OJSC "Magnit"

Consolidated financial statements

For the year ended 31 December 2011

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For the year ended 31 December 2011

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 2011, 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 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

20 March 2012

OJSC "Magnit"

Consolidated statement of financial position

as at 31 December 2011

(In thousands of US Dollars)

	Notes	31 December 2011	31 December 2010
Assets			
Non-current assets			
Property, plant and equipment	6	3,816,432	2,651,136
Land lease rights	7	78,979	54,700
Intangible assets	8	8,845	6,283
Long-term financial assets		12,605	-
		3,916,861	**2,712,119**
Current assets			
Inventories	9	905,215	659,786
Trade and other receivables		16,546	20,587
Advances paid	10	55,922	69,223
Taxes receivable		1,220	54,658
Prepaid expenses		11,787	7,091
Income tax receivable		-	3,995
Short-term financial assets		5,354	28,889
Cash and cash equivalents	11	534,392	132,636
		1,530,436	**976,865**
Total assets		**5,447,297**	**3,688,984**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	12	34	32
Share premium	12	1,479,322	1,012,186
Treasury shares	12	(5,574)	(3,535)
Foreign currency translation reserve		(317,167)	(187,201)
Retained earnings		1,284,032	901,176
Total equity attributable to equity holders of the parent		**2,440,647**	**1,722,658**
Non-controlling interest	6	3,614	-
Total equity		**2,444,261**	**1,722,658**
Non-current liabilities			
Long-term borrowings and loans	15	1,424,085	803,652
Long-term obligations under finance leases		395	6,615
Deferred tax liability	26	129,051	66,403
		1,553,531	**876,670**
Current liabilities			
Trade and other payables	16	1,042,558	782,384
Accrued expenses	17	122,569	76,663
Taxes payable	18	76,632	33,768
Dividends payable	13	17	-
Income tax payable		15,549	-
Short-term obligations under finance leases		5,816	19,751
Short-term borrowings and loans	19	186,364	177,090
		1,449,505	**1,089,656**
Total liabilities		**3,003,036**	**1,966,326**
Total equity and liabilities		**5,447,297**	**3,688,984**

The accompanying notes on pages 7-42 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated statement of comprehensive income

For the year ended 31 December 2011

(In thousands of US Dollars)

	Notes	2011	2010
Revenue	20	11,423,261	7,777,404
Cost of sales	21	(8,644,402)	(6,036,878)
Gross profit		**2,778,859**	**1,740,526**
Selling expenses	22	(133,712)	(73,400)
General and administrative expenses	23	(2,020,465)	(1,204,083)
Investment income		9,728	2,460
Finance costs	24	(116,369)	(35,107)
Gain on disposal of subsidiary	14	16,255	-
Other income	25	31,945	21,463
Other expenses		(6,440)	(4,975)
Foreign exchange gain		1,333	1,670
Profit before income tax		**561,134**	**448,554**
Income tax expense	26	(142,458)	(114,858)
Profit for the year		**418,676**	**333,696**
Other comprehensive income			
Loss on translation to presentation currency		(129,966)	(13,399)
Other comprehensive loss for the year, net of tax		**(129,966)**	**(13,399)**
Total comprehensive income for the year, net of tax		**288,710**	**320,297**
Profit for the year			
Attributable to:			
Equity holders of the Parent		418,676	333,696
Non-controlling interest		-	-
		418,676	**333,696**
Total comprehensive income for the year, net of tax			
Attributable to:			
Equity holders of the Parent		288,710	320,297
Non-controlling interest		-	-
		288,710	**320,297**
Earnings per share (in US Dollars per share)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	27	4.69	3.76

The accompanying notes on pages 7-42 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated cash flow statement

For the year ended 31 December 2011

(In thousands of US Dollars)

