O'KEY group

Annual Report 2010

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HIGHLIGHTS:

RUB billion or %	2010	2009	Change to 2009
Revenue	**82.7**	**67.9**	**21.8%**
Gross profit	**17.9**	**14.8**	**21.4%**
Gross margin	21.7%	21.8%	(0.1 pp)
EBITDA	**7.1**	**5.9**	**20.9%**
EBITDA margin	8.6%	8.7%	(0.1 pp)
Net profit	**3.0**	**0.7**	**320.3%**
Earnings per share (RUB)	**11.7**	**6.6**	**77.3%**

11 New stores in 2010

57 Total stores*

287 Total selling space ('000 m^2)

24% 2010 y-o-y selling space growth

14 Major cities of Russia

LFL indicators, % change	2010
Retail Revenue, LFL	7.7
Average ticket, LFL	3.3
Number of tickets, LFL	4.3

*The Group operated 57 stores as of 31 December 2010; one additional store was complete at the year end, while operations started in early 2011.

O'KEY

IS ONE OF THE LEADING CUSTOMER-FOCUSED RETAILERS DEVELOPING RAPIDLY IN THE FAST-GROWING RUSSIAN RETAIL MARKET

O'Key in brief

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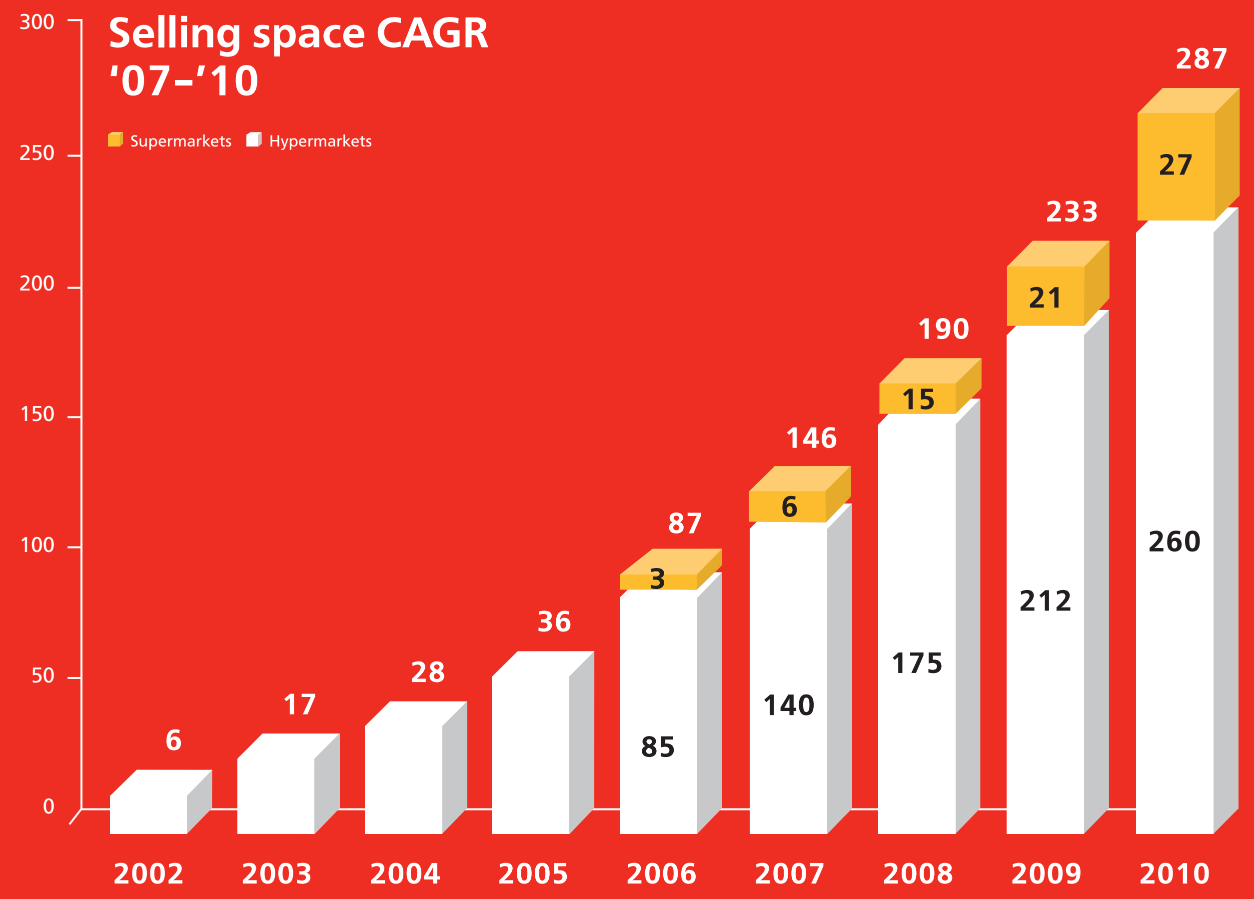
O'KEY GROUP S.A.

- We are one of the leading Russian food retailers
- Our core operations are hypermarkets
- 10 years of successful growth
- Operating in one of the world's most attractive retail markets
- Distinct and proven customer proposition
- A balanced and effective real estate portfolio
- Highly efficient operations
- Led by an experienced international management team…

	Hypermarkets	Supermarkets
Number of stores	35	22
Av. selling space, m²	7,433	1,237
Number of constant SKUs	35,400	9,100
Typical location	main public transportation hubs	residential districts
Consistent design to provide comfortable shopping environment in both formats		

