax provision	(6,277)	-	-	-	-	(6,277)

(C) Segment profit before taxation does not include corporate expenses of 738,379, finance costs of 738,551, finance income of 26,520 and net foreign exchange loss of 104,162.

5 Balances and transactions with related parties

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2011 are detailed below. At 31 December 2011, the outstanding balances with related parties were as follows:

	Entities under common control	Key management personnel	Total
Trade receivables	5,807	–	**5,807**
Prepayments	4,313	–	**4,313**
Other receivables	4,628	–	**4,628**
Loans – current	120,835	–	**120,835**
Trade and other payables	228,245	–	**228,245**

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The income and expense items with related parties for the year 2011 were as follows:

	Entities under common control	Key management personnel	Total
Interest income	13,526	5,371	**18,897**
Purchase of goods	1,841,432	–	**1,841,432**

Transfers under finance arrangements (including loans and equity contributions in cash or in kind) for the year 2011 were as follows:

In thousands of Russian Roubles	Entities under common control	Key management personnel	Total
Loans issued	(495,000)	(11,500)	**(506,500)**
Repayment of loans issued	495,015	109,504	**604,519**

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2010 are detailed below. At 31 December 2010, the outstanding balances with related parties were as follows:

	Entities under common control	Key management personnel	Total
Trade receivables	15,059	–	**15,059**
Prepayments	9,557	–	**9,557**
Other receivables	7,142	–	**7,142**
Loans - current	106,464	5,450	**111,914**
Capital advances	71,561	–	**71,561**
Trade and other payables	97,298	–	**97,298**

5 Balances and transactions with related parties (continued)

The income and expense items with related parties for the year 2010 were as follows:

	Entities under common control	Key management personnel	Total
Interest income	16,080	-	**16,080**
Interest expense	2,050	-	**2,050**
Purchase of goods	650,075	-	**650,075**

Transfers under finance arrangements (including loans and equity contributions in cash or in kind) for the year 2010 were as follows:

In thousands of Russian Roubles	Entities under common control	Key management personnel	Total
Loans issued	(550,000)	(6,500)	**(556,500)**
Repayment of loans issued	550,000	1,850	**551,850**
Repayment of loans received	(275,566)	-	**(275,566)**

Directors' compensation

Compensation paid to seven (2010: seven) directors for their services in full or part time executive management positions is made up of a contractual salary, share-based compensation and a performance bonus depending on operating results. Total directors' compensation included in selling, general and administrative expenses in profit or loss amounted to 293,349 (2010: 111,912), out of which 153,788 (2010: nil) related to share-based compensation accrued in accordance with cash-settled share-based payment program.

Loans obtained from parties under common control

At 31 December 2010 the Group had several outstanding loans from Dixy Capital Investments Limited, which is under control of the Group's ultimate shareholder. These loans were payable on demand and denominated in US dollars. The interest rates on these loans were in 2010 11-12.65%. No assets were pledged under these loans agreements. In 2011 these loans were repaid.

Loans issued to parties under common control

At 31 December 2011 and 2010 the Group had several loans issued to parties under common control of the Group's ultimate shareholder. These loans are payable in 2012 and are mainly denominated in US dollar. The interest rate on these loans is 11.5% (2010: 11.5%). These loans are not secured.

Purchase of goods

During 2011 and 2010 the Group purchased goods for resale in the normal course of business in the amount of 1,841,432 (2010: 650,075) from entities under control of its controlling shareholder Group Megapolis. The Group's controlling shareholder operates in the wholesale business specializing in distribution of tobacco goods.

6 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment in 2011 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2010	**395,774**	**9,305,824**	**2,640,517**	**5,248,162**	**401,979**	**17,992,256**
Acquisition of subsidiary (Note 3)	163,006	4,361,601	986,992	1,652,271	59,507	**7,223,377**
Additions	–	–	–	–	7,255,750	**7,255,750**
Transfers	123,154	2,564,179	1,253,396	3,056,118	(6,996,847)	**-**
Disposals	(2,596)	(77,566)	(596,155)	(445,497)	(33,704)	**(1,155,518)**
Impairment (Note 21)	–	–	–	–	(113,663)	**(113,663)**
At 31 December 2011	**679,338**	**16,154,038**	**4,284,750**	**9,511,054**	**573,022**	**31,202,202**
Accumulated depreciation and impairment						
At 31 December 2010	**-**	**992,293**	**1,378,380**	**2,786,137**	**-**	**5,156,810**
Disposals	–	(17,492)	(586,011)	(353,995)	–	**(957,498)**
Depreciation charge	–	408,186	735,505	1,330,114	–	**2,473,805**
At 31 December 2011	**-**	**1,382,987**	**1,527,874**	**3,762,256**	**-**	**6,673,117**
Net book value						
At 31 December 2011	**679,338**	**14,771,051**	**2,756,876**	**5,748,798**	**573,022**	**24,529,085**
At 31 December 2010	**395,774**	**8,313,531**	**1,262,137**	**2,462,025**	**401,979**	**12,835,446**

