OJSC “Magnit”

Consolidated financial statements

For the year ended 31 December 2010

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For the year ended 31 December 2010

Contents

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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 2010, 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

23 March 2011

OJSC "Magnit"

Consolidated statement of financial position as at 31 December 2010

(In thousands of US Dollars)

	Notes	31 December 2010	31 December 2009
Assets			
Non-current assets			
Property, plant and equipment	6	2,651,136	1,638,460
Land lease rights	7	54,700	24,812
Intangible assets	8	6,283	3,718
		2,712,119	**1,666,990**
Current assets			
Inventories	9	659,786	415,152
Trade and other receivables		20,587	11,407
Advances paid	10	69,223	48,354
Taxes receivable	11	54,658	4,440
Prepaid expenses		7,091	4,541
Income tax receivable		3,995	-
Short-term financial assets	12	28,889	6,579
Cash and cash equivalents	13	132,636	371,045
		976,865	**861,518**
Total assets		**3,688,984**	**2,528,508**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	14	32	32
Share premium	14	1,012,186	1,007,823
Treasury shares	14	(3,535)	(5,557)
Foreign currency translation reserve		(187,201)	(173,802)
Retained earnings		901,176	596,340
Total equity		**1,722,658**	**1,424,836**
Non-current liabilities			
Long-term borrowings and loans	16	803,652	124,672
Long-term obligations under finance leases	17	6,615	27,600
Deferred tax liability	26	66,403	27,254
		876,670	**179,526**
Current liabilities			
Trade payables	18	770,064	572,324
Other payables and accrued expenses	19	122,751	80,145
Income tax payable		-	5,088
Short-term obligations under finance leases	17	19,751	28,433
Short-term borrowings and loans	20	177,090	238,156
		1,089,656	**924,146**
Total liabilities		**1,966,326**	**1,103,672**
Total equity and liabilities		**3,688,984**	**2,528,508**

The accompanying notes on pages 7-40 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated statement of comprehensive income

For the year ended 31 December 2010

(In thousands of US Dollars)

	Notes	2010	2009
Revenue	21	7,777,404	5,354,488
Cost of sales	22	(6,036,878)	(4,097,215)
Gross profit		**1,740,526**	**1,257,273**
Selling expenses	23	(77,843)	(45,506)
General and administrative expenses	24	(1,199,640)	(817,859)
Investment income		2,460	1,835
Finance costs	25	(35,107)	(53,539)
Other income		21,463	11,666
Other expenses		(4,975)	(2,176)
Foreign exchange gain		1,670	3,006
Profit before income tax		**448,554**	**354,700**
Income tax expense	26	(114,858)	(79,546)
Profit for the year		**333,696**	**275,154**
Other comprehensive income			
Loss on translation to presentation currency		(13,399)	(28,173)
Other comprehensive income for the year, net of tax		**(13,399)**	**(28,173)**
Total comprehensive income for the year, net of tax		**320,297**	**246,981**
Profit for the year			
Attributable to:			
Equity holders of the Parent		333,696	275,154
Non-controlling interest		–	–
		333,696	**275,154**
Total comprehensive income for the year, net of tax			
Attributable to:			
Equity holders of the Parent		320,297	246,981
Non-controlling interest		–	–
		320,297	**246,981**
Earnings per share (in US Dollars per share)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	27	3.76	3.27

The accompanying notes on pages 7-40 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated cash flow statement

For the year ended 31 December 2010

(In thousands of US Dollars)

