OJSC "Magnit"

Consolidated financial statements

For the year ended 31 December 2012

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For the year ended 31 December 2012

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Independent auditors' report

To the Shareholders of Open Joint Stock Company "Magnit"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

20 March 2013

OJSC "Magnit"

Consolidated statement of financial position

as at 31 December 2012

(In thousands of US Dollars)

	Notes	31 December 2012	31 December 2011
Assets			
Non-current assets			
Property, plant and equipment	6	5,226,818	3,816,432
Investment property		10,821	–
Land lease rights	7	95,733	78,979
Intangible assets	8	17,223	8,845
Long-term financial assets		6,230	12,605
		5,356,825	3,916,861
Current assets			
Inventories	9	1,350,740	905,215
Trade and other receivables		19,228	16,546
Advances paid	10	88,145	55,922
Taxes receivable		953	1,220
Prepaid expenses		5,990	11,787
Short-term financial assets	11	28,863	5,354
Cash and cash equivalents	12	409,993	534,392
		1,903,912	1,530,436
Total assets		7,260,737	5,447,297
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	13	34	34
Share premium	13	1,484,255	1,479,322
Treasury shares	13	(18,852)	(5,574)
Foreign currency translation reserve		(156,537)	(317,167)
Retained earnings		1,958,364	1,284,032
Total equity attributable to equity holders of the parent		3,267,264	2,440,647
Non-controlling interest	6	–	3,614
Total equity		3,267,264	2,444,261
Non-current liabilities			
Long-term borrowings and loans	15	1,259,247	1,424,085
Long-term obligations under finance leases		–	395
Deferred tax liability	26	202,784	129,051
		1,462,031	1,553,531
Current liabilities			
Trade and other payables	16	1,413,130	1,042,558
Accrued expenses	17	165,328	122,569
Taxes payable	18	122,835	76,632
Dividends payable	14	18	17
Income tax payable		3,010	15,549
Short-term obligations under finance leases		404	5,816
Short-term borrowings and loans	19	826,717	186,364
		2,531,442	1,449,505
Total liabilities		3,993,473	3,003,036
Total equity and liabilities		7,260,737	5,447,297

The accompanying notes on pages 7-41 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated statement of comprehensive income

For the year ended 31 December 2012

(In thousands of US Dollars)

	Notes	2012	2011
Revenue	20	14,429,651	11,423,261
Cost of sales	21	(10,600,757)	(8,644,402)
Gross profit		**3,828,894**	**2,778,859**
Selling expenses	22	(155,518)	(133,712)
General and administrative expenses	23	(2,547,557)	(2,020,465)
Investment income		8,286	9,728
Finance costs	24	(130,429)	(116,369)
Gain on disposal of subsidiary	14	-	16,255
Other income	25	41,398	31,945
Other expenses		(9,572)	(6,440)
Foreign exchange gain		3,736	1,333
Profit before income tax		**1,039,238**	**561,134**
Income tax expense	26	(231,429)	(142,458)
Profit for the year		**807,809**	**418,676**
Other comprehensive income			
Gain/(loss) on translation to presentation currency		160,361	(129,966)
Other comprehensive gain/(loss) for the year, net of tax		**160,361**	**(129,966)**
Total comprehensive income for the year, net of tax		**968,170**	**288,710**
Profit for the year			
Attributable to:			
Equity holders of the Parent		807,809	418,676
Non-controlling interest		-	-
		807,809	**418,676**
Total comprehensive income for the year, net of tax			
Attributable to:			
Equity holders of the Parent		968,170	288,710
Non-controlling interest		-	-
		968,170	**288,710**
Earnings per share (in US Dollars per share) - basic and diluted, for profit for the year attributable to equity holders of the parent	27	8.54	4.69

The accompanying notes on pages 7-41 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated cash flow statement

For the year ended 31 December 2012

(In thousands of US Dollars)