6 Property, plant and equipment (continued)

Movements in the carrying amount of property, plant and equipment in 2010 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2009	**348,848**	**9,062,323**	**2,196,024**	**4,336,147**	**423,701**	**16,367,043**
Additions	–	–	–	–	1,795,686	**1,795,686**
Transfers	46,943	243,501	510,047	1,005,865	(1,806,356)	**-**
Disposals	(17)	–	(65,554)	(93,850)	(11,052)	**(170,473)**
At 31 December 2010	**395,774**	**9,305,824**	**2,640,517**	**5,248,162**	**401,979**	**17,992,256**
Accumulated depreciation and impairment						
At 31 December 2009	**-**	**674,797**	**948,414**	**2,003,080**	**-**	**3,626,291**
Disposals	–	–	(52,976)	(62,509)	–	**(115,485)**
Depreciation charge	–	317,496	482,942	845,566	–	**1,646,004**
At 31 December 2010	**-**	**992,293**	**1,378,380**	**2,786,137**	**-**	**5,156,810**
Net book value						
At 31 December 2010	**395,774**	**8,313,531**	**1,262,137**	**2,462,025**	**401,979**	**12,835,446**
At 31 December 2009	**348,848**	**8,387,526**	**1,247,610**	**2,333,067**	**423,701**	**12,740,752**

In 2011 the Group accrued provision for impairment of a store under construction in the amount of 113,663 due to change in plans for its completion resulted from change in perception of its economic perspectives.

The carrying value of equipment and buildings held under finance lease contracts at 31 December 2011 was 397,356 (2010: 358,541) and 46,598 (2010: 48,118), respectively.

Additions during 2011 include 69,393 (2010: 110,926) of equipment held under finance leases. The Group has no title for leased assets and the ownership rights for them transfer to the Group upon the maturity of finance lease contracts.

As of 31 December 2011 property, plant and equipment of 1,941,557 (31 December 2010: nil) was pledged as collateral under bank loan agreements (refer to Note 15). All of the above pledged assets and related borrowings were acquired by the Group through acquisition of OJSC GK Victoria.

During the year ended 31 December 2011 the Group capitalized interest of 41,677 (2010: 1,055). The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was in the range of between 5.77-11.03%.

7 Goodwill

Goodwill is allocated to four reportable segments, which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

Movements in the carrying amount of goodwill in 2011 were as follows:

	Dixy - Moscow	Dixy - St.Petersburg	Victoria- Kaliningrad	Victoria - Moscow	Total
Cost					
At 31 December 2009	404,603	-	-	-	**404,603**
At 31 December 2010	404,603	-	-	-	**404,603**
Addition through business combination (Note 3)	10,725,159	2,558,384	1,866,415	2,157,090	**17,307,048**
At 31 December 2011	**11,129,762**	**2,558,384**	**1,866,415**	**2,157,090**	**17,711,651**
Accumulated impairment losses					
At 31 December 2009	-	-	-	-	**-**
Impairment (Note 21)	46,125	-	-	-	**46,125**
At 31 December 2010	46,125	-	-	-	**46,125**
At 31 December 2011	**46,125**	-	-	-	**46,125**
Net book value					
At 31 December 2009	**404,603**	**-**	**-**	**-**	**404,603**
At 31 December 2010	**358,478**	**-**	**-**	**-**	**358,478**
At 31 December 2011	**11,083,637**	**2,558,384**	**1,866,415**	**2,157,090**	**17,665,526**

The recoverable amount of CGUs was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which CGUs operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2011	2010
Like-for-like growth within five years	4.9-6.8%	6.5%
EBITDA margin	5.3-10.2%	8%
Growth rate beyond five years	3.0%	5.0%
Pre-tax discount rate	15% p.a.	13% p.a.