	Notes	2011	2010
Cash flows from operating activities:			
Profit before income tax		561,134	448,554
Adjustments for:			
Depreciation	6	266,177	147,835
Amortization		5,366	2,524
Loss from disposal of property, plant and equipment		6,773	3,658
Provision for doubtful receivables	23	(642)	504
Foreign exchange gain		(1,333)	(1,670)
Finance costs	24	116,369	35,107
Gain on disposal of subsidiary	14	(16,255)	-
Investment income		(9,728)	(2,460)
Operating cash flows before working capital changes		**927,861**	**634,052**
Decrease/(Increase) in trade and other receivables		16,452	(9,660)
Decrease/(Increase) in advances paid		13,301	(20,869)
Decrease/(Increase) in taxes receivable		53,438	(50,218)
Increase in prepaid expenses		(4,696)	(2,550)
Increase in inventories		(245,429)	(244,634)
Increase in trade and other payables		260,174	197,740
Increase in accrued expenses		45,906	42,606
Increase in taxes payable		42,864	-
Cash generated from operations		**1,109,871**	**546,467**
Income tax paid		(50,393)	(82,198)
Interest paid		(118,225)	(35,586)
Interest received		7,888	1,577
Net cash from operating activities		**949,141**	**430,260**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(1,656,875)	(1,179,065)
Purchase of ownership in a single asset entity		(31,995)	-
Purchase of intangible assets		(7,557)	(4,925)
Purchase of land lease rights		(43,778)	(35,237)
Proceeds from disposal of subsidiary		4,254	-
Proceeds from sale of property, plant and equipment		9,954	9,105
Loans provided		(376,126)	(60,645)
Loans repaid		388,251	39,218
Net cash used in investing activities		**(1,713,872)**	**(1,231,549)**
Cash flows from financing activities:			
Proceeds from loans and borrowings		5,625,436	3,569,804
Repayment of loans and borrowings		(4,885,337)	(2,951,411)
Dividends paid		(35,406)	(31,544)
Repayment of obligations under finance leases		(20,556)	(28,063)
Proceeds from sale of treasury shares		4	6,385
Purchase of treasury shares		(2,041)	-
Proceeds from issuance of ordinary shares	12	470,161	-
Payment for share issue costs	12	(2,168)	-
Net cash from financing activities		**1,150,093**	**565,171**
Effect of foreign exchange rates on cash and cash equivalents		16,394	(2,291)
Net increase (decrease) in cash and cash equivalents		**401,756**	**(238,409)**
Cash and cash equivalents at the beginning of the year	11	**132,636**	**371,045**
Cash and cash equivalents at the end of the year	11	**534,392**	**132,636**

The accompanying notes on pages 7-42 are an integral part of these consolidated financial statements.

OJSC "Magnit"

Consolidated statement of changes in equity

For the year ended 31 December 2011

(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 2010	**32**	**1,007,823**	**(5,557)**	**(173,802)**	**596,340**	**1,424,836**	**-**	**1,424,836**
Profit for the period	-	-	-	-	333,696	333,696	-	333,696
Other comprehensive income	-	-	-	(13,399)	-	(13,399)	-	(13,399)
Total comprehensive income for the period	**-**	**-**	**-**	**(13,399)**	**333,696**	**320,297**	**-**	**320,297**
Dividends declared	-	-	-	-	(28,860)	(28,860)	-	(28,860)
Sale of treasury shares	-	4,363	2,022	-	-	6,385	-	6,385
Balance at 31 December 2010	**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 13)	-	-	-	-	(35,820)	(35,820)	-	(35,820)
Additional issue of shares, net of issuance cost (Note 12)	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 (Note 6)	-	-	-	-	-		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**

The accompanying notes on pages 7-42 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 2011 were authorised for release by the Chief Executive Officer of OJSC "Magnit" on 20 March 2012.

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

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

OJSC "Magnit" and its subsidiaries (the "Group") operate in the retail and distribution of consumer goods under the "Magnit" name. The Group's retail operations are operated through convenience stores 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 2011	Ownership Interest 2010
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 "TK Zelenaya Liniya"	Greenhouse complex	100%	100%
LLC "Magnit Nizhniy Novgorod"	Holding company of LLC "Tandem"	–	100%
LLC "Tandem"	Food retail in Nizhniy Novgorod	100%	100%
LLC "Alkotrading"	License holder for alcohol sales	100%	100%
LLC "UK Premier-Liga"	Managing company of the employee`s pension fund	100%	100%

In January 2011, LLC "Project M" changed its name to LLC "TK Zelenaya Liniya". It also changed the principal activity from retail in Saint-Petersburg to greenhouse culture.

