OJSC "Magnit"

Interim condensed consolidated financial statements

For the six months ended 30 June 2012

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Contents

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Report on review of interim condensed consolidated financial statements

To the shareholders of Open Joint Stock Company "Magnit"

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group"), comprising the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

20 August 2012

OJSC "Magnit"

Interim consolidated statement of financial position as at 30 June 2012

(In thousands of US Dollars)

	Notes	30 June 2012 (unaudited)	31 December 2011
Assets			
Non-current assets			
Property, plant and equipment	6	4,203,887	3,816,432
Investment property		12,050	-
Land lease rights	7	81,807	78,979
Intangible assets	8	10,959	8,845
Long-term financial assets		3,487	12,605
		4,312,190	3,916,861
Current assets			
Inventories	9	958,570	905,215
Trade and other receivables		16,964	16,546
Advances paid	10	55,051	55,922
Taxes receivable		6,189	1,220
Prepaid expenses		10,103	11,787
Short-term financial assets		132	5,354
Cash and cash equivalents	11	128,347	534,392
		1,175,356	1,530,436
Total assets		5,487,546	5,447,297
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	12	34	34
Share premium	12	1,482,978	1,479,322
Treasury shares	12	(543)	(5,574)
Foreign currency translation reserve		(384,624)	(317,167)
Retained earnings		1,554,123	1,284,032
Total equity attributable to equity holders of the parent		2,651,968	2,440,647
Non-controlling interest	6	-	3,614
Total equity		2,651,968	2,444,261
Non-current liabilities			
Long-term borrowings and loans	14	1,392,314	1,424,085
Long-term obligations under finance leases		-	395
Deferred tax liability		152,785	129,051
		1,545,099	1,553,531
Current liabilities			
Trade and other payables	15	936,859	1,042,558
Accrued expenses	16	128,824	122,569
Taxes payable	17	116,392	76,632
Dividends payable	13	23	17
Income tax payable		1,521	15,549
Short-term obligations under finance leases		2,525	5,816
Short-term borrowings and loans	18	104,335	186,364
		1,290,479	1,449,505
Total liabilities		2,835,578	3,003,036
Total equity and liabilities		5,487,546	5,447,297

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

OJSC "Magnit"

Interim consolidated statement of comprehensive income

For the six months ended 30 June 2012

(In thousands of US Dollars)

	Notes	For the six months ended 30 June 2012 (unaudited)	For the six months ended 30 June 2011 (unaudited)
Revenue	19	6,775,761	5,470,739
Cost of sales	20	(5,040,220)	(4,234,546)
Gross profit		**1,735,541**	**1,236,193**
Selling expenses	21	(71,400)	(64,936)
General and administrative expenses	22	(1,180,099)	(964,800)
Investment income		6,511	3,896
Finance costs	23	(61,546)	(47,623)
Gain on disposal of subsidiary		-	16,689
Other income		18,434	17,201
Other expenses		(4,287)	(6,391)
Foreign exchange gain		590	2,488
Profit before income tax		**443,744**	**192,717**
Income tax expense	24	(103,864)	(52,367)
Profit for the period		**339,880**	**140,350**
Other comprehensive income			
(Loss)/gain on translation to presentation currency		(66,542)	150,296
Other comprehensive (loss)/income for the period, net of tax		**(66,542)**	**150,296**
Total comprehensive income for the period, net of tax		**273,338**	**290,646**
Profit for the period			
Attributable to:			
Equity holders of the Parent		339,880	140,350
Non-controlling interest		-	-
		339,880	**140,350**
Total comprehensive income for the period, net of tax			
Attributable to:			
Equity holders of the Parent		273,338	290,646
Non-controlling interest		-	-
		273,338	**290,646**
Earnings per share (in US Dollars per share)			
- basic and diluted, for profit for the period attributable to equity holders of the parent	25	3.59	1.58

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

OJSC "Magnit"

Interim consolidated cash flow statement

For six months ended 30 June 2012

(In thousands of US Dollars)