Management determined budgeted EBITDA margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports prepared by reputable analysts. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

With regard to the assessment of value in use of all of the reportable segments, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

8 Other intangible assets

Movements in the carrying amount of intangible assets in 2011 were as follows:

	Trademarks	Licenses	Favourable operating lease agreements	Total
Cost				
At 31 December 2010	**-**	**152,163**	**417,210**	**569,373**
Acquisition of subsidiary (Note 3)	1,327,739	254,341	1,551,755	**3,133,835**
Additions	-	45,065	-	**45,065**
Disposals	-	(7,959)	(31,817)	**(39,776)**
At 31 December 2011	**1,327,739**	**443,610**	**1,937,148**	**3,708,497**
Amortisation				
At 31 December 2010	**-**	**46,326**	**224,196**	**270,522**
Amortisation charge	142,691	56,264	177,653	**376,608**
Disposals	-	(3,934)	(13,269)	**(17,203)**
At 31 December 2011	**142,691**	**98,656**	**388,580**	**629,927**
Carrying amount				
At 31 December 2011	**1,185,048**	**344,954**	**1,548,568**	**3,078,570**
At 31 December 2010	**-**	**105,837**	**193,014**	**298,851**

Trademarks represent trademark “Kvartal” acquired through acquisition of OJSC GK Victoria in 2011 (refer to Note 3), which is amortised over 5-year period.

Movements in the carrying amount of intangible assets in 2010 were as follows:

	Licenses	Favourable operating lease agreements	Total
Cost			
At 31 December 2009	**110,067**	**542,143**	**652,210**
Additions	45,993	-	**45,993**
Disposals	(3,897)	(124,933)	**(128,830)**
At 31 December 2010	**152,163**	**417,210**	**569,373**
Amortisation			
At 31 December 2009	**28,364**	**192,088**	**220,452**
Amortisation charge	21,585	83,385	**104,970**
Disposals	(3,623)	(51,277)	**(54,900)**
At 31 December 2010	**46,326**	**224,196**	**270,522**
Carrying amount			
At 31 December 2010	**105,837**	**193,014**	**298,851**
At 31 December 2009	**81,703**	**350,055**	**431,758**

9 Taxes recoverable and prepayments

	2011	2010
VAT recoverable	725,757	367,705
Prepayments (net of allowance for impairments of 239,155 (2010: 176,881))	1,052,643	522,928
Prepaid expenses	32,665	29,374
Taxes prepaid	52,270	54,923
Total taxes recoverable and prepayments	**1,863,335**	**974,930**

10 Inventories

	2011	2010
Goods for resale (net of write-down to net realizable value of 191,442 (2010: 99,916))	7,788,078	3,861,716
Raw materials and operating supplies (at cost)	67,701	11,407
Total inventories at the lower of cost or net realisable value	**7,855,779**	**3,873,123**

Inventory write-down due to shrinkages identified during the physical inventory counting in 2011 comprised 1,956,845 (2010: 1,298,329). No inventory is pledged as of 31 December 2011 and 2010.

11 Trade and other receivables

	2011	2010
Trade receivables (net of allowance for impairment of trade receivables of 164,984 (2010: 73,488))	2,469,560	1,423,758
Other receivables (net of allowance for impairment of other receivables of 18,592 (2010: 6,883))	171,822	93,866
Total trade and other receivables	**2,641,382**	**1,517,624**
Less current portion	(2,641,382)	(1,514,900)
Non-current trade and other receivables	**-**	**2,724**

Trade and other receivables as of 31 December 2011 and 2010 are denominated mainly in Russian roubles.

As at 31 December 2011 trade receivables at nominal value of 164,984 (2010: 73,488) were individually impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

At 1 January 2010	54,709
Reversed	(15,641)
Accrued	34,420
At 31 December 2010	**73,488**
Acquisition of subsidiary (Note 3)	95,144
Reversed	(19,310)
Accrued	15,662
At 31 December 2011	**164,984**

11 Trade and other receivables (continued)

At 31 December the ageing analysis of trade receivables was as follows:

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods			
			Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2011	2,469,560	1,804,932	417,789	95,039	69,569	82,231
2010	1,423,758	929,069	168,931	103,106	142,455	80,197

Trade receivable as of 31 December 2011 and 2010 had different payment terms ranging from 5 to 60 days payment period with average payment period of 1 month. Because of different payment terms and significant number of debtors the Group concluded that it is impracticable to provide ageing analysis of trade receivables on individual basis. The Group prepared overdue ageing analysis based on average payment period of 1 month.