	Notes	2010	2009
Cash flows from operating activities:			
Profit before income tax		448,554	354,700
Adjustments for:			
Depreciation	6	147,835	101,443
Amortization		2,524	1,640
Loss (gain) from disposal of property, plant and equipment		3,658	768
Provision for doubtful receivables	24	504	1,405
Foreign exchange gain		(1,670)	(3,006)
Finance costs	25	35,107	53,539
Investment income		(2,460)	(1,835)
Operating cash flows before working capital changes		**634,052**	**508,654**
(Increase)/decrease in trade and other receivables		(9,660)	623
Increase in advances paid		(20,869)	(4,567)
Increase in taxes receivable		(50,218)	(18,983)
Increase in prepaid expenses		(2,550)	(2,374)
Increase in inventories		(244,634)	(91,816)
Increase in trade payables		197,740	87,467
Increase in other payables and accrued expenses		42,606	21,915
Cash generated from operations		**546,467**	**500,919**
Income tax paid		(82,198)	(71,388)
Interest paid		(35,586)	(53,369)
Net cash from operating activities		**428,683**	**376,162**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(1,179,065)	(414,253)
Purchase of intangible assets	8	(4,925)	(3,571)
Purchase of land lease rights	7	(35,237)	(8,115)
Purchase of non-controlling interests in "Magnit-Nizhniy Novgorod"		-	(32,219)
Proceeds from sale of property, plant and equipment		9,105	6,973
Loans provided		(60,645)	(25,943)
Loans repaid		40,795	29,041
Net cash used in investing activities		**(1,229,972)**	**(448,087)**
Cash flows from financing activities:			
Proceeds from loans and borrowings		3,569,804	1,710,315
Repayment of loans and borrowings		(2,951,411)	(1,691,899)
Dividends paid		(31,544)	(17,530)
Repayment of obligations under finance leases		(28,063)	(23,511)
Proceeds from sale of treasury shares	14	6,385	-
Proceeds from new issuance of ordinary shares	14	-	370,738
Payment for share issue costs	14	-	(8,941)
Net cash from financing activities		**565,171**	**339,172**
Effect of foreign exchange rates on cash and cash equivalents		(2,291)	(11,257)
Net increase (decrease) in cash and cash equivalents		**(238,409)**	**255,990**
Cash and cash equivalents at the beginning of the year	13	**371,045**	**115,055**
Cash and cash equivalents at the end of the year	13	**132,636**	**371,045**

The accompanying notes on pages 7-40 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated statement of changes in equity

For the year ended 31 December 2010

(In thousands of US Dollars)

	Attributable to equity holders of the Parent					
	Share capital	**Share premium**	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2009	**30**	**646,028**	**(5,557)**	**(145,629)**	**341,916**	**836,788**
Profit for the period	-	-	-	-	275,154	275,154
Other comprehensive income	-	-	-	(28,173)	-	(28,173)
Total comprehensive income for the period	**-**	**-**	**-**	**(28,173)**	**275,154**	**246,981**
Payment of additional contingent consideration for purchase of non-controlling interest in "Magnit Nizhniy Novgorod"	-	-	-	-	(794)	(794)
Dividends declared (Note 15)	-	-	-	-	(19,936)	(19,936)
Additional issue of shares, net of issuance costs (Note 14)	2	361,795	-	-	-	361,797
Balance at 31 December 2009	**32**	**1,007,823**	**(5,557)**	**(173,802)**	**596,340**	**1,424,836**
Profit for the period	-	-	-	-	333,696	333,696
Other comprehensive income	-	-	-	(13,399)	-	(13,399)
Total comprehensive income for the period	**-**	**-**	**-**	**(13,399)**	**333,696**	**320,297**
Dividends declared (Note 15)	-	-	-	-	(28,860)	(28,860)
Sale of treasury shares (Note 14)	-	4,363	2,022	-	-	6,385
Balance at 31 December 2010	**32**	**1,012,186**	**(3,535)**	**(187,201)**	**901,176**	**1,722,658**

The accompanying notes on pages 7-40 are an integral part of these consolidated financial statements.

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

1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2010 were authorised for release by the Chief Executive Officer of OJSC "Magnit" on 23 March 2011.

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 and through hypermarkets.

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

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

Company name	Principal activity	Ownership Interest 2010	Ownership Interest 2009
CJSC "Tander"	Food retail and wholesale	100%	100%
LLC "Magnit Finance"	Issuer of the Group's bonds	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 "Project M"	Food retail in Saint-Petersburg	100%	100%
LLC "Magnit Nizhniy Novgorod"	Holding company of LLC "Tandem"	100%	100%
LLC "Tandem"	Food retail in Nizhniy Novgorod	100%	100%
LLC "Alkotrading"	License holder for alcohol sales	100%	100%
LLC "UK Premier-Liga"	Managing company of the employee`s pension fund	100%	–

At 31 December 2010 and 2009, the shareholding structure of the Company was as follows:

	2010		2009	
Shareholder	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Galitskiy S.N.	36,563,000	41.09%	36,074,229	40.54%
Labini Investments Ltd. (Cyprus)	1,676,441	1.88%	3,233,025	3.63%
Lavreno Ltd. (Cyprus)	4,539,075	5.10%	4,786,000	5.38%
Gordeichuk V.E.	2,601,220	2.92%	2,599,100	2.92%
Other (Group management)	579,978	0.65%	903,774	1.02%
Free float	43,015,359	48.36%	41,378,945	46.51%
	88,975,073	**100%**	**88,975,073**	**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.