	Notes	For the six months ended 30 June 2012 (unaudited)	For the six months ended 30 June 2011 (unaudited)
Cash flows from operating activities:			
Profit before income tax		443,744	192,717
Adjustments for:			
Depreciation		168,453	119,988
Amortization		3,393	2,531
Loss from disposal of property, plant and equipment		2,630	3,430
Provision/(Recovery of) for doubtful receivables		3,125	(99)
Foreign exchange gain		(590)	(2,488)
Finance costs		61,546	47,623
Investment income		(6,511)	(3,896)
Operating cash flows before working capital changes		**675,790**	**359,806**
Increase in trade and other receivables		(3,267)	(25,313)
Decrease in advances paid		871	17,066
(Increase)/Decrease in taxes receivable		(4,969)	50,324
Decrease/(Increase) in prepaid expenses		1,684	(4,931)
Increase in inventories		(53,355)	(147,116)
(Decrease)/Increase in trade and other payables		(105,699)	31,457
Increase in accrued expenses		6,255	37,733
Increase in taxes payable		39,760	17,266
Cash generated from operations		**557,070**	**336,292**
Income tax paid		(89,857)	(28,545)
Interest received		6,143	2,715
Interest paid		(70,068)	(44,408)
Net cash from operating activities		**403,288**	**266,054**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(675,634)	(767,073)
Purchase of investment property		(12,907)	-
Purchase of intangible assets		(5,571)	(4,017)
Purchase of land lease rights		(8,252)	(36,779)
Purchase of non-controlling interest in a single asset entity (Note 6)		(3,614)	-
Proceeds from sale of property, plant and equipment		20,491	4,549
Loans provided		(68,876)	(235,348)
Loans repaid		84,239	131,234
Net cash used in investing activities		**(670,124)**	**(907,434)**
Cash flows from financing activities:			
Proceeds from loans and borrowings		1,570,055	2,913,486
Repayment of loans and borrowings		(1,655,695)	(2,319,886)
Dividends paid	13	(66,518)	-
Repayment of obligations under finance leases		(3,891)	(12,266)
Proceeds from sale of treasury shares		7,772	4
Net cash (used in)/from financing activities		**(148,277)**	**581,338**
Effect of foreign exchange rates on cash and cash equivalents		9,068	3,185
Net decrease in cash and cash equivalents		**(406,045)**	**(56,857)**
Cash and cash equivalents at the beginning of the period	11	**534,392**	**132,636**
Cash and cash equivalents at the end of the period	11	**128,347**	**75,779**

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

OJSC "Magnit"

Interim consolidated statement of changes in equity

For the six months ended 30 June 2012

(In thousands of US Dollars)

	Attributable to equity holders of the Parent							
	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 January 2011	32	1,012,186	(3,535)	(187,201)	901,176	1,722,658	-	1,722,658
Profit for the period	-	-	-	-	140,350	140,350	-	140,350
Other comprehensive income	-	-	-	150,296	-	150,296	-	150,296
Total comprehensive income for the period	-	-	-	150,296	140,350	290,646	-	290,646
Dividends declared (Note 13)	-	-	-	-	(35,820)	(35,820)	-	(35,820)
Sale of treasury shares	-	4	2	-	-	6	-	6
Balance at 30 June 2011 (unaudited)	32	1,012,190	(3,533)	(36,905)	1,005,706	1,977,490	-	1,977,490
Balance at 1 January 2012	34	1,479,322	(5,574)	(317,167)	1,284,032	2,440,647	3,614	2,444,261
Profit for the period	-	-	-	-	339,880	339,880	-	339,880
Other comprehensive income	-	-	-	(66,542)	-	(66,542)	-	(66,542)
Total comprehensive income for the period	-	-	-	(66,542)	339,880	273,338	-	273,338
Dividends declared (Note 13)	-	-	-	-	(69,789)	(69,789)	-	(69,789)
Sale of treasury shares	-	3,656	5,031	(915)	-	7,772	-	7,772
Purchase of non-controlling interest (Note 6)	-	-	-	-	-	-	(3,614)	(3,614)
Balance at 30 June 2012 (unaudited)	34	1,482,978	(543)	(384,624)	1,554,123	2,651,968	-	2,651,968

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

(All amounts are in thousands of US Dollars if not otherwise indicated)

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 were authorised for release by the Chief Executive Officer of OJSC "Magnit" on 20 August 2012.

Close Joint Stock Company "Magnit" ("Magnit") was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company "Magnit" (the "Company" or OJSC "Magnit"). There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company.

OJSC "Magnit" and its subsidiaries (the "Group") operate in the retail and distribution of consumer goods under the "Magnit" name. The Group's retail operations are operated through convenience stores, cosmetic stores and through hypermarkets.

All of the Group's operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya St., 350072 Krasnodar, the Russian Federation.

The principal activities of the Group's subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

Company name	Principal activity	Ownership interest 30 June 2012	Ownership interest 31 December 2011
CJSC "Tander"	Food retail and wholesale	100%	100%
LLC "Retail Import"	Import operations	100%	100%
LLC "BestTorg"	Food retail in the city of Moscow and the Moscow region	100%	100%
LLC "Tander-Magnit"	Food retail in the Moscow region	100%	100%
LLC "Selta"	Transportation services for the Group	100%	100%
LLC "TK Zelenaya Liniya"	Greenhouse complex	100%	100%
LLC "Tandem"	Food retail in Nizhniy Novgorod	100%	100%
LLC "Alkotrading"	License holder for alcohol sales	100%	100%
LLC "UK Premier-Liga"	Managing company of the employee`s pension fund	100%	100%

In May 2012, the Group changed the name of one of subsidiaries from LLC "Magnit-Finance" to LLC "Retail Import". The activity of subsidiary was also changed from financing (the company was the owner of the bonds issued in 2007 with maturity in March 2012) to import operations.