As at 31 December 2011 and 2010 other receivables at nominal value of 18,592 (2010: 6,883) were impaired and fully provided for. Movements in the provision for impairment of other receivables were as follows:

At 1 January 2010	3,216
Reversed	(3,610)
Accrued	7,277
At 31 December 2010	**6,883**
Acquisition of subsidiary (Note 3)	32,445
Reversed	(33,625)
Accrued	12,889
At 31 December 2011	**18,592**

At 31 December the ageing analysis of other receivables was as follows:

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods			
			Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2011	171,822	55,646	3,584	6,162	8,245	98,185
2010	93,866	67,086	1,175	3,105	12,769	9,731

12 Cash and cash equivalents

	2011	2010
Cash on hand – Russian roubles	338,181	162,371
Russian rouble denominated bank balances due on demand	549,591	440,173
US$ denominated bank balances due on demand	1,166	2,961
Russian rouble denominated time deposits	–	549,625
Cash in transit – Russian roubles	1,494,713	441,550
	2,383,651	**1,596,680**

Short-term deposits have original maturities of less than one month.

13 Share capital and equity

Issued and additional paid-in capital

As at 31 December 2011 the Group had 124,750,000 (2010: 86,000,000) authorized ordinary shares of which 1,500 (2010: 1,963,646) ordinary shares were held as treasury stock. All ordinary shares are fully paid. Ordinary shares have par value of 0.01 Russian rouble per share. The shares rank equally. Each share carries one vote.

On 21 January 2011 the Group sold 1,963,646 treasury shares for 785,458 to the entity under common control Dixy Holding Limited.

On 1 March 2011 the entity under common control of controlling shareholders of the Group made repayment of the loan previously written off in the amount of 392,258. The transaction aimed to increase share capital and therefore was recognised as a contribution to additional paid in capital.

On 7 June 2011 the Group made buy-out of 1,113,849 shares for 411,010, which were on 14 June 2011 sold through an open subscription for 435,515.

On 14 June 2011 the Group issued 38,750,000 new shares worth 15,124,317, net of the transaction cost of 26,876. Of the new shares, 16,341,254 were exchanged for 1,016,426 shares of OJSC GK Victoria. The value of this share-based consideration, transferred to former shareholders of OJSC GK Victoria, amounted to 6,389,425 and was estimated as the market value of the Group's transferred shares (refer to Note 3).

On 28 July 2011 the Group bought-out 1,500 shares for 554.

Dividends

No dividends were paid by OJSC Dixy Group and its legal subsidiaries. No dividends were declared or paid subsequent to 31 December 2011 up to the date of authorisation of these financial statements for issue.

In 2011 dividends to ultimate shareholder were paid in amount of 41,350 (0.38 per share) by its special purpose entity LLC Dixy Finance (refe to Note 2.1).

13 Share capital and equity (continued)

Dividends (continued)

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. As of 31 December 2011 and 2010 the Company had 9,866 accumulated gain and 137,471 of accumulated loss, respectively. In addition, the Company's share in the undistributed and unreserved earnings of subsidiaries was approximately 3,623,983 as at 31 December 2011 (2010: 2,647,003).

14 Bonds

In March 2006 the Group issued 3,000,000 Russian rouble denominated bonds for a term of 5 years with a coupon period of 6 months. Bonds born interest of 9.25% per annum. The only covenant of the bond placement was that the Company should retain control over its key operating companies, which account for more than 79% of consolidated revenues. In December 2010 the Group bought-out 147,178 bonds for a cash consideration of 147,671. In March 2011 the Group timely repaid the remaining bonds obligation in full amount.

15 Borrowings

The Group's borrowings mature as follows:

	2011	2010
Borrowings due:		
- within 1 year	11,258,982	6,442
- between 2 and 5 years	9,809,737	6,038,938
Total borrowings	**21,068,719**	**6,045,380**

Terms and conditions in respect of borrowings are detailed below:

Source of financing	Maturity date	Currency	Interest rate 2011	Interest rate 2010	Collateral 2011	Collateral 2010	2011	2010
Syndicated borrowing facility	2014	RR	MOSPRIME+4%	MOSPRIME+4%	-	-	6,071,729	6,041,803
Revolving credit lines	2012-2013	RR	6.95-9.65%	-	-	-	4,932,342	-
Bridge loan for acquisition of subsidiary	2012	RR	MOSPRIME+ 1.75%	-	-	-	4,490,559	-
Bank loans acquired through acquisition of subsidiary	2013	RR	MOSPRIME +3.7-4.5%	-	Buildings for 1,941,557	-	4,064,022	-
Short term bank loan	2012	RR	10.10%	-	-	-	1,209,962	-
Bank overdrafts	2012	RR	6.6-9.0%	-	-	-	299,585	-
Other	2012	RR					520	3,577
							21,068,719	6,045,380

15 Borrowings (continued)

As at 31 December 2011 and 2010 loans with carrying amount of 3,036,982 and nil, respectively, were secured by property, plant and equipment with carrying value of 1,941,557 and nil, respectively (refer to Note 6). All of the above borrowings and related pledged assets were acquired by the Group through acquisition of OJSC GK Victoria.