25%



Our store concept

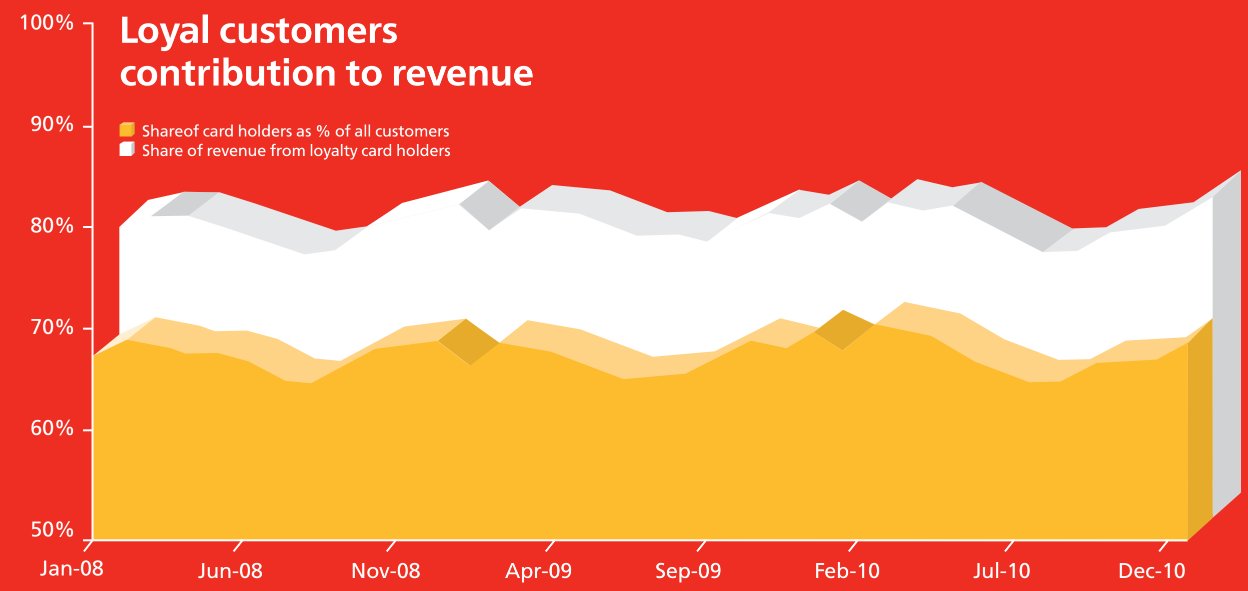
O'Key stores are designed to be a shopping destination for everyone

Our customers enjoy a wide assortment of goods at competitive prices, offered through a pleasant shopping experience, with:

- Easy access, free and safe parking
- Spacious, bright and clean sales areas with modern equipment, free of any "warehouse feel"
- Time-saving concepts, including a large number of open cash registers, clear navigation signs and price labels
- Frequent new events and promotions
- In-store food processing (cheese cuts, fresh fish, bakery, delicatessen products, fresh meats)
- Additional services like dry-cleaning, shoe repair and banking available behind the cash registers
- And more…

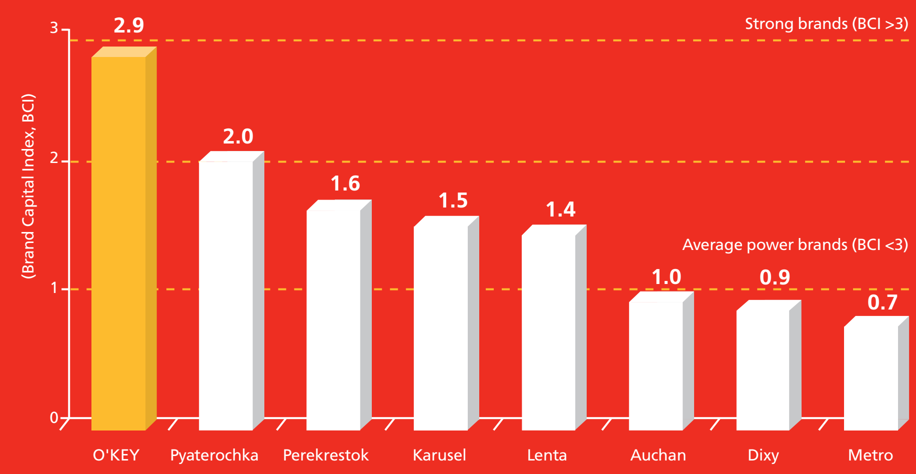
By keeping the customer in focus when we create and improve our stores, we make each O'Key outlet the best choice for anyone, alone or with a family, looking for a convenient one-stop shopping destination.

MORE THAN 60% OF LOYAL CUSTOMERS



We have the strongest brand among St. Petersburg food retailers…

…and we seek to replicate this brand leadership in other major cities across Russia.



SOURCE: AC Nielsen as of June 2010

Our customer proposition

A wide assortment...

We offer a wide assortment of goods, which means a larger number of customers will find what they are looking for every time they come into our store. We tailor what we put on the shelves city-by-city, providing a good mix of federal and local brands to serve our customers' needs.

...priced competitively

We use a distinctive pricing model that is designed to ensure the competitiveness of all of our basic products, through systematic and constant monitoring. At the same time, we seek to ensure that our higher-quality products are also priced attractively.

...including non-food goods

With non-food goods accounting on average for more than 65% of our hypermarket assortment, our customers can make their visits to O'Key the only stop on their shopping trip.

...high-quality ultrafresh produce and meats

We pay special attention to our ultrafresh assortment and make sure that it is sourced from high-quality producers. Whenever possible we purchase these goods from local producers. We believe that our fresh offering gets customers to come back to our stores more frequently – and to spend more – than they would at other stores.

...and our own production of baked and delicatessen goods

We prepare a wide selection of our own products on-site using original recipes. We take pride in the high ratings that our customers give to this category. We bake our own bread, which tastes better, and we also achieve a higher margin than we would from baking semi-finished loaves. The variety offered by our delicatessen is also unrivalled in Russia.