(All amounts are in thousands of US Dollars if not otherwise indicated)

1. Corporate information (continued)

At 30 June 2012 and 31 December 2011, the shareholding structure of the Company was as follows:

	30 June 2012		31 December 2011	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Galitskiy S.N.	36,563,000	38.67%	36,563,000	38.67%
Shares controlled by Lavreno Ltd. (Cyprus)	3,370,130	3.56%	3,741,200	3.96%
Gordeichuk V.E.	2,720,862	2.88%	2,734,262	2.89%
Shares controlled by the Group's Management	529,811	0.56%	505,976	0.54%
Treasury shares	9,909	0.01%	101,670	0.11%
Free float	51,367,643	54.32%	50,915,247	53.83%
	94,561,355	**100%**	**94,561,355**	**100%**

2. Basis of preparation of the financial statements

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

Basis of accounting

The Group's entities maintain their accounting records in Russian Roubles ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these interim condensed consolidated financial statements in accordance with IFRS.

The financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as of the date of transition to IFRS and investment property at fair value.

The functional currency of each of the Group's entities is the Russian Rouble ("RUB").

The presentation currency of the interim condensed consolidated financial statements is the United States of America Dollar ("USD") as it is considered by management a more relevant presentation currency for international users of the interim condensed consolidated financial statements of the Group.

2. Basis of preparation of the financial statements (continued)

Basis of accounting (continued)

The translation from functional currency into presentation currency is made as follows:

- Assets and liabilities for each interim consolidated statement of financial position presented are translated at the closing rate at the date of that interim consolidated statement of financial position;
- Income and expenses for each interim consolidated statement of comprehensive income presented are translated at the average exchange rates for the periods presented (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- All resulting exchange differences are recognized in other comprehensive income;
- All items included in the interim consolidated statement of changes in equity, other than net profit for the period, are translated at historical exchange rates;
- In the interim consolidated cash flow statement, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at the average exchange rates for the periods presented.

The RUB is not a freely convertible currency outside of the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these interim condensed consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Reclassifications

Certain reclassifications have been made to comparatives for the six months ended 30 June 2011 to conform to the presentation as at and for the six months ended 30 June 2012.

3. Summary of significant accounting policies

Basis of consolidation

The interim condensed consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises 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.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

3. Summary of significant accounting policies (continued)

Business combinations (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

The Group generates and recognizes sales to retail customers at the point of sale in its stores and to wholesale customers at the point of sale in its distribution centers. Retail sales are in cash. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

Historical cost information was not available in relation to buildings purchased prior to transition date to IFRS (1 January 2004). Therefore, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS and deemed those values as cost.

Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful economic lives of the related assets are as follows:

	Useful life in years
Buildings	30
Machinery and equipment	3-14
Other fixed assets	3-5

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Land lease rights

Land lease rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful life is estimated to be 49 years.

When the Group constructs a building on land that is leased under an operating lease, the operating lease costs (including amortization of land lease rights) that are incurred during the construction are capitalised as part of the construction cost of the building.

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives.

Lease rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, lease rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortization:

Description	Useful life in years
Licenses	4
Lease rights (convenience stores)	6
Software	2
Trade marks	9
Other	3

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss.

3. Summary of significant accounting policies (continued)

Finance leases

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

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

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

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

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost of goods for resale is calculated using the weighted average method, cost of materials and supplies is calculated using cost per unit method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Vendor allowances

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

3. Summary of significant accounting policies (continued)

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian law.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the interim consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

3. Summary of significant accounting policies (continued)

Income taxes (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated profit or loss, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Retirement benefit costs

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 or loss as incurred.

Bonus plan

Under the bonus program the Group has agreed to pay, at its discretion, cash bonuses to key management personnel. The amount of the cash bonus, if paid, will be based on the market price of the Group's shares on that date times a fixed number of shares as indicated in the employment contract of each individual. The compensation expense is recognized over the one-year service period based on its assessment that it is probable the amounts will be paid. The liability will be remeasured at the date of settlement, with any changes recognised in profit or loss.

The fair value of the liability is determined based on the market value of shares at the end of each reporting period adjusted for expected employee turnover.

Segment reporting

The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group's chief operating decision maker reviews the Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores, cosmetic stores and hypermarkets, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

3. Summary of significant accounting policies (continued)

Seasonality

The Group's business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009.

All other borrowing costs are expensed in the period they occur.

Financial assets

General description

Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"); held-to-maturity investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recognised using the effective interest rate. Interest income is included in investment income in the statement of comprehensive income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

With the exception of AFS equity instruments, 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 through the profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities and equity instruments issued by the Group

Treasury shares

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognised as a deduction from equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

Share premium

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares.

Earnings per share

Earnings per share have been determined using the weighted average number of the Group's shares outstanding during the six months ended 30 June 2012 and 2011. The Group does not have any potentially dilutive equity instruments.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

3. Summary of significant accounting policies (continued)

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised using an effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Changes in accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the following new and amended IFRS and IFRIC interpretations as of 1 January 2012:

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012. The amendment has had no effect on the financial position or performance of the Group.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7 Disclosures – Transfers of financial assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities.

If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements. The amendment has had no effect on the financial position or performance of the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's interim condensed consolidated 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 (Amendment)

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 becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Revised)

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 becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (Revised)

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 amendment becomes effective for annual periods beginning on or after 1 January 2013.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IAS 28 Investments in Associates and Joint Ventures (Revised)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed to 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.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendment)

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The amendments are effective for annual periods beginning on or after 1 January 2014.These amendments are applied retrospectively, early application is permitted.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendment)

The amendment becomes effective for annual periods beginning on or after 1 January 2013.