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

In accordance with terms and conditions of certain borrowing agreements the Group has to maintain certain ratios – maximum level of Total Financial Debt/EBITDA, minimum level of EBITDA/Interest expense, minimum level of Net worth. As of 31 December 2011 and 2010 the Group was in compliance with externally imposed capital requirements.

As at 31 December 2011 and 2010 carrying amount of borrowings approximates their fair value.

All borrowings were repaid in accordance with its maturities.

16 Finance leases

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

	Due in 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2011	**218,889**	**131,601**	**350,490**
Less future finance charges	(73,698)	(44,331)	(118,029)
Present value of minimum lease payments at 31 December 2011	**145,191**	**87,270**	**232,461**
Minimum lease payments at 31 December 2010	**244,830**	**311,164**	**555,994**
Less future finance charges	(82,952)	(68,787)	(151,739)
Present value of minimum lease payments at 31 December 2010	**161,878**	**242,377**	**404,255**

The Group entered into finance leases for various items of buildings and equipment (refer to Note 6). All leases have purchase options at the end of the lease terms. In the years ended 31 December 2011 and 2010 the average imputed return rate under lease contracts amounted to 33% and 22% respectively. Finance lease payables are stated in Russian roubles except for finance leases in the amount of 108,131 (2010: 207,150) denominated in Euro.

17 Trade and other payables

	2011	2010
Trade payables	14,319,553	6,618,243
Payables to employees	621,878	293,026
Other liabilities and accruals	952,034	297,725
Trade and other payables	**15,893,465**	**7,208,994**

As of 31 December 2011 and 2010 trade payables are denominated mainly in Russian roubles.

Trade and other payables are normally settled on 30-60 days term.

18 Tax liability, other than income taxes

	2011	2010
VAT payable	517,028	238,328
Payroll taxes payable	184,579	39,889
Tax liability, other than income taxes	**701,607**	**278,217**

VAT payable and payroll taxes payable are settled normally within 15-90 days after reporting date.

19 Revenue

	2011	2010
Sales of goods	101,396,619	63,844,539
Sublease income	920,729	391,628
Total revenue	**102,317,348**	**64,236,167**

20 Cost of sales

	2011	2010
Cost of goods sold	71,999,752	47,125,532
Transportation costs	629,135	337,259
Shrinkage of inventories	1,956,845	1,308,000
Total cost of sales	**74,585,732**	**48,770,791**

21 Selling, general and administrative expenses

	Note	2011	2010
Staff costs		11,243,645	6,229,071
Operating lease expenses		4,514,748	2,601,119
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 8	2,850,413	1,750,974
Utilities		1,352,078	835,664
Repair and maintenance costs		717,271	355,600
Advertising costs		626,583	257,928
Supplies and materials		520,594	232,911
Taxes other than income tax		340,211	230,727
Information, consulting and other services		325,588	135,574
Bank charges		294,473	162,922
Security services		197,741	119,126
Telecommunication expenses		154,732	96,907
Provision for impairment of property, plant and equipment	6	113,663	-
Transportation and handling costs		100,785	56,528
Amortisation of initial lease costs		74,934	193,609
Business related expenses		38,132	23,876
Provision for impairment of capital advance		33,925	-
Impairment of goodwill	7	-	46,125
(Decrease)/increase in provision for impairment of trade and other receivables	11	(24,384)	22,446
(Decrease)/increase in provision for impairment of prepayments		(50,077)	107,247
Other operating expenses		850,407	319,606
Total Selling, general and administrative expenses		**24,275,462**	**13,777,960**

Included in staff costs are statutory social security and pension contributions of 2,595,773 (2010: 1,163,012).

Operating lease expenses relate to cancellable and non-cancellable operating leases with terms from 1 to 10 years. Included in other operating expense are amortisation of unfavourable operating lease agreements of 45,633 (2010: nil).