The 100% ownership in LLC "Magnit Nizhniy Novgorod" was sold to a third party.

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

1. Corporate information (continued)

At 31 December 2011 and 2010, the shareholding structure of the Company was as follows:

	2011		2010	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Galitskiy S.N.	36,563,000	38.67%	36,563,000	41.09%
Lavreno Ltd. (Cyprus)	3,741,200	3.96%	4,539,075	5.10%
Gordeichuk V.E.	2,734,262	2.89%	2,601,220	2.92%
Shares controlled by the Group's Management	505,976	0.54%	579,978	0.65%
Treasury shares	101,670	0.11%	83,825	0.09%
Free float	50,915,247	53.83%	44,607,975	50.15%
	94,561,355	**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 (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.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the presentation as at and for the year ended 31 December 2011.

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.

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. 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.

Land lease rights

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

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

3. Summary of significant accounting policies (continued)

Intangible assets

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

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

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

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

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

Impairment of non-current assets

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

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

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

3. Summary of significant accounting policies (continued)

Finance leases

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

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit 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.

Provisions

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

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

Vendor allowances

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

3. Summary of significant accounting policies (continued)

Income taxes

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Income taxes (continued)

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

Current and deferred taxes are recognised as an expense or income in the consolidated profit 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.

Bonus plan

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

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

Segment reporting

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

3. Summary of significant accounting policies (continued)

Seasonality

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

Borrowing costs

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

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

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

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

Financial assets

General description

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

All financial assets are recognised initially at fair value plus, in the case of 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.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

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

Financial liabilities and equity instruments issued by the Group

Treasury shares

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognised as a deduction 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.

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 2011 and 31 December 2010. The Group does not have any potentially dilutive equity instruments.

Classification as debt or equity

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

Equity instruments

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

3. Summary of significant accounting policies (continued)

Financial liabilities

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

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 2011.

IAS 24 Related Party Disclosures (Amendment)
The revised standard clarifies the definition of a related party. It also provides some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself). The amendment has had no effect on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
This amendment provides relief to entities that issue rights fixed in a currency other than their functional currency from treating the rights as derivatives. Such rights will now be classified as equity instruments when certain conditions are met.The amendment has had no effect on the financial position or performance of the Group.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment to IFRIC 14 provides further 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. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39 *Financial Instruments Recognition and Measurement*. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case, they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The interpretation has had no effect on the financial position or performance of the Group.

Improvements to IFRSs

In May 2010, 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 has had no impact on the accounting policies, financial position or performance of the Group:

Issued in May 2010

- IFRS 3 *Business Combinations*
  Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).
- IFRS 3 *Business Combinations*
  The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 3 *Business Combinations*
  Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.
- IFRS 7 *Financial Instruments: Disclosures*
  The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

- IAS 1 *Presentation of Financial Statements*

  The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

- IAS 27 *Consolidated and Separate Financial Statements*

  Applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.

- IAS 34 *Interim Financial Statements*

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

- IFRIC 13 *Customer Loyalty Programmes*

  The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account.

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 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 will not have an impact on the financial position or performance of the Group.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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.

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.

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 continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have 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.

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.

4. Significant accounting judgements and estimates (continued)

Impairment of assets

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

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

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

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

Useful 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 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.

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

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.

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 January-March 2012 bear fixed interest rate of 8% (2010: 6%). Loans are unsecured as at 31 December 2011. 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.