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. These amendments are applied retrospectively.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 for financial assets was first published in November 2009 and was later updated in October 2010 to include financial liabilities. These pronouncements initially required the adoption of the standard for annual periods on or after 1 January 2013. Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015.

The first phase of IFRS 9 addresses the classification and measurement of financial instruments (Phase 1). The Board's work on the other phases is ongoing and includes impairment of financial instruments and hedge accounting, with a view to replacing IAS 39 in its entirety. Phase 1 of IFRS 9 applies to all financial instruments within the scope of IAS 39.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (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 judgement 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.

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. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The impact of adoption of these Standards in the preparation of interim condensed consolidated financial statements in the future periods is currently being assessed by the Group's management.

4. Significant accounting judgements and estimates

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

Useful life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

4. Significant accounting judgements and estimates (continued)

Estimates and assumptions (continued)

Useful life of leasehold improvements

The Group's leasehold improvements in convenience stores used under operating leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of operating lease agreements assuming leases will be renewed. Based on the history of the renewals of these agreements and pre-emptive rights for the prolongation of the lease agreements, the Group's management assumes a thirty year depreciation period for these leasehold improvements.

Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

5. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, provides loans and acquires construction services. Related parties of the Group are represented by (i) shareholders and (ii) counterparties that are affiliated with the Group through key management and relatives (other related parties). Transactions with related parties are made on terms not necessarily available to third parties.

Long-term loans to related parties maturing in October 2016 bear fixed interest rate of 9.5% (as at 31 December 2011: 6%) and are unsecured. No guarantees have been given or received.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

(All amounts are in thousands of US Dollars if not otherwise indicated)

5. Balances and transactions with related parties (continued)

Related party balances as at 30 June 2012 and 31 December 2011 consisted of the following:

	Other related parties	
	30 June 2012	31 December 2011
Long-term loans receivable	3,487	12,605
Short-term loans receivable	94	5,326
Advances paid	337	186
Other receivables	3,669	1,287
Trade payables	4,548	2,277
Other payables	18	8

The Group's transactions with related parties for the six months ended 30 June 2012 and 30 June 2011 consisted of the following:

	Shareholders		Other related parties	
	For the six months ended 30 June		For the six months ended 30 June	
	2012	2011	2012	2011
Wholesale	–	–	274	–
Rent income	–	–	57	91
Rent expense	–	–	18	–
Other income	–	–	1,914	4,380
Investment income	107	–	1,318	1,618
Interest expense	–	–	–	70
Purchases of property, plant and equipment	–	–	36	9
Purchases of inventory	–	–	145,732	177,223
Loans given	9,791	–	59,114	150,665
Loans given repayment	9,898	–	75,439	74,295
Loans obtained repayment	–	–	–	10,584

Short-term employee benefits of Group management and members of the Board of Directors of the Group for the six months ended 30 June 2012 were USD 6,370 thousand (for the six months ended 30 June 2011: USD 4,730 thousand).

(All amounts are in thousands of US Dollars if not otherwise indicated)

6. Property, plant and equipment

Property, plant and equipment as at 30 June 2012 and 31 December 2011 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2012	**178,601**	**2,201,777**	**888,547**	**578,602**	**578,654**	**4,426,181**
Additions	15,525	-	114,113	60,470	491,034	**681,142**
Transfers	-	353,285	-	-	(353,285)	**-**
Disposals	(15,720)	(2,540)	(23,407)	(9,330)	(1,697)	**(52,694)**
Transfer from land lease rights	2,754	-	-	-	-	**2,754**
Translation difference	(3,549)	(64,928)	(22,829)	(14,340)	(19,975)	**(125,621)**
At 30 June 2012	**177,611**	**2,487,594**	**956,424**	**615,402**	**694,731**	**4,931,762**
Accumulated depreciation and impairment						
At 1 January 2012	**-**	**(148,956)**	**(334,872)**	**(125,921)**	**-**	**(609,749)**
Charge for the period	-	(44,717)	(85,476)	(38,260)	-	**(168,453)**
Disposals	-	257	22,656	6,660	-	**29,573**
Translation difference	-	5,769	10,504	4,481	-	**20,754**
At 30 June 2012	**-**	**(187,647)**	**(387,188)**	**(153,040)**	**-**	**(727,875)**
Net book value						
At 1 January 2012	**178,601**	**2,052,821**	**553,675**	**452,681**	**578,654**	**3,816,432**
At 30 June 2012	**177,611**	**2,299,947**	**569,236**	**462,362**	**694,731**	**4,203,887**

Property, plant and equipment as at 30 June 2011 and 31 December 2010 consisted of the following:

	Land	Buildings	Machinery and equipment	Other Assets	Assets under construction	Total
Cost						
At 1 January 2011	**120,755**	**1,514,840**	**589,196**	**394,416**	**440,769**	**3,059,976**
Additions	30,770	-	167,461	147,024	426,097	**771,352**
Transfers	-	292,610	-	-	(292,610)	**-**
Disposals	(1,171)	(1,682)	(6,783)	(4,877)	(1,573)	**(16,086)**
Transfer from land lease rights	8,633	-	-	-	-	**8,633**
Translation difference	11,074	135,235	53,528	36,507	40,271	**276,615**
At 30 June 2011	**170,061**	**1,941,003**	**803,402**	**573,070**	**612,954**	**4,100,490**
Accumulated depreciation and impairment						
At 1 January 2011	**-**	**(91,637)**	**(238,959)**	**(78,244)**	**-**	**(408,840)**
Charge for the period	-	(31,127)	(60,440)	(28,421)	-	**(119,988)**
Disposals	-	178	5,306	2,623	-	**8,107**
Translation difference	-	(8,441)	(21,513)	(7,195)	-	**(37,149)**
At 30 June 2011	**-**	**(131,027)**	**(315,606)**	**(111,237)**	**-**	**(557,870)**
Net book value						
At 1 January 2011	**120,755**	**1,423,203**	**350,237**	**316,172**	**440,769**	**2,651,136**
At 30 June 2011	**170,061**	**1,809,976**	**487,796**	**461,833**	**612,954**	**3,542,620**

During the six months ended 30 June 2012, the weighted average capitalisation rate on funds borrowed is 8.21% per annum (during the six months ended 30 June 2011: 7.22%).

(All amounts are in thousands of US Dollars if not otherwise indicated)

6. Property, plant and equipment (continued)

At 30 June 2012, the net carrying amount of vehicles under finance lease included in other assets is USD 12,283 thousand (at 31 December 2011: USD 28,803 thousand).

Subsequent to purchase of 82.6% of the ownership in a single asset entity in Tambov region during 2011, in March 2012 the Group acquired non-controlling interest of USD 3,614 thousand.

7. Land lease rights

Land lease rights as at 30 June 2012 and 31 December 2011 consisted of the following:

	Land lease rights
Cost	
At 1 January 2012	**81,623**
Additions	8,252
Transfer to PPE	(2,754)
Translation difference	(1,909)
At 30 June 2012	**85,212**
Accumulated amortization and impairment	
At 1 January 2012	**(2,644)**
Charge for the period	(869)
Translation difference	108
At 30 June 2012	**(3,405)**
Net book value	
At 1 January 2012	**78,979**
At 30 June 2012	**81,807**

Land lease rights as at 30 June 2011 and 31 December 2010 consisted of the following:

	Land lease rights
Cost	
At 1 January 2011	**55,981**
Additions	36,779
Transfer to PPE	(8,633)
Translation difference	5,337
At 30 June 2011	**89,464**
Accumulated amortization and impairment	
At 1 January 2011	**(1,281)**
Charge for the period	(703)
Translation difference	(123)
At 30 June 2011	**(2,107)**
Net book value	
At 1 January 2011	**54,700**
At 30 June 2011	**87,357**

(All amounts are in thousands of US Dollars if not otherwise indicated)

7. Land lease rights (continued)

During the six months ended 30 June 2012, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 603 thousand (during the six months ended 30 June 2011: USD 560 thousand).

8. Intangible assets

Intangible assets as at 30 June 2012 and 31 December 2011 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2012	1,494	1,878	10,314	120	284	14,090
Additions	325	1,650	3,403	14	179	5,571
Disposals	(137)	-	(1,984)	(3)	(30)	(2,154)
Translation difference	(41)	(145)	(289)	(3)	(16)	(494)
At 30 June 2012	1,641	3,383	11,444	128	417	17,013
Accumulated amortization and impairment						
At 1 January 2012	(451)	(625)	(3,980)	(84)	(105)	(5,245)
Charge for the period	(290)	(261)	(2,489)	(8)	(79)	(3,127)
Disposals	137	-	1,984	3	30	2,154
Translation difference	19	29	109	2	5	164
At 30 June 2012	(585)	(857)	(4,376)	(87)	(149)	(6,054)
Net book value						
At 1 January 2012	1,043	1,253	6,334	36	179	8,845
At 30 June 2012	1,056	2,526	7,068	41	268	10,959

Intangible assets as at 30 June 2011 and 31 December 2010 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2011	962	1,182	6,284	134	281	8,843
Additions	400	142	3,387	-	88	4,017
Disposals	(133)	(46)	(576)	(3)	(28)	(786)
Translation difference	88	105	594	9	24	820
At 30 June 2011	1,317	1,383	9,689	140	365	12,894
Accumulated amortization and impairment						
At 1 January 2011	(320)	(485)	(1,515)	(80)	(160)	(2,560)
Charge for the period	(244)	(111)	(1,976)	(8)	(49)	(2,388)
Disposals	133	46	576	3	28	786
Translation difference	(30)	(43)	(157)	(7)	(14)	(251)
At 30 June 2011	(461)	(593)	(3,072)	(92)	(195)	(4,413)
Net book value						
At 1 January 2011	642	697	4,769	54	121	6,283
At 30 June 2011	856	790	6,617	48	170	8,481

Amortization expense is included in general and administrative expenses (Note 22).