Included in other operating expenses is a change in provisions for liabilities and charges in the amount of positive 1,208 (2010: 6,277) (refer to Note 25).

22 Finance Income and finance costs

	Note	2011	2010
Interest income from third parties		15,664	10,440
Interest income from related parties	5	18,897	16,080
Total finance income		**34,561**	**26,520**

	Note	2011	2010
Interest expense to third parties		1,325,031	736,501
Interest expense to related parties	5	-	2,050
Total finance costs		**1,325,031**	**738,551**

23 Income taxes

Income tax expense comprises the following:

	2011	2010
Current tax	1,218,931	788,657
Deferred income tax credit – origination and reversal of temporary differences	(173,232)	(175,277)
Income tax expense for the year	**1,045,699**	**613,380**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2011	2010
Profit before income tax	**2,147,467**	**871,223**
Theoretical tax charge at statutory rate of 20%	429,493	174,245
Tax effect of items which are not deductible or assessable for taxation purposes:		
Shrinkage of inventories	391,369	259,666
Non-deductible expenses	224,837	179,469
Income tax expense for the year	**1,045,699**	**613,380**

Deferred tax balances are computed by applying the statutory tax rate in effect at the reporting date to the differences between the tax basis of assets and liabilities and the amounts reported in the accompanying consolidated financial statements, and are comprised of the following as of 31 December:

	2011	2010
Deferred tax assets	**652,094**	**357,237**
Accounts payable and receivable	350,387	122,499
Tax losses carried forward	289,200	205,914
Inventories	12,507	28,824
Deferred tax liabilities	**(1,351,290)**	**(194,488)**
Property, plant and equipment	(873,418)	(134,466)
Other intangible assets	(477,872)	(60,022)
Net deferred tax asset/(liability)	**(699,196)**	**162,749**

Reflected in the consolidated statement of financial position as follows:

	2011	2010
Total Deferred tax assets	539,592	397,482
Total Deferred tax liabilities	(1,238,788)	(234,733)
Net deferred tax asset/(liability)	**(699,196)**	**162,749**

Weighted average income tax rate is set at 20%; it is based on the income tax rates at the Group Companies' jurisdictions. In 2011 and 2010 there were no significant income or loss generated in the companies outside Russian Federation.

23 Income taxes (continued)

Deferred tax assets and liabilities are calculated for all temporary differences under the liability method using the principal tax rate of 20%. Deferred tax assets and liabilities at 31 December 2011 and 2010 were attributable to the following:

	31 December 2010	Business combination	Credited/ (charged) to profit or loss	31 December 2011
Tax effect of deductible/(taxable) temporary differences and tax losses carried forward				
Accounts payable and receivable	122,499	111,599	116,289	350,387
Tax losses carried forward	205,914	730	82,556	289,200
Property, plant and equipment	(134,466)	(700,081)	(38,871)	(873,418)
Other intangible assets	(60,022)	(469,346)	51,496	(477,872)
Inventories	28,824	21,921	(38,238)	12,507
Net deferred tax asset/(liability)	**162,749**	**(1,035,177)**	**173,232**	**(699,196)**

	31 December 2009	Credited/ (charged) to profit or loss	31 December 2010
Tax effect of deductible/(taxable) temporary differences and tax losses carried forward			
Accounts payable and receivable	84,179	38,320	122,499
Tax losses carried forward	180,997	24,917	205,914
Property, plant and equipment	(250,656)	116,190	(134,466)
Other intangible assets	(52,654)	(7,368)	(60,022)
Inventories	25,606	3,218	28,824
Net deferred tax assets/(liability)	**(12,528)**	**175,277**	**162,749**

Temporary differences in property, plant and equipment represent timing differences due to different useful lives and fair value adjustments on business combinations. Temporary differences in inventories represent timing differences of recognition of cost of goods sold. Temporary differences in account payable and receivable represents timing differences of recognition of certain expenses and vendors rebates.

Tax losses carried forward recognised by the Group as of 31 December 2011 expires in 2017 in the amount of 851,740, in 2019 in the amount of 177,830, in 2021 in the amount of 416,425. The Group believes that the tax loss is fully recoverable before expiry date because tax losses carrie forward have arisen on entities, whose primary source of income are intragroup charges and interest income, which are under control of the Group.