Sales per m^2[1]: RUB **358,000**

Average basket[1]: RUB **819**

[1] Average basket and sales per m^2 are inclusive of VAT

Our Management

We differentiate ourselves from our peers with the unparalleled depth and diversity of our management team, with vast food retail experience

Patrick Longuet
CEO

- 31 years of experience in the hypermarket retail business
- One of Europe's most experienced CEOs in the food retail industry with a 27 year track record at Auchan, one of the leading international food retail chains
- Previous experience as CEO of Auchan Russia, CFO of Auchan Central Europe, and various positions from store department manager to regional marketing director of Auchan France

Sebastien Verhaeghe
Executive Director

- 21 years of retail experience
- Supervises Finance, Performance Management, Information Systems, Organization and Change Management, Legal, Audit, Strategic Planning and Investor Relations
- Previously worked 17 years for Auchan, including: Business Performance and Information Systems Director in Auchan Russia; Information Systems Director of Auchan International in charge of new countries worldwide; various positions in Auchan Poland and International

Dmitry Pryanikov
Financial Director

- 9 years with O'Key, since its inception
- Financial Director of O'KEY Group since 2007
- Previous financial experience includes various positions in Bank St. Petersburg and other privately held companies

Vladislav Kurbatov
Operations Director

- 9 years in O'Key - Director of the first O'KEY hypermarket in 2002
- Now responsible for day-to-day control and development of store operations and logistics
- Sales Director of O'KEY group since 2004, prior to that held positions as Administrative Director of O'KEY Group and Director of O'KEY's first hypermarket in St. Petersburg

Georges Kowalkowski
Marketing & Sales Development Director

- 34 years of retail experience
- Responsible for customer focus, product mix structure, marketing activity and competitor analysis
- Previously worked 30 years in Auchan operations, including various positions in Auchan France, Poland and Russia

Maksim Schegolev
Expansion Director

- 7 years in O'Key
- esponsible for competitor analysis, acquisitions and rental of store premises and land plots
- Since 2004 has held various positions from administrative director to head of O'KEY's Northwest regional division

Vadim Korsunskiy
Commercial Director

- 8 years of retail experience
- Responsible for commercial strategy development, assortment policy, private label and category management
- Held various senior positions at TESCO and Metro Cash & Carry

Letter from the Chairman of the Board

Welcome to the first annual report of O'KEY Group S.A. We achieved a great deal in 2010, with impressive financial and operational results bringing us a net profit of RUB 3.0bn for the year, representing more than three-fold growth compared to 2009. During the year we continued to expand our network across Russia, reaching a total of 57 stores in 14 major cities throughout the country, 11 more than in 2009.

Another key achievement for 2010 was the successful initial public offering in November 2010, where we placed a 14.2% stake of the company on the London Stock Exchange. The IPO marked an important milestone in the development of O'Key, and we think that we have an attractive proposition for investors seeking to access the significant potential growth of modern food retail in Russia. The other Directors and I share a commitment to the shareholders to help maximise the value of O'Key over the long term.

Continued expansion and sustainable profitability are key components of our strategy, and the Board of Directors is ultimately accountable to O'Key's shareholders for delivering on this strategy. We have a flexible growth policy that enables us to continue to expand into attractive cities with either owned or rented stores, and to set up shop on plots of a non-standard shape or size. Together with our strategy of tailoring our wide assortment to local tastes and increasing efficiency through logistics and innovative IT solutions, the other Directors and I believe that O'Key is in a strong position to take advantage of the growth opportunities the Russian market presents.

Key to our long-term sustainable growth is to act responsibly with respect to all of our stakeholders. We are committed to the local communities where we operate: we provide material support number of orphanages, schools and rehabilitation centers for people with physical disabilities in and around our initial operational base of St. Petersburg. We provide our staff with extensive training and support their career development, as well as providing fair wages and benefits. For our shareholders, we strengthened our corporate governance systems and added two independent directors to our Board.

We look forward to the years ahead, as we aim to implement a strategy that will help O'Key to maintain its fast and profitable growth. We are already one of the leaders in Russian food retail, and we are well positioned to capitalize on the potential for further growth as the modern retail format becomes more prevalent and as the Russian economy continues to expand.

Sincerely,
Heigo Kera

Letter from the CEO

In 2010 we achieved strong growth in revenues, both on an overall and like-for-like (LFL) basis, with consolidated group sales at RUB 82.7bn for the year, up 21.8% from a year earlier. Net profit reached RUB 3.0bn for 2010 and EBITDA increased in line with revenue growth to RUB 7.1bn. The 11 new stores we added during 2010 made an important contribution to this growth, but our winning customer proposition helped achieve continued LFL growth, while efficiency gains also contributed to margins.

While consumer spending growth after the crisis has not matched the pace of the overall recovery, we nevertheless managed to achieve LFL revenue growth of 7.7% in 2010. We finished the year with a very low net debt to EBITDA ratio of 0.8. This, combined with our strong financial performance and the proceeds of our successful IPO, means we are well positioned to execute our strong development plan.

On the operational side, we took several steps to improve efficiency, including adapting the structure of our retail operations to better share resources at a city level and by optimizing work schedules to lower the number of employees required at each store. We achieved better economies of scale by allocating more purchasing resources to our head office – at the same time maintaining or enhancing our ability to tailor selections to local needs. The full benefit from these initiatives should be visible in 2011, as it will be the first full year that these changes have been implemented.

We maintained our position among the leading Russian retail chains, with total selling space increasing to 287 th. m^2 in 57 stores in cities spanning from Krasnoyarsk in the East to Murmansk in the North and Astrakhan in southern Russia. Looking forward to 2011, we plan to increase retail space by 30%, and we hope to maintain this pace as we seek to be present in 25 Russian cities by 2015.

Another important event in 2010 was the introduction of Russia's new Law on Retail. While this law required us to review our relationships with suppliers and change a number of procedures, we have adjusted our operations, and going forward we will use this as an opportunity to modernize our relationships with suppliers.