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;
- All resulting exchange differences are recognized in other comprehensive income;
- 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.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the presentation as at and for the year ended 31 December 2010.

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.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Business combinations

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

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

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

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

3. Summary of significant accounting policies (continued)

Business combinations (continued)

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

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

Revenue recognition

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

Property, plant and equipment

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

Historical cost information was not available in relation to buildings purchased prior to transition date to IFRS (1 January 2004). Therefore, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS and deemed those values as cost. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. Some of the property, plant and equipment are of a specialized nature and their fair values were considered to approximate their depreciated replacement cost. Depreciated replacement cost is estimated based on the property's current replacement cost adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence.

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

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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.

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

3. Summary of significant accounting policies (continued)

Impairment of non-current assets

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

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

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit 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 is calculated using the weighted average 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)

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 and hypermarkets, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Seasonality

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

Borrowing costs

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

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

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

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

Financial assets

General description

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

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 income statement.

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 less any impairment.

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.

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.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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.

Share premium

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

3. Summary of significant accounting policies (continued)

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

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 2010 and 31 December 2009. 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 on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial liabilities.

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 of 1 January 2010.

- IFRS 2 *Share-based Payment* (revised)
- IFRS 3 *Business Combinations* (revised)
- IAS 27 *Consolidated and Separate Financial Statements* (amendment)
- IAS 39 *Financial Instruments: Recognition and Measurement* (amendment)
- IFRIC 17 *Distributions of Non-cash Assets to Owners*

IFRS 2 *Share-based Payment (Revised)*
The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations (Revised)*
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reporting periods.

IAS 27 *Consolidated and Separate Financial Statements*
IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC 17 ***Distribution of Non-cash Assets to Owners***
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

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

Issued in May 2008 and April 2009

- IFRS 2 *Share-based Payment*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements*
- IAS 7 *Statement of Cash Flows*
- IAS 17 *Leases*
- IAS 34 *Interim Financial Reporting*
- IAS 36 *Impairment of Assets*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

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 24 ***Related Party Disclosures*** (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Amendment)
IFRS 1 (Amendment) introduces the limited exemption from comparative IFRS 7 disclosures for first-time adopters. The standard is effective for annual periods beginning on or after 1 July 2010. It will not have an impact on the financial position or performance of the Group.

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 as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011.

IFRIC 14 *Prepayments of a minimum funding requirement* (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to IFRSs (issued in May 2010)
The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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.

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 renewals of these agreements and pre-emptive rights for the prolongation of the lease agreements, the Group's management assumes a thirty year depreciation period for these leasehold improvements.

Taxation

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

5. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, 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 relatives. Transactions with related parties are made on terms not necessarily available to third parties.

Loans to related parties maturing in August 2011 bear fixed interest rate of 6% (2009: 6%) and are unsecured. No guarantees have been given or received.

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

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

5. Balances and transactions with related parties (continued)

Related party balances as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Short-term loans receivable	372	358
Advances paid	520	–
Other receivables	10,928	4,970
Short-term loans and borrowings	9,875	–
Trade payables	3,368	–
Other payables	216	39

The Group's transactions with related parties for the years ended at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Purchases of property, plant and equipment	14,693	15,102
Purchases of inventory	268,545	–
Rent expense	136	125
Other income	5,075	3,318
Rent income	264	100
Interest income	859	19
Interest expense	31	–
Loans given	32,325	-
Loans given repayment	33,167	–
Loans obtained	9,878	–

Short-term employee benefits of Group management and members of the Board of Directors of the Group for 2010 were USD 5,431 thousand (2009: USD 2,494 thousand).