(All amounts are in thousands of US Dollars if not otherwise indicated)

9. Inventories

Inventory as at 30 June 2012 and 31 December 2011 consisted of the following:

	30 June 2012	31 December 2011
Goods for resale	903,820	856,925
Materials and supplies	54,750	48,290
	958,570	**905,215**

Materials and supplies are represented by spare parts, packaging materials and other materials used in hypermarkets, convenience stores and warehouses.

10. Advances paid

Advances paid as at 30 June 2012 and 31 December 2011 consisted of the following:

	30 June 2012	31 December 2011
Advances to third party suppliers	32,078	33,918
Advances for customs duties	21,206	20,250
Advances to employees	1,430	1,568
Advances to related party suppliers	337	186
	55,051	**55,922**

11. Cash and cash equivalents

Cash and cash equivalents as at 30 June 2012 and 31 December 2011 consisted of the following:

	30 June 2012	31 December 2011
Petty cash, in RUB	27,318	27,568
Cash in banks, in RUB	15,438	48,244
Cash in banks, in foreign currency	70	255
Cash on deposit in RUB	–	305,392
Cash in transit, in RUB	85,521	152,933
	128,347	**534,392**

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts as at 30 June 2012 and 31 December 2011.

12. Share capital, share premium and treasury shares

Share capital as at 30 June 2012 amounted to USD 34 thousand. There were no changes compared to 31 December 2011.

In January and March 2012, 91,761 treasury shares were sold by the Group for total cash consideration of RUB 247,713 thousand (USD 7,772 thousand at exchange rate at the date of transaction). The difference between cash received and the carrying value of shares was recorded as increase of share premium in amount of USD 3,656 thousand and decrease of foreign currency translation reserve in amount of USD 915 thousand.

(All amounts are in thousands of US Dollars if not otherwise indicated)

13. Dividends declared

During the six months ended 30 June 2012 the Group declared dividends to shareholders relating to 2011 and the first quarter of 2012:

	30 June 2012
Dividends declared for 2011 (0.57 USD for 1 share)	54,365
Dividends declared for the first quarter 2012 (0.16 USD for 1 share)	15,424

During the six months ended 30 June 2011 the Group declared dividends to shareholders relating to 2010 and the first quarter 2011:

	30 June 2011
Dividends declared for 2010 (0.24 USD for 1 share)	20,937
Dividends declared for the first quarter 2011 (0.17 USD for 1 share)	14,883

During the six months ended 30 June 2012 the Group paid dividends in amount of USD 66,518 thousand (for the six months ended 30 June 2011: Nil). At 30 June 2012 the amount of liability for unpaid dividends is USD 23 thousand (at 31 December 2011: USD 17 thousand, at 30 June 2011: USD 35,590 thousand).

Dividends proposed for the six months 2012 (not recognised as a liability as at 30 June 2012):

	30 June 2012
Dividends proposed for the six months 2012 (0.64 USD for 1 share)	60,943

The dividends for the six months 2012 were proposed by the Board of Directors on 19 July 2012, subject to approval by shareholders.

14. Long-term borrowings and loans

	30 June 2012		31 December 2011	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Sberbank, Krasnodar branch	7.96%	304,381	7.96%	310,183
Sberbank, Moscow branch	7.96%	304,310	7.96%	310,108
Bonds issued in 2010	8.30%	171,395	8.30%	174,544
Alfa-bank	8.64%	167,636	8.09%	170,866
Bonds issued in April 2011	7.77%	154,287	7.77%	157,194
Bonds issued in March 2011	8.02%	153,547	8.02%	156,441
Gazprombank	8.00%	152,527	8.00%	155,502
Less: current portion (Note 18)	-	(15,769)	-	(10,753)
		1,392,314		1,424,085

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 10,000,000 thousand (USD 304,721 thousand) maturing in July 2013 – June 2014. The amount outstanding as at 30 June 2012 is RUB 9,986,716 thousand (USD 304,315 thousand) plus interest accrued of RUB 2,158 thousand (USD 66 thousand). The credit lines were unsecured as at 30 June 2012.

14. Long-term borrowings and loans (continued)

Sberbank, Moscow branch: The Group entered into a credit line agreement allowing borrowings of up to RUB 10,000,000 thousand (USD 304,721 thousand) maturing in December 2013 – September 2014. The amount outstanding as at 30 June 2012 is RUB 9,984,350 thousand (USD 304,244 thousand) plus interest accrued of RUB 2,158 thousand (USD 66 thousand). The credit line was unsecured as at 30 June 2012.

Bonds: In September 2010 the Group issued bonds of RUB 5,500,000 thousand net of direct issue costs of RUB 30,252 thousand, maturing in September 2013. The total amount outstanding as at 30 June 2012 is RUB 5,500,000 thousand (USD 167,597 thousand) net of RUB 12,067 thousand (USD 368 thousand) of direct issue costs plus accrued interest of RUB 136,730 thousand (USD 4,166 thousand).