Looking forward, we aim to achieve growth not only in new retail space, but also in our existing stores. Here we will focus on adjusting our assortment of Basic, Average and Average + baskets in order to attract more affluent customers while keeping the customers that know we have a reliable selection of basic products. We also want to capitalize on our strength in ultra-fresh and baked goods, which we continue to see as an important differentiator in our offering.

Patrick Longuet
CEO

Our strategy

Continue regional expansion, focusing primarily on Moscow, the Urals and Western Siberia

- By 2015, establish presence in more than 25 cities across Russia
- Further penetrate the large and high-potential Moscow market
- Expand presence outside St. Petersburg in cities with high population density and/or above average net disposable incomes
- Maintain a fast pace of new store openings in the next 5 years

Tailor our assortment

- Further increase the share of non-food (clothing, DIY, sporting goods and home appliances)
- Work with local suppliers to customize assortment to local tastes / needs
- Continue to perfect our product matrix in order to attract more customers and encourage more frequent visits
- Position our private label as high quality at a competitive price

Support our supply chain through logistics

- Facilitate availability of our full assortment as we expand across Russia
- Expand warehousing capacity to support import and private label operations
- Set-up a network of cross-docking platforms allowing us to:
  - Procure assortment from all over Russia
  - Decrease dependency on assortment inherited from distributors

Implement innovative IT solutions

- Establish a technological platform to manage retail operations more efficiently, including demand forecasting as well as customer-focused category management and supply chain optimisation.

Our history

We have successfully grown in 14 cities across Russia...

Key milestones of the Company's history

2002 First store

- First hypermarket launched in St. Petersburg
- Company's strategy focused on creating the leading St. Petersburg food retailer

2003–2006 Cementing positions in St. Petersburg

- Eight hypermarkets and two supermarkets launched in St. Petersburg
- Total selling space increased from 6 to 87 ths. m^2 with 12 stores in operation

2007– 2008 Regional expansion

- International management joined the Company
- Entry into six new regions in three federal districts
- Number of stores reached 37, selling space more than doubled to 190 ths. m^2
- Became one of Russia's top-10 retailers in terms of revenue(2)
- Assignment of lease rights for 6 Ramstore stores (Oct '08 - Mar '09)

2009–2010 Leacling retailer

- First store launched in Moscow region
- Strengthened development team
- Acquisition of lease rights for two Carrefour stores
- #3 Russian (excl. multinationals) food retailer (in terms of revenue in 2009)
- Number of stores reached 57 in December 2010

2010 Highlights:

- Rationalised retail operations in order to:
  - Build and keep expertise close to operations in each city;
  - Create strong city expansion platform with shared resources at city level;
  - Strengthen negotiating position with local and federal suppliers by increasing purchasing resources at the federal level;
  - Improve coordination between store/city and federal levels.
- Increased share of Average and Average + basket goods to meet demand as incomes in Russia grow, while maintaining competitive Basic basket selection.
- Successfully implemented measures to be fully compliant with the new Law on Retail.
- Net debt to EBITDA at 0.8 at year end, illustrating our strong financial position for future investments in growth.
- Successful IPO on the London Stock Exchange.

...and we plan to be in 25 cities by 2015

Management discussion and analysis

The stabilization of global financial markets in 2010 helped Russia to return to growth, but consumer spending trends indicate that people remained cautious throughout the year. Similar to our customers, we were cautious in our expansion during 2010, and plan to pick up the pace in 2011. We opened 11 new stores in 2010, while maintaining a strong financial position with a comfortable level of debt. In the pages below we will discuss some of the ways in which the market has changed since the crisis in 2008-2009, and how we have been able to adapt to these changes.

Our development

We opened a total of 11 new stores in 4 cities in 2010, up from 9 new stores in 2009. This brought our total number of stores to 57 at 31 December 2010. Total selling space at the end of the period increased 23.6% from 233 th. m^2 at year end 2009 to 287 th. m^2 a year later.

Number of new stores

	2010	2009
Company	11	9
Hypermarkets	7	5
Supermarkets	4	4

Total number of stores at the end of the period

	2010	2009
Company	57	46
Hypermarkets	35	28
Supermarkets	22	18

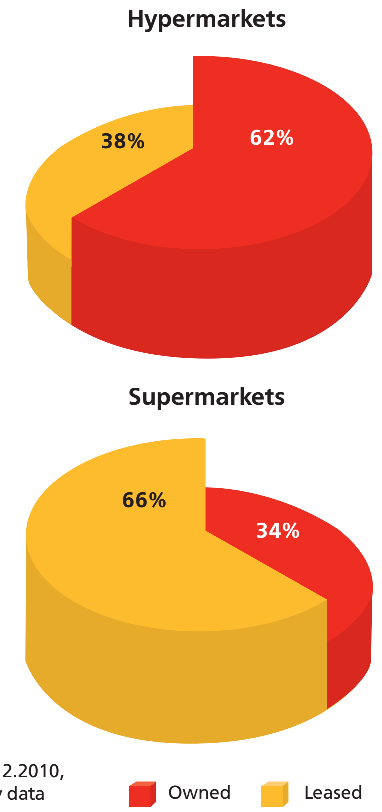
Selling space at the end of the period

'000 m^2

	2010	2009	Growth
Company	287	233	23.6%
Hypermarkets	260	212	23.0%
Supermarkets	27	21	29.6%

As of 31 December 2010, we owned 62% of the hypermarkets and 34% of the supermarkets we operate. The share of leased properties has been increasing steadily over the past several years as a result of our expansion strategy.

Real Estate Ownership Structure



as of 31.12.2010, Company data

Murmansk

Selling space: 9,544 m^2
Format: Hypermarket
Population: ~360,000

We opened our hypermarket in Murmansk in 2008. While the population is under our standard 500 thousand cutoff, there were several factors that convinced us of the city's high potential. First, Murmansk serves as a regional "retail center" for a number of surrounding cities and towns, so the actual population we have access to is larger. Second, we are the only national food retailer with a hypermarket in Murmansk so the competition was minimal. Third, disposable income in and around Murmansk is higher than the Russian average.
So our analysis goes beyond population, and in the case of Murmansk, our analysis proved to be correct.