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

6. Property, plant and equipment

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

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2010	83,037	954,756	383,591	196,429	287,467	1,905,280
Additions	38,495	-	212,350	200,721	733,354	1,184,920
Transfers	-	573,634	-	424	(574,058)	-
Disposals	(4,511)	(4,249)	(3,077)	(951)	(3,247)	(16,035)
Transfer from land lease right	4,504	-	-	-	-	4,504
Translation difference	(770)	(9,301)	(3,668)	(2,207)	(2,747)	(18,693)
At 31 December 2010	**120,755**	**1,514,840**	**589,196**	**394,416**	**440,769**	**3,059,976**
Accumulated depreciation and impairment						
At 1 January 2010	-	(53,310)	(165,028)	(48,482)	-	(266,820)
Charge for the year	-	(39,310)	(77,840)	(30,685)	-	(147,835)
Disposals	-	439	2,384	449	-	3,272
Translation difference	-	544	1,525	474	-	2,543
At 31 December 2010	**-**	**(91,637)**	**(238,959)**	**(78,244)**	**-**	**(408,840)**
Net book value						
At 1 January 2010	**83,037**	**901,446**	**218,563**	**147,947**	**287,467**	**1,638,460**
At 31 December 2010	**120,755**	**1,423,203**	**350,237**	**316,172**	**440,769**	**2,651,136**

Property, plant and equipment as at 31 December 2009 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2009	63,967	708,037	289,096	156,829	280,856	1,498,785
Additions	19,723	5	100,253	42,608	275,473	438,062
Transfers	-	258,453	-	-	(258,453)	-
Disposals	(230)	(3,962)	(2,291)	(584)	(3,072)	(10,139)
Transfer from land lease right	430	-	-	-	-	430
Translation difference	(853)	(7,777)	(3,467)	(2,424)	(7,337)	(21,858)
At 31 December 2009	**83,037**	**954,756**	**383,591**	**196,429**	**287,467**	**1,905,280**
Accumulated depreciation and impairment						
At 1 January 2009	-	(27,440)	(110,877)	(29,404)	-	(167,721)
Charge for the year	-	(26,291)	(55,919)	(19,233)	-	(101,443)
Disposals	-	880	1,275	243	-	2,398
Translation difference	-	(459)	493	(88)	-	(54)
At 31 December 2009	**-**	**(53,310)**	**(165,028)**	**(48,482)**	**-**	**(266,820)**
Net book value						
At 1 January 2009	**63,967**	**680,597**	**178,219**	**127,425**	**280,856**	**1,331,064**
At 31 December 2009	**83,037**	**901,446**	**218,563**	**147,947**	**287,467**	**1,638,460**

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

6. Property, plant and equipment (continued)

In 2010, the weighted average capitalisation rate on funds borrowed is 8.25% per annum (2009: 11.78%).

At 31 December 2010, the net carrying amount of vehicles under finance lease included in other assets is USD 64,404 thousand (2009: USD 84,105 thousand).

In 2010, there were no additions of property, plant and equipment under finance lease (2009: USD 22,899 thousand).

7. Land lease rights

Land lease rights as of 31 December 2010:	Land lease rights
Cost	
At 1 January 2010	25,552
Additions	35,237
Transfer to PPE	(4,504)
Translation difference	(304)
At 31 December 2010	**55,981**
Accumulated amortization and impairment	
At 1 January 2010	(740)
Charge for the year	(549)
Translation difference	8
At 31 December 2010	**(1,281)**
Net book value	
At 1 January 2010	**24,812**
At 31 December 2010	**54,700**

Land lease rights as of 31 December 2009:	Land lease rights
Cost	
At 1 January 2009	18,037
Additions	8,115
Transfer to PPE	(430)
Translation difference	(170)
At 31 December 2009	**25,552**
Accumulated amortization and impairment	
At 1 January 2009	-
Charge for the year	(705)
Translation difference	(35)
At 31 December 2009	**(740)**
Net book value	
At 1 January 2009	**18,037**
At 31 December 2009	**24,812**

In 2010, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 343 thousand (2009: USD 695 thousand).

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

8. Intangible assets

Intangible assets as at 31 December 2010 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2010	559	1,288	3,737	131	202	5,917
Additions	530	26	4,242	4	123	4,925
Disposals	(121)	(122)	(1,658)	–	(43)	(1,944)
Translation difference	(6)	(10)	(37)	(1)	(1)	(55)
At 31 December 2010	**962**	**1,182**	**6,284**	**134**	**281**	**8,843**
Accumulated amortization and impairment						
At 1 January 2010	(177)	(381)	(1,437)	(66)	(138)	(2,199)
Charge for the year	(262)	(230)	(1,747)	(14)	(65)	(2,318)
Disposals	116	122	1,658	–	43	1,939
Translation difference	3	4	11	–	–	18
At 31 December 2010	**(320)**	**(485)**	**(1,515)**	**(80)**	**(160)**	**(2,560)**
Net book value						
At 1 January 2010	**382**	**907**	**2,300**	**65**	**64**	**3,718**
At 31 December 2010	**642**	**697**	**4,769**	**54**	**121**	**6,283**