	Notes	2012	2011
Cash flows from operating activities:			
Profit before income tax		1,039,238	561,134
Adjustments for:			
Depreciation	6	354,598	266,177
Amortization		7,853	5,366
Loss from disposal of property, plant and equipment		689	6,773
Gain from disposal of investment property		(3,220)	-
Bad debt provision/(Reversal of) bad debt provision	23	3,956	(642)
Foreign exchange gain		(3,736)	(1,333)
Finance costs	24	130,429	116,369
Gain on disposal of subsidiary		-	(16,255)
Investment income		(8,286)	(9,728)
Operating cash flows before working capital changes		**1,521,521**	**927,861**
(Increase)/decrease in trade and other receivables		(5,803)	16,452
(Increase)/decrease in advances paid		(32,223)	13,301
Decrease in taxes receivable		267	53,438
Decrease/(increase) in prepaid expenses		5,797	(4,696)
Increase in inventories		(445,525)	(245,429)
Increase in trade and other payables		373,985	259,829
Increase in accrued expenses		42,759	45,906
Increase in taxes payable		46,203	42,864
Cash generated from operations		**1,506,981**	**1,109,526**
Income tax paid		(179,513)	(50,393)
Interest paid		(140,789)	(118,225)
Interest received		7,590	7,888
Net cash from operating activities		**1,194,269**	**948,796**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(1,521,558)	(1,656,875)
Purchase of ownership in a single asset entity		-	(31,995)
Purchase of investment property		(12,719)	-
Purchase of intangible assets		(14,892)	(7,557)
Purchase of land lease rights		(16,282)	(43,778)
Purchase of non-controlling interest		(3,614)	-
Proceeds from disposal of subsidiary		4,744	4,254
Proceeds from sale of property, plant and equipment		27,784	9,954
Loans provided		(197,548)	(376,126)
Loans repaid		182,560	388,251
Net cash used in investing activities		**(1,551,525)**	**(1,713,872)**
Cash flows from financing activities:			
Proceeds from loans and borrowings		4,869,743	5,625,436
Repayment of loans and borrowings		(4,500,817)	(4,885,337)
Dividends paid		(130,753)	(35,406)
Repayment of obligations under finance leases		(6,036)	(20,556)
Proceeds from sale of treasury shares		21,635	4
Purchase of treasury shares		(29,711)	(2,041)
Proceeds from issuance of ordinary shares	13	-	470,161
Payment for share issue costs	13	-	(2,168)
Net cash from financing activities		**224,061**	**1,150,093**
Effect of foreign exchange rates on cash and cash equivalents		8,796	16,739
Net (decrease)/increase in cash and cash equivalents		**(124,399)**	**401,756**
Cash and cash equivalents at the beginning of the year	12	**534,392**	**132,636**
Cash and cash equivalents at the end of the year	12	**409,993**	**534,392**

The accompanying notes on pages 7-41 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated statement of changes in equity

For the year ended 31 December 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**	**Equity attributable to equity holders of the parent**	**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	-	-	-	-	418,676	418,676		418,676
Other comprehensive income	-	-	-	(129,966)	-	**(129,966)**	-	**(129,966)**
Total comprehensive income for the period	**-**	**-**	**-**	**(129,966)**	**418,676**	**288,710**	**-**	**288,710**
Dividends declared (Note 14)	-	-	-	-	(35,820)	(35,820)	-	(35,820)
Additional issue of shares, net of issuance cost	2	467,991	-	-	-	467,993	-	467,993
Share-buyback			(2,041)	-	-	(2,041)	-	(2,041)
Sale of treasury shares	-	4	2	-	-	6	-	6
Acquisition of single asset entity	-	-	-	-	-		3,614	3,614
Other movement	-	(859)	-	-	-	(859)	-	(859)
Balance at 31 December 2011	**34**	**1,479,322**	**(5,574)**	**(317,167)**	**1,284,032**	**2,440,647**	**3,614**	**2,444,261**
Profit for the period	-	-	-	-	807,809	**807,809**	-	**807,809**
Other comprehensive income	-	-	-	160,361	-	**160,361**	-	**160,361**
Total comprehensive income for the period	**-**	**-**	**-**	**160,361**	**807,809**	**968,170**	**-**	**968,170**
Dividends declared (Note 14)	-	-	-	-	(133,477)	**(133,477)**	-	**(133,477)**
Share-buyback	-	-	(29,711)	-	-	**(29,711)**	-	**(29,711)**
Sale of treasury shares	-	4,933	16,433	269	-	**21,635**	-	**21,635**
Purchase of non-controlling interest (Note 6)	-	-	-	-	-	-	(3,614)	**(3,614)**
Balance at 31 December 2012	**34**	**1,484,255**	**(18,852)**	**(156,537)**	**1,958,364**	**3,267,264**	**-**	**3,267,264**

The accompanying notes on pages 7-41 are an integral part of these consolidated financial statements.

1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for release by the Chief Executive Officer of OJSC "Magnit" on 20 March 2013.

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, hypermarkets and other.

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 2012	Ownership Interest 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 "Logistika Alternativa"	Import operations	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.

In July 2012, the Group established a new subsidiary LLC "Logistika Alternativa" for import operations.