In March 2011 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 13,254 thousand, maturing in February 2014. A number of the bonds issued in March 2011 were purchased by a subsidiary of the Group. The total amount outstanding as at 30 June 2012 is RUB 4,916,972 thousand (USD 149,830 thousand) net of RUB 7,367 thousand (USD 224 thousand) of direct issue costs plus accrued interest of RUB 129,316 thousand (USD 3,941 thousand).

In April 2011 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 13,122 thousand, maturing in April 2014. The total amount outstanding as at 30 June 2012 is RUB 5,000,000 thousand (USD 152,361 thousand) net of RUB 7,931 thousand (USD 242 thousand) of direct issue costs plus accrued interest of RUB 71,150 thousand (USD 2,168 thousand).

The bonds are listed at the Moscow Exchange MICEX-RTS.

Alfa-bank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 5,500,000 thousand (USD 167,597 thousand) maturing in June 2013 – July 2014. The amount outstanding as at 30 June 2012 is RUB 5,500,000 thousand (USD 167,597 thousand) plus interest accrued of RUB 1,298 thousand (USD 39 thousand). The part of credit lines in amount of RUB 169,231 thousand (USD 5,157 thousand) plus interest accrued of RUB 40 thousand (USD 1 thousand) maturing in June 2013 were classified as current portion of long-term loans and borrowings as at 30 June 2012. The credit lines were unsecured as at 30 June 2012.

Gazprombank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 5,000,000 thousand (USD 152,361 thousand) maturing in July 2014. The amount outstanding as at 30 June 2012 is RUB 5,000,000 thousand (USD 152,361 thousand) plus interest accrued of RUB 5,464 thousand (USD 166 thousand). The credit lines were unsecured as at 30 June 2012.

As of 30 June 2012 and 31 December 2011, current portion of long-term loans and borrowings represents current portion of long-term credit line from Alfa bank and accrued interest on borrowings and loans.

(All amounts are in thousands of US Dollars if not otherwise indicated)

15. Trade and other payables

Trade and other payables as at 30 June 2012 and 31 December 2011 consisted of the following:

	30 June 2012	31 December 2011
Trade payables to third parties	919,049	1,027,191
Other payables to third parties	13,244	13,082
Trade payables to related parties (Note 5)	4,548	2,277
Other payables to related parties (Note 5)	18	8
	936,859	**1,042,558**

16. Accrued expenses

Accrued expenses as at 30 June 2012 and 31 December 2011 consisted of the following:

	30 June 2012	31 December 2011
Accrued salaries and wages	81,040	77,258
Other accrued expenses	47,784	45,311
	128,824	**122,569**

17. Taxes payable

Taxes payable as at 30 June 2012 and 31 December 2011 consisted of the following:

	30 June 2012	31 December 2011
Value added tax	63,874	24,183
Social insurance contributions	25,690	24,869
Property tax	14,955	14,704
Employee income tax withholding	10,841	11,943
Other taxes	1,032	933
	116,392	**76,632**

(All amounts are in thousands of US Dollars if not otherwise indicated)

18. Short-term borrowings and loans

Short-term loans as at 30 June 2012 and 31 December 2011 consisted of the following:

	30 June 2012		31 December 2011	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Sberbank, Krasnodar branch, credit line	8.91%	60,838	-	-
Absolut Bank	7.10%	22,943	-	-
Sberbank, Krasnodar branch, overdraft	8.00%	4,785	-	-
Bonds issued in 2007	-	-	8.34%	158,521
Rosbank	-	-	5.95%	17,086
Other short-term loans	-	-	5.50%	4
Current portion of long-term loans (Note 14	-	15,769	-	10,753
		104,335		186,364

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 2,500,000 thousand (USD 76,180 thousand) maturing in July 2012. The amount outstanding as at 30 June 2012 is RUB 1,996,015 thousand (USD 60,823 thousand) plus interest accrued of RUB 481 thousand (USD 15 thousand). The credit lines were unsecured as at 30 June 2012.

The Group entered into overdraft agreement allowing borrowings of up to RUB 500,000 thousand (USD 15,236 thousand) maturing in July 2012. The amount outstanding as at 30 June 2012 is RUB 156,555 thousand (USD 4,771 thousand) plus interest accrued of RUB 469 thousand (USD 14 thousand). The overdraft was unsecured as at 30 June 2012.

Absolut Bank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 1,000,000 thousand (USD 30,472 thousand) maturing in July 2012. The amount outstanding as at 30 June 2012 is RUB 750,000 thousand (USD 22,854 thousand) plus interest accrued of RUB 2,927 thousand (USD 89 thousand). The credit lines were unsecured as at 30 June 2012.

19. Revenue

Revenue for the six months ended 30 June 2012 and 30 June 2011 consisted of the following:

	For the six months ended 30 June	
	2012	2011
Retail	6,771,353	5,468,557
Wholesale	4,408	2,182
	6,775,761	5,470,739

(All amounts are in thousands of US Dollars if not otherwise indicated)

20. Cost of sales

Cost of sales, classified by function, for the six months ended 30 June 2012 and 30 June 2011 consisted of the following:

	For the six months ended 30 June	
	2012	**2011**
Retail	5,036,303	4,232,372
Wholesale	3,917	2,174
	5,040,220	**4,234,546**

Cost of sales, for the six months ended 30 June 2012 and 30 June 2011 consisted of the following:

	For the six months ended 30 June	
	2012	**2011**
Cost of goods sold	4,700,604	3,945,199
Transportation expenses	231,293	208,287
Losses due to inventory shortages	108,323	81,060
	5,040,220	**4,234,546**

Cost of sales are reduced by rebates and promotional bonuses received from suppliers.