Intangible assets as at 31 December 2009 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2009	385	691	1,574	123	167	2,940
Additions	304	697	2,493	11	66	3,571
Disposals	(121)	(109)	(393)	–	(30)	(653)
Translation difference	(9)	9	63	(3)	(1)	59
At 31 December 2009	**559**	**1,288**	**3,737**	**131**	**202**	**5,917**
Accumulated amortization and impairment						
At 1 January 2009	(125)	(265)	(598)	(51)	(125)	(1,164)
Charge for the year	(173)	(226)	(1,179)	(16)	(46)	(1,640)
Disposals	121	109	362	–	30	622
Translation difference	–	1	(22)	1	3	(17)
At 31 December 2009	**(177)**	**(381)**	**(1,437)**	**(66)**	**(138)**	**(2,199)**
Net book value						
At 1 January 2009	**260**	**426**	**976**	**72**	**42**	**1,776**
At 31 December 2009	**382**	**907**	**2,300**	**65**	**64**	**3,718**

Amortization expense is included in general and administrative expenses (Note 24).

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

9. Inventories

Inventory as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Goods for resale	615,426	388,548
Raw materials	44,360	26,604
	659,786	415,152

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

10. Advances paid

Advances paid as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Advances for customs duties	36,282	17,309
Advances to third party suppliers	30,302	29,263
Advances to employees	2,119	1,782
Advances to related party suppliers	520	–
	69,223	48,354

11. Taxes receivable

Taxes receivable as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Value Added Tax	52,567	3,848
Other taxes receivable	2,091	592
	54,658	4,440

12. Short-term financial assets

Short-term financial assets as at 31 December 2010 and 2009 consisted of the following:

	Weighted average interest rate	2010	Weighted average interest rate	2009
Short-term loans to third parties	8.01%	25,897	14.51%	6,221
Bank deposits	8.40%	2,620	–	-
Short-term loans to related parties	6.00%	372	6.00%	358
		28,889		6,579

Short-term loans to third parties represent loan of RUB 782,117 thousand (USD 25,663 thousand) provided to KB Systema (a non-controlling shareholder of the Group). The loan is secured with 282,098 shares of OJSC "Magnit" as at 31 December 2010.

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

13. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Petty cash, in RUB	16,818	11,784
Cash in banks, in RUB	54,528	51,592
Cash in banks, in foreign currency	132	13
Cash on deposit in RUB	–	259,709
Cash on deposit in USD	–	5,200
Cash in transit, in RUB	61,158	42,747
	132,636	371,045

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

14. Share capital, share premium and treasury shares

	2010 No. ('000)	2009 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)	88,975	88,975
Treasury shares	(84)	(132)

	2010 No. ('000)	2009 No. ('000)
Balance of shares outstanding at beginning of financial year	88,843	83,114
Additional issue of shares	–	5,729
Sale of treasury shares	48	–
Balance of shares outstanding at the end of financial year	**88,891**	**88,843**

In December 2010, 47,936 treasury shares were sold by the Group to employees for total cash consideration of RUB 195,368 thousand (USD 6,385 thousand at exchange rate at the date of transaction). The difference of USD 4,363 thousand between cash received and the carrying value of shares was recorded as share premium.

In October 2009, the Group issued 5,729,413 of ordinary shares for a total cash consideration of RUB 10,816,253 thousand (USD 370,738 thousand at exchange rate at the date of the transaction) less expenses related to the issue of shares in the amount of USD 8,941 thousand. The difference of USD 361,795 thousand between cash received and the nominal value of shares was recorded as share premium.

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

15. Dividends declared

In 2010 the Group declared dividends to shareholders relating to 2009:

	2010
Dividends declared in 2010 (0.3 USD for 1 share)	28,860

As of 31 December 2010, there was no liability for unpaid dividends (2009: USD 2,199 thousand).