Murmansk hypermarket headline results (opening: July 2008):

Average check in 2010: RUB 830 (O'Key Group 2010: RUB 819)

Sales per sq. meter in 2010: RUB 376,000 (O'Key Group 2010: RUB 358,000)

Where we open stores
Our development strategy is to build a federal network of hypermarkets and supermarkets across Russia. We are already present in 14 of Russia's major cities and have the goal to expand to 25 by 2015, focusing primarily on the Urals and Western Siberia. We consider major cities to be those with populations of over 500,000, but we also take into account various economic factors and competition levels.

Moscow and the Moscow region is another important growth area for us. As of 31 December 2010 we had three stores in and around Moscow. We see great potential for our format in the capitol and plan to increase our presence there significantly over the next several years. At the same time, we understand that the Moscow market is more challenging and that the timing of our development here will be based on our ability to find and secure attractive locations.

We also consider strategically interesting cities with smaller populations but high potential for O'Key (see Murmansk case study). In such situations we look at a combination of factors (income and competition levels, city population and as well as the proximity of surrounding cities) and take a view as to whether we will be able to achieve the sales density that we target.

St. Petersburg

Selling space: 8,331 m²
Format: Hypermarket with parking built under store
Population: 4.8 million

When the land on Vyborgskoye Shosse became available, it was clear to us that this was a prime location in nearly every respect: the only disadvantage was that our standard store and parking lot arrangements would not fit in the 2.5 hectare plot. However, we were able to move forward by developing an individual solution for this location. The value of this flexible approach can be seen below:

Vyborgskoye Shosse hypermarket headline results (opening: January 2007):

Average check in 2010: RUB 1,092 (O'Key Group 2010: RUB 819)

Sales per sq. meter in 2010: RUB 431,000 (O'Key Group 2010: RUB 358,000)

Our main presence today is in Northwestern and Southern Russia, but we also have stores in Central Russia, the Urals (Ufa) and Siberia (Krasnoyarsk). Our roots are in St. Petersburg and today our presence in this market is very strong (30 of 57 of our stores are located in and around the city). However, we began our regional expansion in 2007 and to date we are present in 13 large cities outside of St. Petersburg.

Our target is to "fill in the gaps" between our Krasnoyarsk outpost in Siberia and our European stores, growing east from Europe and west from Siberia. This will enable us to capitalize on our existing infrastructure and operations that already span across this geography.

How we open stores

When we take a decision to enter a new city, we need to be sure that we can find the right location for a store, and that the city has the right combination of economic and competition parameters. We visit every site to assess its attractiveness and ease of access: we want to have first-hand knowledge of the location and understand whether it truly meets our requirements.

For our core hypermarket format we typically look for land plots of approximately four hectares, with the goal to build a 15,000 square meter store that has 7,500 square meters of trading space. But our retail format and design are such that we have a high degree of flexibility in the locations we are able to take on. This means that we can adjust our store design to suit particular locations, and we believe that this approach of tailoring our format has paid off: one of our most successful stores, on Vyborgskoye Shosse in St. Petersburg, is just one example of this (see case study).

We also seek to achieve the correct balance between rented and owned stores, as we see advantages to both formats. Owned stores allow us to fully realize all aspects of our concept and achieve higher profitability, while rented stores take less time to open and enable us to get into larger shopping areas.

The 2008-2009 global crisis caused many real estate developers to alter or freeze projects, resulting in less rental space becoming available to retailers. As a result, we focused our attention during that time on acquiring more land plots for future expansion. Should there be a significant increase in developer activity, we will seek to capture this, and open more rented stores.

Looking ahead to 2011

Given the low level of modern retail penetration in the Russian market, our goal is to continue to expand rapidly our selling space. Currently, our target is to maintain 30% per annum growth in total selling space. We will be able to continue to shift between renting or owning based on market conditions and whichever option we consider to be more or less attractive at any time.

Retail sales

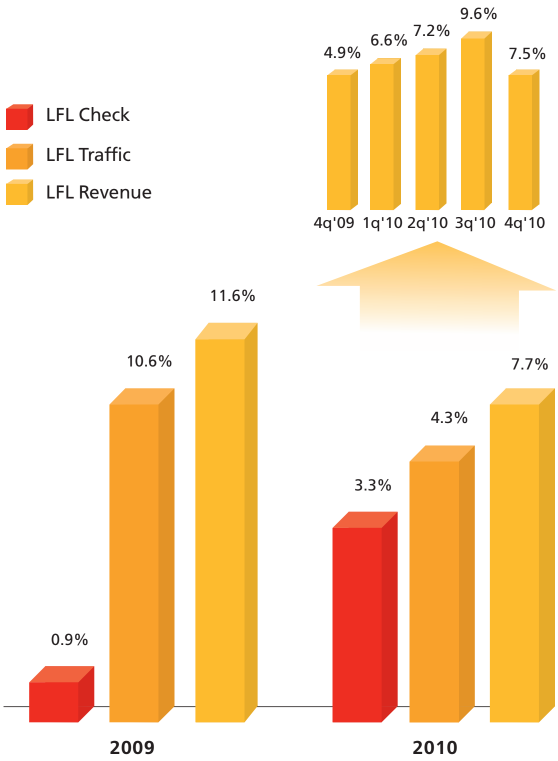
Retail revenue for 2010 was RUB 82,666.6 million, up 21.8% from RUB 67,874.6 million a year earlier. In the last four years we have achieved strong revenue growth on the back of steady retail space expansion, which has helped us to achieve 40% CAGR in retail revenue in the period 2007–2010.