1. Corporate information (continued)

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

	2012		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)	3,251,466	3.44%	3,741,200	3.96%
Gordeichuk V.E.	2,722,170	2.88%	2,734,262	2.89%
Shares controlled by the Group's Management	542,366	0.57%	505,976	0.54%
Treasury shares	125,726	0.13%	101,670	0.11%
Free float	51,356,627	54.31%	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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 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 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 consolidated financial statements of the Group.

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

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each 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;

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

Basis of accounting (continued)

- All items included in the consolidated statement of changes in equity, other than net profit for the period, are translated at historical exchange rates;
- In the 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 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.

3. Summary of significant accounting policies

Basis of consolidation

The 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.

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.

3. Summary of significant accounting policies (continued)

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.

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 and through bank cards. 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.

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Investment property (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Impairment of non-current assets (continued)

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 and 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 and loss.

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 and 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.

3. Summary of significant accounting policies (continued)

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.

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 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.

3. Summary of significant accounting policies (continued)

Income taxes (continued)

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.

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 and 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 and loss as incurred.

3. Summary of significant accounting policies (continued)

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, hypermarkets and others, 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.

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.

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

3. Summary of significant accounting policies (continued)

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 investments 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.

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded 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 investment 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.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 and 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 and 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.

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 to 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.

3. Summary of significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

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 years ended 31 December 2012 and 31 December 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.

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.

3. Summary of significant accounting policies (continued)

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets (Amendment)
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. It has no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (Amendment)
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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Standards 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 (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 affects presentation only and has there 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 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 Group management believes that the amendment will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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 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 (Revised)
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.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
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. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to 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 will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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 was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have no effect on the classification and measurement of the Group's financial assets and financial liabilities.

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*.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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. The application of this new standard will have no impact on the financial position or performance of the Group. 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.

Annual improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

3. Summary of significant accounting policies (continued)

Annual improvements May 2012 (continued)

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

The impact of adoption of these Standards and Interpretations (except for IFRS 1 amendment) in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management, but Group's management believes that these improvements will have no material impact on the Group's financial position or performance.

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.

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.

4. Significant accounting judgements and estimates (continued)

Useful economic 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.

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 successful renewals of these agreements (all agreements that management wanted to prolong were successfully prolonged) 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, obtains loans and acquires construction services. Related parties of the Group are represented by counterparties that are allied with the Group through key management and their relatives. 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%. Short-term loans to related parties maturing in November – December 2013 bear fixed interest rate of 9.98% (2011: 8%). Loans are unsecured as at 31 December 2012. 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.

5. Balances and transactions with related parties (continued)

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

	Other related parties	
	2012	2011
Long-term loans receivable	3,925	12,605
Short-term loans receivable	28,813	5,326
Advances paid	88	186
Other receivables	2,770	1,287
Trade payables	4,292	2,277
Other payables	28	8

The Group's transactions with related parties for the years ended at 31 December 2012 and 2011 consisted of the following:

	Shareholders		Other related parties	
	2012	2011	2012	2011
Wholesale	-	-	270	-
Rent income	-	-	40	225
Rent expense	-	-	113	8
Other income	-	-	3,866	4,955
Interest income	107	-	3,059	4,343
Interest expense	-	-	-	68
Purchases of property, plant and equipment	-	-	3,984	16,742
Purchases of inventory	-	-	295,355	345,675
Loans given	11,578	-	183,704	236,630
Loans given repayment	11,685	-	173,351	221,778
Loans obtained	-	-	-	3,940
Loans obtained repayment	-	-	-	14,249

Short-term employee benefits of Group management and members of the Board of Directors of the Group for 2012 were USD 13,763 thousand (2011: USD 9,306 thousand).

6. Property, plant and equipment

Property, plant and equipment as at 31 December 2012 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	46,034	-	324,758	142,977	1,020,459	1,534,228
Transfers	-	962,171	-	-	(962,171)	-
Disposals	(15,567)	(4,446)	(27,465)	(12,516)	(3,798)	(63,792)
Transfer from land lease right	2,745	-	-	-	-	2,745
Translation difference	11,510	154,895	60,393	37,830	36,032	300,660
At 31 December 2012	**223,323**	**3,314,397**	**1,246,233**	**746,893**	**669,176**	**6,200,022**
Accumulated depreciation and impairment						
At 1 January 2012	**-**	**(148,956)**	**(334,872)**	**(125,921)**	**-**	**(609,749)**
Charge for the year	-	(96,608)	(178,953)	(79,037)	-	(354,598)
Disposals	-	850	25,433	9,036	-	35,319
Translation difference	-	(11,214)	(23,745)	(9,217)	-	(44,176)
At 31 December 2012	**-**	**(255,928)**	**(512,137)**	**(205,139)**	**-**	**(973,204)**
Net book value						
At 1 January 2012	**178,601**	**2,052,821**	**553,675**	**452,681**	**578,654**	**3,816,432**
At 31 December 2012	**223,323**	**3,058,469**	**734,096**	**541,754**	**669,176**	**5,226,818**