During the year ended 31 December 2009 the Group declared dividends to shareholders relating to 2008 and the first quarter 2009:

	2009
Dividends declared in 2009 (0.2 USD for 1 share)	19,936

16. Long-term borrowings and loans

	2010		2009	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Sberbank, Krasnodar branch	7.94%	245,619	–	–
Bonds issued in 2010	8.30%	184,005	–	–
Alfa-bank	8.09%	180,465	–	–
Bonds issued in 2007	8.34%	166,354	8.26%	127,403
Sberbank, Moscow branch	7.94%	32,648	–	–
KB Systema	7.50%	2,620	–	–
Less: current portion (Note 20)	8.32%	(8,059)	8.26%	(2,731)
		803,652		124,672

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 7,500,000 thousand (USD 246,088 thousand) maturing in July-December 2013. The amount outstanding as at 31 December 2010 is RUB 7,485,715 thousand (USD 245,619 thousand). The credit lines were unsecured as at 31 December 2010.

Bonds: In March 2007 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 23,025 thousand, maturing in March 2012. A number of the bonds issued in 2007 that were held with a subsidiary of the Group were fully resold to the open market in 2010 with the discount of RUB 51,285 thousand (USD 1,689 thousand). The total amount outstanding as at 31 December 2010 is RUB 5,000,000 thousand (USD 164,057 thousand) net of direct issue cost of RUB 5,721 thousand (USD 187 thousand), net of discount of RUB 34,443 thousand (USD 1,129 thousand) and plus accrued interest of RUB 110,100 thousand (USD 3,613 thousand).

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

16. Long-term borrowings and loans (continued)

In September 2010 the Group issued bonds of RUB 5,500,000 thousand net of direct issue costs of RUB 31,533 thousand, maturing in September 2013. The total amount outstanding as at 31 December 2010 is RUB 5,500,000 thousand (USD 180,465 thousand) net of RUB 27,609 thousand (USD 906 thousand) of direct issue costs plus accrued interest of RUB 135,520 thousand (USD 4,446 thousand). The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

Alfa-bank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 5,500,000 thousand (USD 180,465 thousand) maturing in June 2013-July 2014.

The amount outstanding as at 31 December 2010 is RUB 5,500,000 thousand (USD 180,465 thousand). The credit lines were unsecured as at 31 December 2010.

Sberbank, Moscow branch: The Group entered into a credit line agreement allowing borrowings of up to RUB 1,000,000 thousand (USD 32,812 thousand) maturing in December 2013.

The amount outstanding as at 31 December 2010 is RUB 995,019 thousand (USD 32,648 thousand). The credit line was unsecured as at 31 December 2010.

KB Systema: The Group entered into a number of credit agreements allowing borrowings of up to RUB 80,000 thousand (USD 2,625 thousand) maturing in December 2013. The amount outstanding as at 31 December 2010 is RUB 79,850 thousand (USD 2,620 thousand).

The credits were unsecured as at 31 December 2010.

As of 31 December 2010 and 2009, current portion of long-term loans and borrowing represents short-term balance of interest accrued.

17. Obligations under finance lease

Obligations under finance leases as at 31 December 2010 and 2009 consisted of the following:

	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2010	2009	2010	2009
Amounts payable under finance leases				
Within one year	21,613	34,379	19,751	28,433
Between one and two years	6,585	22,747	6,290	22,049
Over two years	416	7,509	325	5,551
	28,614	**64,635**	**26,366**	**56,033**
Less: future finance charges	(2,248)	(8,602)		
Present value of lease payments	**26,366**	**56,033**	**26,366**	**56,033**

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

17. Obligations under finance lease (continued)

The Group has entered into certain lease agreements with LLC "Raiffeisen-Leasing", LLC "BSGV Leasing", CJSC "SG Finance", LLC "De Lage Landen Leasing" and LLC "Cargobul Finance" for the rent of vehicles with an average lease term of 2.96 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent lease payments.

Lease obligations under the lease contracts are denominated in RUB, USD and Euro. However, all lease payments are made in RUB.

18. Trade payables

Trade payables as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Trade payables to third parties	766,696	572,324
Trade payables to related parties (Note 5)	3,368	–
	770,064	572,324

The average credit period for purchases was 41 days in 2010 and 47 days in 2009. 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.