Related party balances as at 31 December 2011 and 2010 consisted of the following:

	2011	2010
Long-term loans receivable	12,605	–
Short-term loans receivable	5,326	372
Advances paid	186	520
Other receivables	1,287	10,928
Short-term loans and borrowings	–	9,875
Trade payables	2,277	3,368
Other payables	8	216

The Group's transactions with related parties for the years ended at 31 December 2011 and 2010 consisted of the following:

	2011	2010
Purchases of property, plant and equipment	16,742	14,693
Purchases of inventory	345,675	268,545
Rent expense	8	136
Other income	4,955	5,075
Rent income	225	264
Interest income	4,343	859
Interest expense	68	31
Loans given	236,630	32,325
Loans given repayment	221,778	33,167
Loans obtained	3,940	9,878
Loans obtained repayment	14,249	–

Short-term employee benefits of Group management and members of the Board of Directors of the Group for 2011 were USD 9,306 thousand (2010: USD 5,431 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 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**

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**

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

6. Property, plant and equipment (continued)

In 2011, the weighted average capitalisation rate on funds borrowed is 7.61% per annum (2010: 8.25%).

At 31 December 2011, the net carrying amount of vehicles under finance lease included in other assets is USD 28,803 thousand (2010: USD 64,404 thousand).

In 2011, the Group acquired stores and land in the amount of USD 32,307 thousand through a purchase of 82.6% of the ownership in a single asset entity in Tambov region. The remaining non-controlling interest in the entity in amount of USD 3,614 thousand is planned to be purchased in 2012.

7. Land lease rights

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**

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

7. Land lease rights (continued)

Land lease rights as at 31 December 2010 consisted of the following:

	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**

In 2011, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 1,323 thousand (2010: USD 343 thousand).

8. Intangible assets

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**

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

8. Intangible assets (continued)

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**

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

9. Inventories

Inventory as at 31 December 2011 and 2010 consisted of the following:

	2011	2010
Goods for resale	856,925	615,426
Raw materials	48,290	44,360
	905,215	**659,786**

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 2011 and 2010 consisted of the following:

	2011	2010
Advances to third party suppliers	33,918	30,302
Advances for customs duties	20,250	36,282
Advances to employees	1,568	2,119
Advances to related party suppliers	186	520
	55,922	**69,223**

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

11. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2011 and 2010 consisted of the following:

	2011	2010
Petty cash, in RUB	27,568	16,818
Cash in banks, in RUB	48,244	54,528
Cash in banks, in foreign currency	255	132
Cash on deposit in RUB	305,392	–
Cash in transit, in RUB	152,933	61,158
	534,392	132,636

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

Deposits in RUB were placed with the following banks:

Vneshtorgbank: Deposits were placed with an annual interest rate of 8.75% in the amount of RUB 7,000,000 thousand (USD 217,418 thousand) plus interest receivable in the amount of RUB 29,534 thousand (USD 917 thousand) maturing in March 2012.

Sberbank, Krasnodar branch: Deposits were placed with an annual interest rate of 6.8% in the amount of RUB 1,800,000 thousand (USD 55,907 thousand) plus interest receivable in the amount of RUB 428 thousand (USD 13 thousand) maturing in January 2012.

Rosbank: The deposit was placed with an annual interest rate of 9% in the amount of RUB 1,000,000 thousand (USD 31,060 thousand) plus interest receivable in the amount of RUB 2,466 thousand (USD 77 thousand) maturing in March 2012.

12. Share capital, share premium and treasury shares

	2011 No. ('000)	2010 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	88,975
Treasury shares	(102)	(84)

	2011 No. ('000)	2010 No. ('000)
Balance of shares outstanding at beginning of financial year	**88,891**	**88,843**
Additional issue of shares	5,586	–
Sale of treasury shares	–	48
Share-buyback	(18)	–
Balance of shares outstanding at the end of financial year	**94,459**	**88,891**

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

12. Share capital, share premium and treasury shares (continued)

In December 2011, the Group issued 5,586,282 of ordinary shares for a total cash consideration of RUB 14,934,897 thousand (USD 470,161 thousand at exchange rate at the date of the transaction) less expenses related to the issue of shares in the amount of USD 2,168 thousand. The difference of USD 467,991 thousand between cash received and the nominal value of shares was recorded as share premium.

During 2011 the Group purchased 18 thousand of own ordinary shares from the open market.