Property, plant and equipment as at 31 December 2011 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	59,676	-	380,031	236,904	1,025,649	1,702,260
Transfers	-	844,761	-	-	(844,761)	-
Disposals	(1,647)	(3,550)	(17,601)	(12,041)	(4,037)	(38,876)
Transfer from land lease right	12,410	-	-	-	-	12,410
Translation difference	(12,593)	(154,274)	(63,079)	(40,677)	(38,966)	(309,589)
At 31 December 2011	**178,601**	**2,201,777**	**888,547**	**578,602**	**578,654**	**4,426,181**
Accumulated depreciation and impairment						
At 1 January 2011	**-**	**(91,637)**	**(238,959)**	**(78,244)**	**-**	**(408,840)**
Charge for the year	-	(68,302)	(134,169)	(63,706)	-	(266,177)
Disposals	-	144	15,109	6,896	-	22,149
Translation difference	-	10,839	23,147	9,133	-	43,119
At 31 December 2011	**-**	**(148,956)**	**(334,872)**	**(125,921)**	**-**	**(609,749)**
Net book value						
At 1 January 2011	**120,755**	**1,423,203**	**350,237**	**316,172**	**440,769**	**2,651,136**
At 31 December 2011	**178,601**	**2,052,821**	**553,675**	**452,681**	**578,654**	**3,816,432**

In 2012, the weighted average capitalisation rate on funds borrowed is 8.22% per annum (2011: 7.61%).

6. Property, plant and equipment (continued)

At 31 December 2012, the net carrying amount of vehicles under finance lease included in other assets is USD 6,228 thousand (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 for USD 3,614 thousand.

7. Land lease rights

Land lease rights as at 31 December 2012 consisted of the following:

	Land lease rights
Cost	
At 1 January 2012	**81,623**
Additions	16,282
Transfer to PPE	(2,745)
Translation difference	5,223
At 31 December 2012	**100,383**
Accumulated amortization and impairment	
At 1 January 2012	**(2,644)**
Charge for the year	(1,805)
Translation difference	(201)
At 31 December 2012	**(4,650)**
Net book value	
At 1 January 2012	**78,979**
At 31 December 2012	**95,733**

Land lease rights as at 31 December 2011 consisted of the following:

	Land lease rights
Cost	
At 1 January 2011	**55,981**
Additions	43,778
Transfer to PPE	(12,410)
Translation difference	(5,726)
At 31 December 2011	**81,623**
Accumulated amortization and impairment	
At 1 January 2011	**(1,281)**
Charge for the year	(1,568)
Translation difference	205
At 31 December 2011	**(2,644)**
Net book value	
At 1 January 2011	**54,700**
At 31 December 2011	**78,979**

In 2012, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 1,180 thousand (2011: USD 1,323 thousand).

8. Intangible assets

Intangible assets as at 31 December 2012 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	1,012	2,690	9,952	576	662	14,892
Disposals	(331)	(380)	(3,679)	(12)	(69)	(4,471)
Translation difference	106	168	768	27	25	1,094
At 31 December 2012	**2,281**	**4,356**	**17,355**	**711**	**902**	**25,605**
Accumulated amortization and impairment						
At 1 January 2012	**(451)**	**(625)**	**(3,980)**	**(84)**	**(105)**	**(5,245)**
Charge for the year	(621)	(543)	(5,660)	(126)	(278)	(7,228)
Disposals	331	380	3,679	12	69	4,471
Translation difference	(34)	(41)	(286)	(7)	(12)	(380)
At 31 December 2012	**(775)**	**(829)**	**(6,247)**	**(205)**	**(326)**	**(8,382)**
Net book value						
At 1 January 2012	**1,043**	**1,253**	**6,334**	**36**	**179**	**8,845**
At 31 December 2012	**1,506**	**3,527**	**11,108**	**506**	**576**	**17,223**