Like-for-like (LFL) traffic and average check continued to grow in 2010. LFL traffic was up 4.3% for the year, which we view as a strong performance on top of the high customer base achieved in 2009, when LFL traffic grew 10.6%. Contrasting the faster LFL traffic growth in 2009, our customers only began to increase their spending again in 2010, when the LFL check grew 3.3%, compared to just 0.9% in 2009. In the fourth quarter of 2010 several openings in St. Petersburg and Krasnodar, where we already have a presence, resulted in cannibalization, the mathematical effect of which lowered LFL traffic growth.

Despite slower than expected increases in consumer spending in 2010 we maintained our retail revenue per m^2 at historically high levels. Revenue per m^2 was at RUB 358,000 or 1% below our 2009 result, which was primarily due to the pressures described above. To maintain this level in the future we undertook several initiatives in 2010:

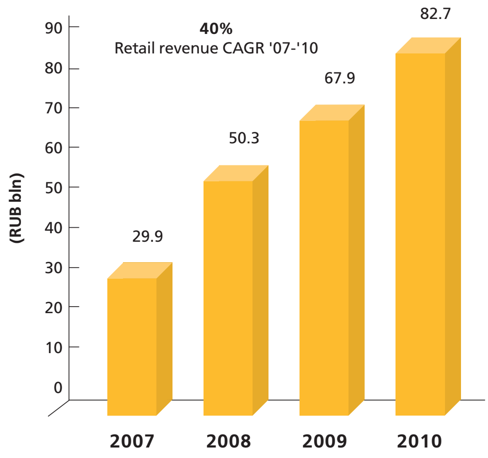
- Adjusting assortment to respond better to customer needs;
- Fine-tuning operations in new cities to improve product availability at our new stores;
- Setting more aggressive targets for management and personnel at city and store levels.

LFL Revenue (RUB terms)



SOURCE: Management accounts

Retail Revenue



SOURCE: Audited IFRS financial statements for 2007–2010
Retail revenue excludes Rental income and Revenue from advertising services.

Note: LFL analysis is based on number of stores that had been operating for not less than twelve months and have achieved a mature level of sales

Retail personnel motivation:
Revenue is the ultimate measurement for retail personnel success, but we also pay due attention to improving our operating efficiency at a store level. This includes optimizing work schedules and reducing inventory losses.

In late 2009 and the beginning of 2010 we reviewed our personnel count in stores and optimized working schedules. The average decrease in headcount at stores was 5% compared to 2009, calculated as the average number of employees per m^2 of trading space. This optimization resulted in the reduction of personnel costs as a percent of revenue to 7.2% in 2010, down from 7.7% a year earlier.

Our inventory losses are low compared to market averages, but we still see potential for improvement in this area. Minimizing inventory losses is an important element of store personnel motivation, which ensures careful monitoring by store management.

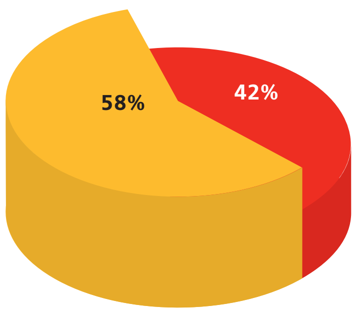
Our customers

We believe in Russia's potential for growth and in the emerging middle class. While we have a wide selection of products for price sensitive customers that we intend to maintain, we are expanding our assortment of Average and Average + products. We outline below some of the key elements of our customer proposition.

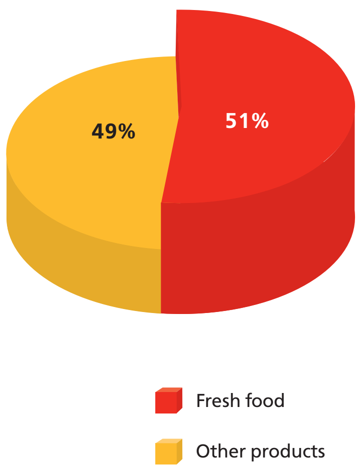
A leader in fresh foods
Our stores also stand out because we offer a wide selection of fresh produce, meats and fish, as well as freshly baked bread and pastries. While these operations require additional staff and equipment, we generally make a higher margin on self-produced products. Moreover, we believe the fresh food selection brings customers back to our stores on a more regular basis.

Tailored to local tastes
One of our priorities is to tailor our selection to ensure customers see brands from local suppliers in addition to nationally-recognized names that we offer throughout our network. Offering local brands is extremely important in categories like ultra-fresh meat, fish, fruit and vegetables and we

Hypermarkets



Supermarkets



make sure that they are well presented. We do this by assigning city-level managers to identify the local brands that meet our quality and price criteria, and to ensure that our purchasing centre contracts with the best local producers.

Private label

Private label products are important as they allow us to expand our offering and make it more competitive by filling in category niches with a small number of branded products, and also by introducing low price points. In 2010 we continued to increase the number of our private label products, introducing a competitive selection of no-name and O'Key-branded ultra-fresh, FMCG and non-food products. Currently we have 3,198 food and non-food SKUs that we sell with the O'Key label or under other O'Key brands. While these still account for a modest share of sales (2.7%, or RUB 2,189 million in 2010), we enjoy better margins and no competition on our private label selection.

Non-food goods

Non-food goods are an increasingly important element of our customer proposition. We offer a wide range of goods, including clothing, electronics, kitchen appliances and utensils, as well as a good selection of infant and baby care supplies. This category accounted for a 26.1% share in sales in 2010, while its share in our assortment is 65%-70% depending on the size and format of individual stores. Our goal is to continue to develop our non-food selection, with a target to exceed 30% share of total sales from non-food items.

Looking ahead to 2011

We believe in the strength of our customer proposition, and our main task is to introduce incremental changes that will help us to improve the proposition still further. In the coming year, some of the key areas we will focus on are:

- Improving promotion of new assortments as they arrive;
- Developing product categories such as ultra-fresh fish and meat, furniture and dishes/flatware.

In 2010, we completed Phase I of the development of our private label line, which consisted of introducing low-price and no-name items to our selection. In 2011, we plan to introduce a new mid-price line of goods with the O'Key brand, with the target of increasing the number of private label items in our assortment two-fold and achieving a reater share of sales from this line.