19. Other payables and accrued expenses

Other payables and accrued expenses as at 31 December 2010 and 2009 consisted of the following:

	2010	2009
Accrued salaries and wages	51,709	31,583
Other accrued expenses	24,954	21,598
Unified social tax	14,360	8,170
Property tax	10,070	6,020
Employee income tax withholding	8,410	4,902
Other payables to third parties	12,104	7,512
Other payables to related parties (Note 5)	216	39
Other taxes	928	321
	122,751	80,145

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

20. Short-term borrowings and loans

Short-term loans as at 31 December 2010 and 2009 consisted of the following:

	Weighted average interest rate	2010	Weighted average interest rate	2009
BSGV	4.87%	98,435	13.27%	16,372
Vneshtorgbank	4.60%	36,111	–	–
Absolut Bank	4.33%	16,406	–	–
Lavreno Limited	4.00%	9,875	–	–
Bank Petrocommerce	4.50%	8,203	–	–
KB Systema	–	–	14.00%	4,133
Alfa Bank	–	–	6.07%	214,917
Other short-term loans	5.50%	1	12.60%	3
Current portion of long-term loans (Note 16)	8.32%	8,059	8.26%	2,731
		177,090		238,156

BSGV: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 3,000,000 thousand (USD 98,435 thousand) maturing in January-October 2011. The amount outstanding as at 31 December 2010 is RUB 3,000,000 thousand (USD 98,435 thousand). The credit lines were unsecured as at 31 December 2010.

Absolut bank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 500,000 thousand (USD 16,406 thousand) maturing in January 2011. The amount outstanding as at 31 December 2010 is RUB 500,000 thousand (USD 16,406 thousand). The credit lines were unsecured as at 31 December 2010.

Bank Petrocommerce: The Group entered into a credit line agreement allowing borrowings of up to RUB 250,000 thousand (USD 8,203 thousand) maturing in January 2011. The amount outstanding as at 31 December 2010 is RUB 250,000 thousand (USD 8,203 thousand). The credit line was unsecured as at 31 December 2010.

Vneshtorgbank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 1,100,000 thousand (USD 36,093 thousand) maturing in January 2011. The amount outstanding as at 31 December 2010 is RUB 1,100,000 thousand (USD 36,093 thousand) plus interest accrued of RUB 555 thousand (USD 18 thousand). The credit lines were unsecured as at 31 December 2010.

Lavreno Limited: The Group entered into a loan agreement allowing borrowings of up to RUB 300,000 thousand (USD 9,844 thousand) maturing in March 2011. The amount outstanding as at 31 December 2010 is RUB 300,000 thousand (USD 9,844 thousand) plus interest accrued of RUB 953 thousand (USD 31 thousand).

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

21. Revenue

Revenue for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Retail	7,775,572	5,346,404
Wholesale	1,832	8,084
	7,777,404	5,354,488

22. Cost of sales

Cost of sales, classified by function, for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Retail	6,035,117	4,089,455
Wholesale	1,761	7,760
	6,036,878	4,097,215

Cost of sales, for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Cost of goods sold	5,762,361	3,989,489
Transportation expenses	196,841	68,820
Losses due to inventory shortages	77,676	38,906
	6,036,878	4,097,215

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

In 2010, payroll in amount of USD 56,248 thousand (2009: USD 29,614 thousand) was included in transportation expenses within cost of sales.

23. Selling expenses

Selling expenses for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Depreciation	29,303	18,125
Packaging and raw materials	27,574	15,357
Advertising	16,018	8,397
Fuel	4,443	3,415
Transportation	505	212
	77,843	45,506

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

24. General and administrative expenses

General and administrative expenses for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Payroll	559,104	375,090
Rent and utilities	260,214	179,280
Payroll related taxes	136,122	89,982
Depreciation	118,532	83,318
Taxes, other than income tax	32,711	21,446
Repair and maintenance	21,654	16,661
Bank services	20,439	14,126
Security	9,363	6,414
Provision for unused vacation	6,088	6,689
Bad debt provision	504	1,405
Other expenses	34,909	23,448
	1,199,640	817,859

"Other expenses" line includes amortization charge for the year in the amount of USD 2,524 thousand (2009: USD 1,640 thousand).