Intangible assets as at 31 December 2011 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	989	878	6,252	–	178	8,297
Disposals	(350)	(47)	(1,470)	(7)	(157)	(2,031)
Translation difference	(107)	(135)	(752)	(7)	(18)	(1,019)
At 31 December 2011	**1,494**	**1,878**	**10,314**	**120**	**284**	**14,090**
Accumulated amortization and impairment						
At 1 January 2011	**(320)**	**(485)**	**(1,515)**	**(80)**	**(160)**	**(2,560)**
Charge for the year	(512)	(229)	(4,259)	(15)	(106)	(5,121)
Disposals	350	47	1,470	6	157	2,030
Translation difference	31	42	324	5	4	406
At 31 December 2011	**(451)**	**(625)**	**(3,980)**	**(84)**	**(105)**	**(5,245)**
Net book value						
At 1 January 2011	**642**	**697**	**4,769**	**54**	**121**	**6,283**
At 31 December 2011	**1,043**	**1,253**	**6,334**	**36**	**179**	**8,845**

Amortization expense is included in general and administrative expenses (Note 23).

9. Inventories

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

	2012	2011
Goods for resale	1,286,757	856,925
Raw materials	63,983	48,290
	1,350,740	905,215

Raw materials are represented by spare parts, packaging materials and other materials used in outlets and warehouses.

10. Advances paid

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

	2012	2011
Advances to third party suppliers	62,582	33,918
Advances for customs duties	23,663	20,250
Advances to employees	1,812	1,568
Advances to related party suppliers (Note 5)	88	186
	88,145	55,922

11. Short-term financial assets

Short-term financial assets as at 31 December 2012 and 2011 consisted of the following:

	Weighted average interest rate	2012	Weighted average interest rate	2011
Short-term loans to related parties	9.98%	28,813	8.00%	5,326
Short-term loans to third parties	9.00%	50	9.00%	28
		28,863		5,354

In 2012 the Group issued a number of short-term loans to related party LLC "Novye Technologii" in amount of RUB 861,400 thousand (USD 28,361 thousand). Interest outstanding as at 31 December 2012 is RUB 8,454 thousand (USD 278 thousand). Amount of short-term loans to other related parties outstanding as at 31 December 2012 is RUB 5,279 thousand (USD 174 thousand). Loans are unsecured as at 31 December 2012.

12. Cash and cash equivalents

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

	2012	2011
Petty cash, in RUB	45,835	27,568
Cash in banks, in RUB	114,804	48,244
Cash in banks, in foreign currency	127	255
Cash in transit, in RUB	249,227	152,933
Cash on deposit in RUB	–	305,392
	409,993	534,392

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts and bank card payments being processed as at 31 December.

13. Share capital, share premium and treasury shares

	2012 No. ('000)	2011 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issued and fully paid (par value of RUB 0.01)	94,561	94,561
Treasury shares	(126)	(102)

	2012 No. ('000)	2011 No. ('000)
Balance of shares outstanding at beginning of financial year	**94,459**	**88,891**
Additional issue of shares	–	5,586
Sale of treasury shares	179	–
Share-buyback	(203)	(18)
Balance of shares outstanding at the end of financial year	**94,435**	**94,459**

In 2012 179,336 treasury shares were sold by the Group for a total cash consideration of RUB 670,145 thousand (USD 21,635 thousand at exchange rate at the date of transactions). The difference between cash received and the carrying value of shares was recorded as increase of share premium in amount of USD 4,933 thousand and increase of foreign currency translation reserve in amount of USD 269 thousand.

During 2012 the Group purchased 203,392 of own ordinary shares from the open market.

14. Dividends declared

During the year ended 31 December 2012 the Group declared dividends to shareholders relating to 2011, the first quarter 2012 and the first half 2012:

	2012
Dividends declared for 2011 (0.57 USD for 1 share)	54,365
Dividends declared for the first quarter of 2012 (0.16 USD for 1 share)	15,424
Dividends declared for the first half of 2012 (0.68 USD for 1 share)	63,688

14. Dividends declared (continued)

In 2011 the Group declared dividends to shareholders relating to 2010 and the first quarter 2011:

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

As at 31 December 2012 the amount of liability for unpaid dividends is USD 18 thousand (at 31 December 2011: USD 17 thousand).