Our purchasing and supply chain

Structure of retail operations and purchasing
In 2010, one of the most important changes that took place in our business was a transition from regional to city-level management of our retail operations. Our goal in creating this structure was to build and keep operations expertise close to our stores, while consolidating resources that are not dependent on distance from the store at a federal level.

As a result, we have built a strong platform for expansion at the city level where shared resources and expertise allow for efficient operations as the number of stores grows. At the federal level, grouping resources such as purchasing strengthens our negotiations with suppliers, while freeing up more time to search and select the regional, federal, or import suppliers needed to fill our assortment matrices from across Russia and abroad.

Mix of regional and federal suppliers
Our assortment is customized at a city level. We source from regional suppliers, and add products available at a federal level to create tailored assortments in each city to fit local needs and tastes. As a result of this approach, regional suppliers source a significant part of our total purchases.

New law on retail
During 2010, the Russian Federation Law on Retail came into effect. This law was aimed at protecting consumers from rising prices. The introduction of the law increased administrative requirements and limited certain aspects of operations (supplier bonuses, prices for social goods, limits on payment terms). We have adapted to the changes through a considerable effort made by our suppliers and by our purchasing department during Q2 and Q3 of this year. We experienced no material negative effect on our business, partly due to the structure of our assortment that includes food and non-food goods, as the latter have limited exposure to the new regulations.

Supply chain
In late 2010 we strengthened the team that will be responsible for overall management of our supply chain. For each product, we select the most appropriate channel to ensure constant shelf availability at the lowest cost. To achieve this, we combine store direct delivery, regional cross-docking stations and national storage distribution centres.

Store direct delivery
The majority of our goods are delivered through this channel. The size and design of our hypermarkets allows us to receive a large quantity of trucks each day, and to hold storage capacity for several days of sales turnover. Most suppliers are therefore able to deliver the majority of our goods to us at a competitive cost either directly or through their distributors. This model has worked for us in all of the regions where we operate, and we plan to continue to use it as we expand into new cities.

Cross–docking facilities
Cross-docking facilities are made to group orders from multiple stores into one order to the supplier, to receive this order on the cross-docking station, and to immediately dispatch merchandise received to the stores. This enables us to purchase products with low turnover on good commercial terms and required logistics conditions, while minimizing inventory levels. We also use these stations to make it possible to supply products that we want available in regions where they are not usually/regularly sold.

We currently have rented cross-docking stations in Murmansk, Krasnoyarsk and Volgograd, and we plan to develop more in the coming years.

Storage distribution centres

We rent two warehouses in St. Petersburg to receive, store and then re-distribute goods, primarily imported and private label products. Our warehouse operations and transportation services are sub-contracted.

Import

The majority of our private label, non-food and non-branded products are imported from China, India and Italy, to support our permanent and seasonal assortments. In 2010, 1,5% of our non-food selection was imported directly. This gave us greater control over the assortment, and improved our margin by taking out the middleman.

What it means for us

The benefits of this supply chain approach for O'Key include:

- Better choice for our customers from a wide product assortment, tailored to local consumer preferences;
- High levels of shelf availability while maintaining low inventory levels as products go straight onto shelves upon delivery; a very small proportion of goods is kept in warehouses;
- Flexible and fast roll-out of new stores, as opening decisions are not constrained by supply chain considerations;
- Capital expenditures focused on stores, enabling us to capture the maximum market potential.

Looking ahead to 2011

In 2011, we will continue developing our supply-chain management, by introducing advanced retail software, which will support our development and enable us to further tailor our assortment by city.

We also aim to double our import operations for non-food goods, which we expect will have a positive effect on our margins in this segment.

As we expand our import operations and our private label line, we currently plan to increase our warehouse space in order to give us more flexibility in distributing these products across our network of stores. We also plan to establish additional cross-docking facilities in cities where store density is high enough, all owned and operated by third parties.

Financial performance

Year Ended 31 December 2010 Compared with the Year Ended 31 December 2009

In the year ended 2010 we have achieved the following results:

- Increased total revenue by 21.8% to RUB 82,666.6 million
- Gross margin stable at 21.7%
- Achieved 20.9% EBITDA growth, to RUB 7,126.7 million
- Net Profit margin reached historical high of 3.6%

Revenue

Revenue for the year ended 31 December 2010 increased by RUB 14,792 million, or 21.8%, to RUB 82,666.6 million, from RUB 67,874.6 million in year ended 31 December 2009. The increase was primarily due to an increase in selling space of 23.6% and like-for-like (LFL) revenue growth .

Like-for-like revenue increased in 2010 by 7.7% year-on-year (y-o-y), supparted by a continued increases in LFL traffic of 4.3% and by LFL average ticket growth of 3.3%. The 45 stores used in this LFL analysis for the years ended 31 December 2010 only include stores that were opened before 1 December 2009 and were not subsequently closed, expanded or downsized.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by RUB 11,636.2 million in 2010, an increase of 21.9% compared to 2009. The increase in cost of goods sold was entirely due to an increase in sales of trading stock driven by new store openings and like-for-like revenue.

The following table sets out revenue, cost of goods sold, gross profit and gross margin in years ended 31 December 2009 and 2010.

Year ended 31 December (RUB millions, except percentages)	2009	2010	Percentage change (%)
Revenue	67,874.6	82,666.6	21.8
Cost of goods sold (less supplier bonus)	(53,106.4)	(64,742.6)	21.9
Gross profit	14,768.2	17,924.0	21.4
Gross margin	21.8%	21.7%	–

The table below provides further detail of our cost of goods sold in the years ended 31 December 2009 and 2010.