13. Dividends declared

During the year ended 31 December 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 2011 (0.17 USD for 1 share)	14,883

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 at 31 December 2011 the amount of liability for unpaid dividends is USD 17 thousand (at 31 December 2010: 0).

14. Disposal of Magnit Nizhniy Novgorod

In 2011 the Group has disposed 100% of the ownership over its subsidiary LLC Magnit Nizhniy Novgorod to third party for RUB 500,000 thousand (USD 17,468 thousand). The outstanding amount receivable as at 31 December 2011 is RUB 375,000 thousand (USD 11,647 thousand).

The difference between the consideration received and net assets of the subsidiary was recognised as a gain in the statement of comprehensive income in the amount of USD 16,255 thousand.

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

15. Long-term borrowings and loans

Long-term borrowings and loans as at 31 December 2011 and 2010 consisted of the following:

	31 December 2011		31 December 2010	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Sberbank, Krasnodar branch	7.96%	310,183	7.94%	245,619
Sberbank, Moscow branch	7.96%	310,108	7.94%	32,648
Bonds issued in 2010	8.30%	174,544	8.30%	184,005
Alfa-bank	8.09%	170,866	8.09%	180,465
Bonds issued in April 2011	7.77%	157,194	-	-
Bonds issued in March 2011	8.02%	156,441	-	-
Gazprombank	8.00%	155,502		
Bonds issued in 2007	-	-	8.34%	166,354
KB Systema	-	-	7.50%	2,620
Less: current portion (Note 19)	-	(10,753)	8.32%	(8,059)
		1,424,085		803,652

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 10,000,000 thousand (USD 310,597 thousand) maturing in July 2013 - November 2014. The amount outstanding as at 31 December 2011 is RUB 9,984,526 thousand (USD 310,116 thousand) plus interest accrued of RUB 2,164 thousand (USD 67 thousand). The credit lines were unsecured as at 31 December 2011.

Sberbank, Moscow branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 10,000,000 thousand (USD 310,597 thousand) maturing in December 2013-September 2014. The amount outstanding as at 31 December 2011 is RUB 9,982,109 thousand (USD 310,041 thousand) plus interest accrued of RUB 2,164 thousand (USD 67 thousand). The credit lines were unsecured as at 31 December 2011.

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 2011 is RUB 5,500,000 thousand (USD 170,828 thousand) net of RUB 17,104 thousand (USD 531 thousand) of direct issue costs plus accrued interest of RUB 136,730 thousand (USD 4,247 thousand). The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

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 2011 is RUB 5,000,000 thousand (USD 155,298 thousand) net of RUB 10,118 thousand (USD 314 thousand) of direct issue costs plus accrued interest of RUB 71,150 thousand (USD 2,210 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 2011 is RUB 4,920,150 thousand (USD 152,818 thousand) net of RUB 9,576 thousand (USD 297 thousand) of direct issue costs plus accrued interest of RUB 126,215 thousand (USD 3,920 thousand).

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

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 170,828 thousand) maturing in June 2013-July 2014. The amount outstanding as at 31 December 2011 is RUB 5,500,000 thousand (USD 170,828 thousand) plus interest accrued of RUB 1,219 thousand (USD 38 thousand). The credit lines were unsecured as at 31 December 2011.

Gazprombank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 5,000,000 thousand (USD 155,298 thousand) maturing in July 2014. The amount outstanding as at 31 December 2011 is RUB 5,000,000 thousand (USD 155,298 thousand) plus interest accrued of RUB 6,575 thousand (USD 204 thousand). The credit lines were unsecured as at 31 December 2011.

As at 31 December 2011 and 2010 current portion of long-term loans and borrowing represents short-term balance of interest accrued.