15. Long-term borrowings and loans

Long-term borrowings and loans as at 31 December 2012 and 2011 consisted of the following:

	31 December 2012		31 December 2011	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Sberbank, Krasnodar branch	8.13%	411,290	7.96%	310,183
Sberbank, Moscow branch	8.30%	411,172	7.96%	310,108
Alfa-bank	8.64%	181,169	8.09%	170,866
Bonds issued in 2012	8.93%	168,169	-	-
Bonds issued in April 2011	7.77%	166,845	7.77%	157,194
Bonds issued in March 2011	8.02%	166,048	8.02%	156,441
Gazprombank	9.15%	164,868	8.00%	155,502
Bonds issued in 2010	-	-	8.30%	174,544
Other	11.07%	123	-	-
Less: current portion (Note 19)		(410,437)	-	(10,753)
		1,259,247		1,424,085

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 12,500,000 thousand (USD 411,554 thousand) maturing in June - November 2014. The amount outstanding as at 31 December 2012 is RUB 12,485,785 thousand (USD 411,086 thousand) plus interest accrued of RUB 6,216 thousand (USD 204 thousand). Part of credit lines in the amount of RUB 7,492,040 thousand (USD 246,670 thousand) plus interest accrued of RUB 6,216 thousand (USD 204 thousand) maturing in July - December 2013 was classified as current portion of long-term loans and borrowings as at 31 December 2012. The credit lines were unsecured as at 31 December 2012.

Sberbank, Moscow branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 12,500,000 thousand (USD 411,554 thousand) maturing in January 2014 – August 2015. The amount outstanding as at 31 December 2012 is RUB 12,482,785 thousand (USD 410,987 thousand) plus interest accrued of RUB 5,628 thousand (USD 185 thousand). Part of credit lines in the amount of RUB 997,022 thousand (USD 32,827 thousand) plus interest accrued of RUB 5,628 thousand (USD 185 thousand) maturing in December 2013 was classified as current portion of long-term loans and borrowings as at 31 December 2012. The credit lines were unsecured as at 31 December 2012.

15. Long-term borrowings and loans (continued)

Alfa-bank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 5,500,000 thousand (USD 181,084 thousand) maturing in January – July 2014. The amount outstanding as at 31 December 2012 is RUB 5,500,000 thousand (USD 181,084 thousand) plus interest accrued of RUB 2,596 thousand (USD 85 thousand). Part of credit lines in the amount of RUB 3,630,769 thousand (USD 119,541 thousand) plus interest accrued of RUB 2,596 thousand (USD 85 thousand) maturing in June - December 2013 was classified as current portion of long-term loans and borrowings as at 31 December 2012. The credit lines were unsecured as at 31 December 2012.

Bonds: In September 2012 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 12,922 thousand, maturing in September 2015. The total amount outstanding as at 31 December 2012 is RUB 5,000,000 thousand (USD 164,622 thousand) net of RUB 11,761 thousand (USD 387 thousand) of direct issue costs plus accrued interest of RUB 119,500 thousand (USD 3,934 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 31 December 2012 is RUB 5,000,000 thousand (USD 164,622 thousand) net of RUB 5,720 thousand (USD 188 thousand) of direct issue costs plus accrued interest of RUB 73,250 thousand (USD 2,411 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 31 December 2012 is RUB 4,916,972 thousand (USD 161,888 thousand) net of RUB 5,134 thousand (USD 169 thousand) of direct issue costs plus accrued interest of RUB 131,479 thousand (USD 4,329 thousand).

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

Gazprombank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 5,000,000 thousand (USD 164,622 thousand) maturing in July 2014. The amount outstanding as at 31 December 2012 is RUB 5,000,000 thousand (USD 164,622 thousand) plus interest accrued of RUB 7,500 thousand (USD 246 thousand). The credit lines were unsecured as at 31 December 2012.

As of 31 December 2012 and 2011, current portion of long-term loans and borrowings represents current portion of long-term credit lines from Sberbank, Krasnodar branch, Sberbank, Moscow branch and Alfa-bank and accrued interest on borrowings and loans.

16. Trade and other payables

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

	31 December 2012	31 December 2011
Trade payables to third parties	1,393,234	1,027,191
Other payables to third parties	15,576	13,082
Trade payables to related parties (Note 5)	4,292	2,277
Other payables to related parties (Note 5)	28	8
	1,413,130	**1,042,558**

16. Trade and other payables (continued)

The average credit period for purchases was 42 days in 2012 and 38 days in 2011. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

17. Accrued expenses

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

	31 December 2012	31 December 2011
Accrued salaries and wages	104,630	77,258
Other accrued expenses	60,698	45,311
	165,328	**122,569**

18. Taxes payables

Taxes payables as at 31 December 2012 and 2011 consisted of the following:

	31 December 2012	31 December 2011
Value added tax	49,651	24,183
Social insurance contributions	35,578	24,869
Property tax	20,037	14,704
Employee income tax withholding	16,156	11,943
Other taxes	1,413	933
	122,835	**76,632**