25. Finance costs

Finance costs for the years ended 31 December 2010 and 2009 consisted of the following:

	2010	2009
Interest on loans	17,167	35,610
Interest on bonds	18,743	9,533
Interest on finance leases	5,052	11,664
Total interest expense for financial liabilities	**40,962**	**56,807**
Less: amounts included in the cost of qualifying assets	(5,855)	(3,268)
	35,107	**53,539**

26. Income tax

The Group's income tax expense for the years ended 31 December 2010 and 2009 is as follows:

	2010	2009
Consolidated statement of comprehensive income:		
Current tax	75,362	70,629
Deferred tax	39,496	8,917
Income tax expense reported in the consolidated statement of comprehensive income	**114,858**	**79,546**

The movements for 2010 and 2009 in the Group's deferred tax position are as follows:

	2010	2009
Liability at the beginning of the year	27,254	18,428
Charge for the year	39,496	8,917
Translation difference	(347)	(91)
Deferred tax liability at the end of the year	**66,403**	**27,254**

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 2010 and 2009 is as follows:

		Consolidated statement of financial position		Consolidated statement of comprehensive income	
	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009	2010	2009
Deferred tax assets					
Accrued expenses	(5,269)	(3,040)	–	(2,260)	(3,091)
Other	(5,109)	(3,933)	–	(1,210)	(3,980)
Deferred tax liabilities					
Property, plant and equipment	75,332	34,227	17,344	41,512	17,083
Other	1,449	–	1,084	1,454	(1,095)
Net deferred tax liability	**66,403**	**27,254**	**18,428**	**39,496**	**8,917**

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:

	2010	2009
Profit before tax	**448,554**	**354,700**
Theoretical income tax expense at 20%	(89,711)	(70,940)
Adjustments due to:		
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(16,808)	(5,232)
Tax effect of other expenses that are not deductible in determining taxable profit	(8,339)	(3,374)
Income tax expense	**(114,858)**	**(79,546)**

27. Earnings per share

Earnings per share for the years ended 31 December 2010 and 2009 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 2010 and 2009 is as follows:

	2010	2009
Profit for the year attributable to equity holders of the parent	333,695	275,154
Weighted average number of shares (in thousands of shares)	88,844	84,235
Basic and diluted earnings per share (in US Dollars)	**3.76**	**3.27**

The Group does not have any potentially dilutive equity instruments.

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

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. In 2010, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

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

Litigation

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 2010 and 2009, the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	2010	2009
Within one year	212,667	181,656
In the second to fifth years inclusive	3,228	2,757
	215,895	**184,413**

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

28. Contingencies, commitments and operating risks (continued)

The Group entered in a number of short-term and long-term rental agreements. The future minimum lease payments under non-cancellable operating leases as at 31 December 2010 and 2009 are as follows:

	2010	2009
Within one year	158,870	108,949
In the second to fifth years inclusive	276,643	145,328
After five years	56,761	30,483
	492,274	284,760

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 16 and 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 14.

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 2010 of up to 50% determined as the proportion of net debt to equity.

The gearing ratio as at 31 December 2010 and 2009 was as follows:

	2010	2009
Debt	980,742	362,828
Cash and cash equivalents	(132,636)	(371,045)
Net debt	848,106	(8,217)
Equity	1,722,658	1,424,836
Net debt to equity ratio	49%	-0.6%

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

Fair values

Fair values of financial instruments of the Group approximates to their carrying amounts as at 31 December 2010 and 2009.

29. Financial risk management objectives and policies (continued)

Foreign currency risk management

The Group is not exposed to material foreign currency risks because no subsidiaries of the Group are located outside the Russian Federation and transactions in foreign currencies are not significant.

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.

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.

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

29. Financial risk management objectives and policies (continued)

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
2010							
Trade and other payables	-	711,969	70,415	-	-	-	782,384
Finance lease liability	16.07	2,395	4,169	15,049	7,001	-	28,614
Fixed interest rate instruments	7.54	116,779	37,154	82,518	909,020	-	1,145,471
		831,143	**111,738**	**97,567**	**916,021**	**-**	**1,956,469**
2009							
Trade and other payables	-	418,666	161,209	-	-	-	579,875
Finance lease liability	15.74	2,962	5,878	25,539	30,256	-	64,635
Fixed interest rate instruments	7.24	231,930	5,221	9,403	140,685	-	387,239
		653,558	**172,308**	**34,942**	**170,941**	**-**	**1,031,749**

The Group has access to financing facilities of RUB 54,640,000 thousand (USD 1,792,833 thousand) of which RUB 24,910,150 thousand (USD 817,345 thousand) remains unused at 31 December 2010. 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.