The Group has not recognised a deferred tax liability in respect of taxable temporary differences of 4,442,418 (2010: 3,224,978) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

24 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

On 21 January 2011 the Group sold 1,963,646 treasury shares. On 7 June 2011 the Group made buy-out of 1,113,849 shares and on 14 June 2011 sold them out through an open subscription.On 14 June 2011 the Group issued 38,750,000 new shares. Of the new shares, 16,341,254 were exchanged for 1,016,426 shares of OJSC GK Victoria. On 28 July 2011 the Group bought-out 1,500 shares for 554 (refer to Note 13).

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share are calculated as follows:

	Note	2011	2010
Profit for the year attributable to ordinary shareholders		1,101,828	257,666
Weighted average number of ordinary shares in issue	13	108,612,554	84,055,432
Basic and diluted earnings per ordinary share (expressed in Russian rouble per share)		**10.14**	**3.07**

25 Contingencies, commitments and operating risks

Operating environment of the group

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

The Russian economy has been affected by the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Litigation

During 2011 and 2010 the Group was involved in litigation with tax authorities in respect of tax claims arisen as a result of tax audits. The Group believes that the risk that they would not be able to defend their position in court is possible and the amount of related tax risks not recognized in these consolidated statements amounted to 22,613 as of 31 December 2011 (2010: 83,068).

25 Contingencies, commitments and operating risks (continued)

Litigation (continued)

Except for the above, in the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Capital expenditure commitments

At 31 December 2011 the Group had contractual capital expenditure commitments in respect of property, plant and equipment amounting to 2,064,570 (2010: 366,674).

Operating lease commitments

The Group leases premises for operation of its stores. Some of these leases are non-cancellable. These leases have remaining terms of between 1 and 10 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rental payments under non-cancellable operating leases as at 31 December were as follows:

	2011	2010
Committed to pay		
- within 1 year	4,234,398	1,710,715
- between 2 and 5 years	12,661,567	4,824,154
- more than 5 years	6,823,267	1,562,635
Total non-cancellable operating lease liabilities	**23,719,232**	**8,097,504**

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately as liabilities. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

25 Contingencies, commitments and operating risks (continued)

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may arise, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

During 2010 the Group released a tax provision related to taxes other than income by 6,277 and income tax liability by 8,738, which are no longer probable to result in additional tax liabilities due to expiration of limitation period or based on the results of tax inspections. The Group did not accrue any additional tax provisions for unsustainable tax positions related to income tax liabilities.

During 2011 the Group recognised a provision for income tax liabilities and taxes other than income tax in the amount of 135,474 and 19,957, respectively, arisen as a result of acquisition of OJSC GK Victoria. The whole amount of this provision is indemnifiable from the former shareholders of Victoria and related indemnification asset in the amount of 155,431 was recognized as a result of OJSC GK Victoria acquisition (refer to Note 3).

During 2011 the Group released a non-indemnifiable tax provision related to taxes other than income by 1,208 and income tax liability by 567, which are no longer probable to result in additional tax liabilities due to expiration of limitation period or based on the results of tax inspections. The Group did not accrue any additional tax provisions for unsustainable tax positions related to income tax liabilities. During 2011 the Group released provision for income tax liabilities and taxes other than income tax in the amount of 56,986 and 1,603 indemnifiable from the former shareholders of OJSC GK Victoria. At the same time the Group also released indemnification asset of 58,903.

As of 31 December 2011 provision for income tax liabilities and provision for taxes other than income comprised 83,122 and 18,354, respectively. Management believes that these provisions will be sufficient to cover any additional tax payments it may need to make in the future. The balances at 31 December 2011 are expected to be either utilized or released within three years.

Although historically there have been no significant liabilities arising from tax assessments, the potential for assessments over amounts provided or accrued remains. Management estimates that the order of magnitude as at 31 December 2011 of potential liabilities that have not been provided for because management believes they are less than probable, amounts to 591,805 (2010: 344,617).

26 Financial risk management

Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade and other receivables and cash and cash equivalents. The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that credit sales are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The Group holds major portion of its cash including time deposits in banks with credit rating above BBB.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise for the Group two types of risk – foreign exchange risk and interest rates risk. Financial instruments affected by market risk include loans, borrowings, cash and cash equivalents and trade and other payables.

The sensitivity analysis in the following sections relates to the position as at 31 December 2011 and 31 December 2010.

The sensitivity analysis has been prepared on the basis that the amount of the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at 31 December 2011 and 31 December 2010.

Foreign exchange risk

Foreign currency denominated assets (refer to Note 12) and liabilities (refer to Note 16) give rise to foreign exchange exposure. As of 31 December 2011 the Group does not have significant exposure to foreign exchange risk currently as in 2010 the Group refinanced all of its US dollar denominated borrowings to Russian roubles denominated ones.