During the six months ended 30 June 2012, payroll in amount of USD 63,503 thousand (during the six months ended 30 June 2011: USD 67,305 thousand) was included in transportation expenses within cost of sales.

21. Selling expenses

Selling expenses for the six months ended 30 June 2012 and 30 June 2011 consisted of the following:

	For the six months ended 30 June	
	2012	**2011**
Depreciation	36,749	27,268
Packaging and materials	25,313	21,834
Advertising	9,338	15,834
	71,400	**64,936**

(All amounts are in thousands of US Dollars if not otherwise indicated)

22. General and administrative expenses

General and administrative expenses for the six months ended 30 June 2012 and 30 June 2011 consisted of the following:

	For the six months ended 30 June	
	2012	2011
Payroll	526,251	436,800
Rent and utilities	244,483	189,826
Payroll related taxes	153,795	141,998
Depreciation	131,704	92,720
Taxes, other than income tax	33,318	24,749
Repair and maintenance	17,946	17,699
Bank services	14,640	13,495
Security	7,698	6,498
Accrual for unused vacation	6,226	9,646
Bad debt provision expense/(recovery)	3,125	(99)
Other expenses	40,913	31,468
	1,180,099	964,800

"Other expenses" line includes amortization charge for the six months ended 30 June 2012 in the amount of USD 3,393 thousand (for the six months ended 30 June 2011: USD 2,531 thousand).

23. Finance costs

Finance costs for the six months ended 30 June 2012 and 30 June 2011 consisted of the following:

	For the six months ended 30 June	
	2012	2011
Interest on loans	42,480	27,449
Interest on bonds	23,688	22,640
Interest on finance leases	283	1,253
Total interest expense for financial liabilities	**66,451**	**51,342**
Less: amounts included in the cost of qualifying assets	(4,905)	(3,719)
	61,546	47,623

24. Income tax

The Group's income tax expense for the six months ended 30 June 2012 and 30 June 2011 is as follows:

	For the six months ended 30 June	
	2012	2011
Interim consolidated statement of comprehensive income:		
Current tax	75,828	17,569
Deferred tax	28,036	34,798
Income tax expense reported in the interim consolidated statement of comprehensive income	**103,864**	**52,367**

25. Earnings per share

Earnings per share for the six months ended 30 June 2012 and 30 June 2011 have been calculated on the basis of the net profit for the period and the weighted average number of common shares outstanding during the period.

The calculation of earnings per common share for the six months ended 30 June 2012 and 30 June 2011 is as follows:

	For the six months ended 30 June	
	2012	2011
Profit for the period attributable to equity holders of the parent	339,880	140,350
Weighted average number of shares (in thousands of shares)	94,561	88,975
Basic and diluted earnings per share (in US Dollars)	**3.59**	**1.58**

The Group does not have any potentially dilutive equity instruments.

26. Contingencies, commitments and operating risks

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

(All amounts are in thousands of US Dollars if not otherwise indicated)

26. Contingencies, commitments and operating risks (continued)

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows.

Insurance

The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in developed markets are not yet generally available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

Capital and rent commitments

As at 30 June 2012 and 31 December 2011, the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	30 June 2012	31 December 2011
Within one year	265,748	298,016
In the second to fifth years inclusive	33,256	8,444
	299,004	**306,460**

The Group entered in a number of cancellable short-term and long-term rental agreements. The Group plans to prolong these agreements in the future. The expected annual lease payments under these agreements amount to approximately USD 292 million (2011: USD 239 million).

27. Financial risk management objectives and policies

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity ratios.

Fair values

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

(All amounts are in thousands of US Dollars if not otherwise indicated)

27. Financial risk management objectives and policies (continued)

Fair values (continued)

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	Carrying amount at		Fair value at	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Long-term borrowings and loans	923,361	946,283	903,570	925,349

The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair values of financial instruments of the Group other than disclosed above approximate to their carrying amounts as at 30 June 2012 and 31 December 2011.

Foreign currency risk management

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when purchase is denominated in a different currency from the Group's functional currency).

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership over goods to the Group.

	Change in USD rate	Effect on profit before tax	Change in EUR rate	Effect on profit before tax
For the six months ended 30 June 2012:	+12.5%	6,174	+11.77%	2,998
	-12.5%	(6,174)	-11.77%	(2,998)
For the six months ended 30 June 2011:	+8.9%	335	+11.05%	1,289
	-8.9%	(335)	-11.05%	(1,289)

27. Financial risk management objectives and policies (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises with respect to operating activities (primarily for trade and other receivables) and investing activities (cash, short term loans).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as presented in the statement of financial position.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built a liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

28. Subsequent events

There were no significant events after the reporting date other than disclosed elsewhere in the interim condensed consolidated financial statements.