16. Trade and other payables

Trade and other payables as at 31 December 2011 and 2010 consisted of the following:

	31 December 2011	31 December 2010
Trade payables to third parties	1,027,191	766,696
Other payables to third parties	13,082	12,104
Trade payables to related parties (Note 5)	2,277	3,368
Other payables to related parties (Note 5)	8	216
	1,042,558	**782,384**

The average credit period for purchases was 38 days in 2011 and 41 days in 2010. 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 2011 and 2010 consisted of the following:

	31 December 2011	31 December 2010
Accrued salaries and wages	77,258	51,709
Other accrued expenses	45,311	24,954
	122,569	**76,663**

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

18. Taxes payables

Taxes payables as at 31 December 2011 and 2010 consisted of the following:

	31 December 2011	31 December 2010
Social insurance contributions	24,869	14,360
Value added tax	24,183	-
Property tax	14,704	10,070
Employee income tax withholding	11,943	8,410
Other taxes	933	928
	76,632	33,768

Liability for value added tax (VAT) represents VAT on advances issued that will be offset upon receipt of goods or services.

19. Short-term borrowings and loans

Short-term loans as at 31 December 2011 and 2010 consisted of the following:

	Weighted average interest rate	2011	Weighted average interest rate	2010
Bonds issued in 2007	8.34%	158,521	-	-
Rosbank	5.95%	17,086	4.87%	98,435
Vneshtorgbank	-	-	4.60%	36,111
Absolut Bank	-	-	4.33%	16,406
Lavreno Limited	-	-	4.00%	9,875
Bank Petrocommerce	-	-	4.50%	8,203
Other short-term loans	5.50%	4	5.50%	1
Current portion of long-term loans (Note 15)	-	10,753	8.32%	8,059
		186,364		177,090

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. The total amount outstanding as at 31 December 2011 is RUB 5,000,000 thousand (USD 155,298 thousand) net of direct issue cost of RUB 1,060 thousand (USD 33 thousand), net of discount of RUB 6,381 thousand (USD 198 thousand) and plus accrued interest of RUB 111,200 thousand (USD 3,454 thousand).

Rosbank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 550,000 thousand (USD 17,083 thousand) maturing in March 2012. The amount outstanding as at 31 December 2011 is RUB 550,000 thousand (USD 17,083 thousand) plus interest accrued of RUB 92 thousand (USD 3 thousand). The credit lines were unsecured as at 31 December 2011.

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

20. Revenue

Revenue for the years ended 31 December 2011 and 2010 consisted of the following:

	2011	2010
Retail	11,420,112	7,775,572
Wholesale	3,149	1,832
	11,423,261	7,777,404

21. Cost of sales

Cost of sales, classified by function, for the years ended 31 December 2011 and 2010 consisted of the following:

	2011	2010
Retail	8,641,275	6,035,117
Wholesale	3,127	1,761
	8,644,402	6,036,878

Cost of sales, for the years ended 31 December 2011 and 2010 consisted of the following:

	2011	2010
Cost of goods sold	8,094,370	5,762,361
Transportation expenses	385,170	196,841
Losses due to inventory shortages	164,862	77,676
	8,644,402	6,036,878

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

In 2011, payroll in amount of USD 136,333 thousand (2010: USD 56,248 thousand) was included in transportation expenses within cost of sales.

22. Selling expenses

Selling expenses for the years ended 31 December 2011 and 2010 consisted of the following:

	2011	2010
Depreciation	61,143	29,303
Packaging and raw materials	44,824	27,574
Advertising	27,745	16,018
Transportation	-	505
	133,712	73,400

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

23. General and administrative expenses

General and administrative expenses for the years ended 31 December 2011 and 2010 consisted of the following:

	2011	2010
Payroll	910,154	559,104
Rent and utilities	399,570	260,214
Payroll related taxes	288,531	136,122
Depreciation	205,034	118,532
Taxes, other than income tax	51,849	32,711
Repair and maintenance	36,810	21,654
Bank services	27,191	20,439
Provision for unused vacation	18,365	6,088
Security	13,403	9,363
(Reversal of)/Bad debt provision	(642)	504
Other expenses	70,200	39,352
	2,020,465	1,204,083

"Other expenses" line includes amortization charge for the year ended 31 December 2011 in the amount of USD 5,366 thousand (2010: USD 2,524 thousand).