19. Short-term borrowings and loans

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

	Weighted average interest rate	2012	Weighted average interest rate	2011
Bonds issued in 2010	8.30%	185,439	-	-
Vneshtorgbank	7.92%	95,811	-	-
Rosbank	7.56%	87,290	5.95%	17,086
Absolut Bank	7.53%	32,924	-	-
Bank of Moscow	7.90%	14,816	-	-
Bonds issued in 2007	-	-	8.34%	158,521
Other short-term loans	-	-	5.50%	4
Current portion of long-term loans (Note 15)		410,437	-	10,753
		826,717		**186,364**

19. Short-term borrowings and loans (continued)

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 31 December 2012 is RUB 5,500,000 thousand (USD 181,084 thousand) net of RUB 6,974 thousand (USD 230 thousand) of direct issue costs plus accrued interest of RUB 139,260 thousand (USD 4,585 thousand).

Vneshtorgbank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 9,000,000 thousand (USD 296,319 thousand) effective till October 2013. The amount outstanding as at 31 December 2012 is RUB 2,900,000 thousand (USD 95,480 thousand) plus interest accrued of RUB 10,027 thousand (USD 331 thousand) maturing in January 2013. The credit lines were unsecured as at 31 December 2012.

Rosbank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 7,000,000 thousand (USD 230,470 thousand) effective till February 2016. The amount outstanding as at 31 December 2012 is RUB 2,650,000 thousand (USD 87,249 thousand) plus interest accrued of RUB 1,219 thousand (USD 41 thousand) maturing in January 2013. The credit lines were unsecured as at 31 December 2012.

Absolut Bank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 1,000,000 thousand (USD 32,924 thousand) effective till July 2013. The amount outstanding as at 31 December 2012 is RUB 1,000,000 thousand (USD 32,924 thousand) maturing in January 2013. The credit lines were unsecured as at 31 December 2012.

Bank of Moscow: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 3,000,000 thousand (USD 98,773 thousand) effective till September 2013. The amount outstanding as at 31 December 2012 is RUB 450,000 thousand (USD 14,816 thousand) maturing in January 2013. The credit lines were unsecured as at 31 December 2012.

20. Revenue

Revenue for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Retail	14,424,025	11,420,112
Wholesale	5,626	3,149
	14,429,651	11,423,261

21. Cost of sales

Cost of sales, classified by function, for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Retail	10,595,697	8,641,275
Wholesale	5,060	3,127
	10,600,757	8,644,402

21. Cost of sales (continued)

Cost of sales for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Cost of goods sold	9,927,047	8,094,370
Transportation expenses	449,473	385,170
Losses due to inventory shortages	224,237	164,862
	10,600,757	8,644,402

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

In 2012, payroll in amount of USD 132,261 thousand (2011: USD 136,333 thousand) was included in transportation expenses within cost of sales.

22. Selling expenses

Selling expenses for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Depreciation	75,797	61,143
Packaging and raw materials	56,486	44,824
Advertising	23,235	27,745
	155,518	133,712

23. General and administrative expenses

General and administrative expenses for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Payroll	1,145,839	910,154
Rent and utilities	525,832	399,570
Payroll related taxes	328,072	288,531
Depreciation	278,801	205,034
Taxes, other than income tax	69,442	51,849
Repair and maintenance	43,082	36,810
Bank services	31,855	27,191
Security	16,274	13,403
Provision for unused vacation	14,480	18,365
Bad debt provision/(Reversal of) bad debt provision	3,956	(642)
Other expenses	89,924	70,200
	2,547,557	2,020,465

"Other expenses" line includes amortization charge for the year ended 31 December 2012 in the amount of USD 7,853 thousand (2011: USD 5,366 thousand).

24. Finance costs

Finance costs for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Interest on loans	93,997	72,267
Interest on bonds	47,547	51,158
Interest on finance leases	375	1,967
Total interest expense for financial liabilities	**141,919**	**125,392**
Less: amounts included in the cost of qualifying assets	(11,490)	(9,023)
	130,429	116,369

25. Other income

Other income for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Sales of packing	22,426	22,398
Penalties	7,487	2,415
Advertising income	5,885	2,242
Gain from disposal of investment property	3,220	-
Other	2,380	4,890
	41,398	31,945

26. Income tax

The Group's income tax expense for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Consolidated statement of comprehensive income		
Current tax	166,974	69,936
Deferred tax	64,455	72,522
Income tax expense reported in the consolidated statement of comprehensive income	**231,429**	**142,458**

The movements for the years ended 2012 and 2011 in the Group's deferred tax position are as follows:

	2012	2011
Liability at the beginning of the year	129,051	66,403
Charge for the year	64,455	72,522
Translation difference	9,278	(9,874)
Deferred tax liability at the end of the year	**202,784**	**129,051**

26. Income tax (continued)

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2012 and 2011 is as follows:

		Consolidated statement of financial position		Consolidated statement of comprehensive income	
	As at 31 December 2012	As at 31 December 2011	As at 1 January 2011	2012	2011
Deferred tax assets					
Accrued expenses	(103)	(9,088)	(5,268)	9,310	(4,492)
Inventories	(6,502)	(3,013)	(927)	(3,231)	(2,340)
Other	(5,845)	(4,028)	(4,182)	(1,540)	(76)
Deferred tax liabilities					
Property, plant and equipment	209,036	143,060	75,332	56,058	78,609
Other	6,198	2,120	1,448	3,858	821
Net deferred tax liability	**202,784**	**129,051**	**66,403**	**64,455**	**72,522**

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 20% to the actual expense recorded in the Group's profit and loss:

	2012	2011
Profit before tax	**1,039,238**	**561,134**
Theoretical income tax expense at 20%	**(207,848)**	**(112,227)**
Adjustments due to:		
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(22,272)	(25,907)
Tax effect of other expenses that are not deductible in determining taxable profit	(1,309)	(4,324)
Income tax expense	**(231,429)**	**(142,458)**

27. Earnings per share

Earnings per share for the years ended 31 December 2012 and 2011 have been calculated on the basis of the net profit for the year and the weighted average number of common shares outstanding during the year.

The calculation of earnings per common share for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Profit for the year attributable to equity holders of the parent	807,809	418,676
Weighted average number of shares (in thousands of shares)	94,561	89,220
Basic and diluted earnings per share (in US Dollars)	**8.54**	**4.69**

The Group does not have any potentially dilutive equity instruments.

28. 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.

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

	2012	2011
Within one year	256,191	298,016
In the second to fifth years inclusive	62,100	8,444
	318,291	**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 411 million (2011: USD 239 million).

29. 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.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 15 and 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 13.

Gearing ratio

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio in 2012 of up to 52% determined as the proportion of net debt to equity.

The gearing ratio as at 31 December 2012 and 2011 was as follows:

	2012	2011
Debt	2,085,964	1,610,449
Cash and cash equivalents	(409,993)	(534,392)
Net debt	1,675,971	1,076,057
Equity	3,267,264	2,444,261
Net debt to equity ratio	51%	44%

Debt is defined as long-term and short-term borrowings. Equity includes all capital and reserves of the Group.

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.

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		Fair value	
	2012	2011	2012	2011
Long-term borrowings and loans	768,859	946,283	762,489	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 31 December 2012 and 2011.

29. Financial risk management objectives and policies (continued)

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
2012	+9.5%	5,983	+10.72%	4,245
	-9.5%	(5,983)	-10.72%	(4,245)
2011	+12.5%	5,288	+11.77%	3,529
	-12.5%	(5,288)	-11.77%	(3,529)

Interest rate risk management

The Group is not exposed to interest rate risk as entities in the Group borrow funds on fixed rates.

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).

Customer credit risk is managed by the Group by dealing with creditworthy counterparties, who have a good long term credit history. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the years presented.

29. Financial risk management objectives and policies (continued)

Credit risk management (continued)

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. The short term loans are secured with the Groups' shares. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

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.

Liquidity risk tables

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. The table includes both interest and principal cash flows.

	Weighted average effective interest rate, %	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	5> years	Total
2012							
Trade and other payables	-	1,226,333	186,797	-	-	-	1,413,130
Finance lease liability	20.55	224	182	4	-	-	410
Fixed interest rate instruments	8.27	240,434	37,623	680,992	1,347,512	-	2,306,561
		1,466,991	**224,602**	**680,996**	**1,347,512**	**-**	**3,720,101**
2011						-	
Trade and other payables	-	956,215	86,343	-	-	-	1,042,558
Finance lease liability	17.06	911	1,531	3,744	401	-	6,587
Fixed interest rate instruments	7.95	6,825	204,279	81,913	1,568,663	-	1,861,680
		963,951	**292,153**	**85,657**	**1,569,064**	**-**	**2,910,825**

The Group has access to financing facilities of RUB 59,435,000 thousand (USD 1,956,856 thousand) of which RUB 16,935,000 thousand (USD 557,573 thousand) remains unused at 31 December 2012. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

30. Subsequent events

There were no significant events after the reporting date.