Since 2010 Group borrows the funds in the local currency and is considering to proceed with such strategy further.

26 Financial risk management (continued)

Foreign exchange risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US$ and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in exchange rate	Effect on profit before tax
2011		
US$	(12.6)%	15,237
EUR	(11.8)%	12,716
US$	12.6%	(15,237)
EUR	11.8%	(12,716)
2010		
US$	(8.9)%	(9,737)
EUR	(11.05)%	22,890
US$	8.9%	9,737
EUR	11.05%	(22,890)

Interest rate risk

The Company monitors and measures interest rate risk regularly. The Group's exposure to the risk of negative changes in market interest rates related to the Group's long-term bank loan with floating interest rate (refer to Note 15).

The following table demonstrates the sensitivity to a reasonably possible change in MOSPRIME, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no other impact on the Group's equity.

	31 December 2011		31 December 2010	
	Increase/decrease in basis points	Effect on profit before tax	Increase/decrease in basis points	Effect on profit before tax
MOSPRIME	2.49	(364,498)	1	(60,418)
	(2.49)	364,498	(0.75)	45,314

Liquidity risk

As at 31 December 2011 the Group's current liabilities exceeded the Group's current assets by 13,402,745 (2010: 2,439,885). Typically the reason for negative working capital is the suppliers' credit being greater than the inventory turnover, generally 1.5-2 times, however as of 31 December 2011 the Group had short term borrowings of 11,258,982, which the Group has to refinance within 2012. The Group is in negotiations in respect to the refinancing of the existing facilities and expects to be successful in these efforts, however no formal commitments, except for those disclosed in Note 27, have been achieved as of the date of these consolidated financial statements.

26 Financial risk management (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted payments.

Year ended 31 December 2011	On demand or less than 1 year	1 to 5 years	Total
Bank loans	12,928,953	10,990,093	23,919,046
Finance lease liability	217,325	131,601	348,926
Trade and other payables	15,893,465	-	15,893,465
	29,039,743	**11,121,694**	**40,161,437**

Year ended 31 December 2010	On demand or less than 1 year	1 to 5 years	Total
Bank loans	522,665	7,423,840	7,946,505
Bonds	2,984,394	-	2,984,394
Finance lease liability	244,830	311,164	555,994
Trade and other payables	7,208,994	-	7,208,994
	10,960,883	**7,735,004**	**18,695,887**

Capital management

The primary objective of the Group's capital management is to ensure that it continues efforts to reduce cost of capital and maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group's policy is to keep the Total Financial Debt/EBITDA ratio less than 3.5. The Group includes within total financial debt interest bearing loans and borrowings and finance lease liabilities, excluding discontinued operations. EBITDA is calculated as operating profit excluding depreciation of property, plant and equipment, amortisation of intangible assets, amortisation of initial lease costs, amortisation of unfavourable operating lease agreements, provisions for impairment of non-current assets and impairment of goodwill.

For the purpose of capital maintenance analysis the Group considers for 2011 EBITDA as if the acquisition of OJSC GK Victoria had occurred on 1 January 2011. Therefore in 2011 the Group's Financial Debt/EBITDA ratio amounted to 2.7. In 2010 Total Financial Debt/EBITDA amounted to 2.5.

26 Financial risk management (continued)

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

	31 December 2011		31 December 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Loans	129,195	129,195	139,113	139,113
Trade receivables	2,469,560	2,469,560	1,423,758	1,423,758
Other receivables	171,822	171,822	93,866	93,866
Cash and cash equivalent	2,383,651	2,383,651	1,596,680	1,596,680
Liabilities				
Bank loans	(21,068,719)	(21,068,719)	(6,045,380)	(6,045,380)
Bonds	-	-	(2,929,452)	(2,940,863)
Finance lease liability	(232,461)	(232,461)	(404,255)	(404,255)
Trade and other payables	(15,893,465)	(15,893,465)	(7,208,994)	(7,208,994)

The fair value of borrowings except for publicly traded bonds has been calculated by discounting the expected future cash flows at prevailing interest rates. Bonds fair market value was determined based on stock exchange quotation. The fair value of other financial assets has been calculated using market interest rates.

27 Events after the reporting date

In May 2012 the Group and one of Russian commercial banks signed an agreement on an unsecured revolving three-year credit line of 3 billion rubles.