24. Finance costs

Finance costs for the years ended 31 December 2011 and 2010 consisted of the following:

	2011	2010
Interest on loans	72,267	17,167
Interest on bonds	51,158	18,743
Interest on finance leases	1,967	5,052
Total interest expense for financial liabilities	**125,392**	**40,962**
Less: amounts included in the cost of qualifying assets	(9,023)	(5,855)
	116,369	35,107

25. Other income

Other income for the years ended 31 December 2011 and 2010 consisted of the following:

	2011	2010
Sales of packing	22,398	10,950
Penalties	2,415	2,952
Advertising income	2,242	1,344
Other	4,890	6,217
	31,945	21,463

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

26. Income tax

The Group's income tax expense for the years ended 31 December 2011 and 2010 is as follows:

	2011	2010
Consolidated statement of comprehensive income:		
Current tax	69,936	75,362
Deferred tax	72,522	39,496
Income tax expense reported in the consolidated statement of comprehensive income	**142,458**	**114,858**

The movements for the years ended 2011 and 2010 in the Group's deferred tax position are as follows:

	2011	2010
Liability at the beginning of the year	66,403	27,254
Charge for the year	72,522	39,496
Translation difference	(9,874)	(347)
Deferred tax liability at the end of the year	**129,051**	**66,403**

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2011 and 2010 is as follows:

		Consolidated statement of financial position		Consolidated statement of comprehensive income	
	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010	2011	2010
Deferred tax assets					
Accrued expenses	(9,088)	(5,268)	(3,040)	(4,492)	(2,260)
Inventories	(3,013)	(927)	–	(2,340)	(927)
Other	(4,028)	(4,182)	(3,933)	(76)	(283)
Deferred tax liabilities					
Property, plant and equipment	143,060	75,332	34,227	78,609	41,512
Other	2,120	1,448	–	821	1,454
Net deferred tax liability	**129,051**	**66,403**	**27,254**	**72,522**	**39,496**

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:

	2011	2010
Profit before tax	**561,134**	**448,554**
Theoretical income tax expense at 20%	(112,227)	(89,711)
Adjustments due to:		
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(25,907)	(16,808)
Tax effect of other expenses that are not deductible in determining taxable profit	(4,324)	(8,339)
Income tax expense	**(142,458)**	**(114,858)**

27. Earnings per share

Earnings per share for the years ended 31 December 2011 and 2010 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 2011 and 2010 is as follows:

	2011	2010
Profit for the year attributable to equity holders of the parent	418,676	333,695
Weighted average number of shares (in thousands of shares)	89,220	88,844
Basic and diluted earnings per share (in US Dollars)	**4.69**	**3.76**

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. 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.

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

28. Contingencies, commitments and operating risks (continued)

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 2011 and 2010, the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	2011	2010
Within one year	298,016	212,667
In the second to fifth years inclusive	8,444	3,228
	306,460	215,895

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 239 million (2010: USD 159 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 12.

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 2011 of up to 45% determined as the proportion of net debt to equity.

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

29. Financial risk management objectives and policies (continued)

Gearing ratio (continued)

The gearing ratio as at 31 December 2011 and 2010 was as follows:

	2011	2010
Debt	1,610,449	980,742
Cash and cash equivalents	(534,392)	(132,636)
Net debt	1,076,057	848,106
Equity	2,444,261	1,722,658
Net debt to equity ratio	44%	49%

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	
	2011	2010	2011	2010
Long-term borrowings and loans	946,283	645,357	925,349	645,357

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 2011 and 2010.

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.

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

29. Financial risk management objectives and policies (continued)

Foreign currency risk management (continued)

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
2011:				
	+12.5%	5,288	+11.77%	3,529
	-12.5%	(5,288)	-11.77%	(3,529)
2010:				
	+8.9%	1,936	+11.05%	1,085
	-8.9%	(1,936)	-11.05%	(1,085)

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.

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

29. Financial risk management objectives and policies (continued)

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
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**
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**

The Group has access to financing facilities of RUB 55,675,000 thousand (USD 1,729,247 thousand) of which RUB 24,625,000 thousand (USD 764,844 thousand) remains unused at 31 December 2011. 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.