	Year ended 31 December 2009 (RUB millions)	Percentage of revenue (%)	Year ended 31 December 2010 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Cost of trading stock sold (less supplier bonuses)	(52,089.7)	76.7	(63,477.9)	76.8	0.1
Inventory shrinkage	(661.3)	1.0	(840.6)	1.0	0.0
Logistic costs	(51.7)	0.1	(49.7)	0.1	0.0
Packing and labelling costs	(303.7)	0.5	(374.4)	0.5	0.0
Total cost of goods sold	(53,106.4)	78.2	(64,742.6)	78.3	0.1

Our gross profit increased by 21.4%, to RUB 17,924.0 million in the year ended 31 December 2010 as compared to RUB 14,768.2 million in the year ended 31 December 2009.

In 2010 we maintained gross margin at the levels comparable to 2009. All improvements achieved in commercial terms due to increased scale of operations and growing purchasing power were reinvested into sales prices.

General, Selling and Administrative Expenses

Our general, selling and administrative expenses equalled RUB 12,407.9 million for the year ended 31 December 2010, an increase 20.4% from RUB 10,303.7 million in year ended 31 December 2009.

The following table provides further details of general, selling and administrative expenses in year ended 31 December 2009 and 2010.

	Year ended 31 December 2009 (RUB millions)	Percentage of revenue (%)	Year ended 31 December 2010 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Personnel costs	(5,229.5)	7.7	(5,989.1)	7.2	(0.5)
Depreciation and amortisation	(1,361.3)	2.0	(1,573.5)	1.9	(0.1)
Advertising and marketing	(363.4)	0.5	(429.9)	0.5	0.0
Operating leases	(672.2)	1.0	(1,069,9)	1.3	0.3
Repairs and maintenance costs	(239.4)	0.4	(257.1)	0.3	(0.1)
Communication and utilities	(891.5)	1.3	(1,101.4)	1.3	0.0
Materials and supplies	(179.1)	0.3	(357.4)	0.4	0.1
Security expenses	(428.5)	0.6	(520.8)	0.6	0.0
Insurance and bank commission	(255.8)	0.4	(327.8)	0.4	0.0
Legal and professional expenses	(133.4)	0.2	(163.3)	0.2	0.0
Operating taxes	(391.6)	0.6	(348.9)	0.5	(0.1)
Other costs	(158.0)	0.2	(268.8)	0.3	0.1
Total general, selling and administrative expenses	(10,303.7)	15.2	(12,407.9)	15.0	(0.2)

The increase in general, selling and administrative expenses in the year ended 31 December 2010 compared with the year ended 31 December 2009 was principally due to increases in the size of our operations.

As percent of revenue our general, selling and administrative expenses decreased by 0.2 percentage points (p.p.) to 15.0% for the year ended 31 December 2010. The decrease was driven by optimisation of personnel costs, which was partially offset by increase in operating leases.

Personnel Costs

Personnel costs increased by 14.5% to RUB 5,989.1 million in 2010. This increase was driven by 11 new stores opened in 2010 and salaries indexation, which was introduced in July of 2010.

However, when expressed as a percent of revenue personnel costs decreased in 2010 by 0.5 p.p. to the level of 7.2% as a results of efficiency improvements achieved during the year. We optimized working schedules in our existing stores at the end of 2009 to improve our efficiency in post-crisis environment. This led to a reduction in the number of employees per m^2 of selling space of 5.0% on average. Due to this factor the increase in headcount due to opening of 11 new stores was more than compensated by the decrease in average headcount in existing stores.

In 2010 average number of employees increased to 14.0 thousand employees from 11.8 thousand a year earlier, which compares to the selling space increase in the following way:

	Year ended 31 December 2009	Year ended 31 December 2010
Selling space (thousand square meters)	232.6	287.4
Average number of employees	11,831	14,040
Average number of employees per thousand square meters of selling space	51	49
Change (%)	–	(5)

As a result of this optimization personnel costs as percentage of revenue decreased in 2010 compared to 2009.

Operating Leases

Expenses on operating leases equalled RUB 1,069.9 million for the reported period, an increase of 59.2% over RUB 672.2 million for the year ended 31 December 2009, primarily due to an increase in the share of leased space. The significant increase in the share of leased space was driven by the higher number of rented stores among new openings and the lease back arrangement executed in late 2010. At the end of 2010 share of leased space in total space was 40%, up from 21% in 2009.

Depreciation and Amortization, Repairs and maintenance, Operating taxes

Expenses on depreciation and amortization, repairs and maintenance and operating taxes decreased as a percent of revenue due to a higher share of rented premises in Group's asset portfolio. Rented premises are significantly less capital intensive which results in lower expenses associated with asset servicing.

Materials and supplies, Other costs
Materials and supplies as well as Other costs increased in 2010 as a percent of revenue primarily due to the opening of new stores.

Other Operating Income and Expenses
Net other operating income and expenses increased by RUB 1,121.1 million to RUB 274.8 million in the year ended 31 December 2010 from a loss of RUB 846.3 million in the year ended 31 December 2009, primarily due to the continued recovery in the Russian real estate market that started at the end of 2009 and led to a positive revaluation of our real estate portfolio. Revaluation of properties constitutes significant part of other operating income and expenses.

Operating Profit/(Loss)
Operating profit increased by 60.0%, to RUB 5,790.9 million in the year ended 31 December 2010 from RUB 3,618.3 million in the year ended 31 December 2009. Significant increase in Operating profit was driven by improved operating efficiency and stabilization of the value of our real estate as a result of the recovery of the Russian real estate market.

Finance Costs
Finance costs decreased by RUB 329.7 million, to RUB 1,354.2 million in the year ended 31 December 2010. This decrease in finance costs was principally due to a decrease in interest rates as a result of further stabilization of financial markets in 2010. Effective interest rates decreased from 9.4% for the year ended 31 December 2009 to 8.1% for the year ended 31 December 2010).

Foreign Exchange Gains/(Losses)
The devaluation of the Russian Rouble during 2010 resulted in a foreign exchange loss for the year amounting to RUB 112.2 million (2009: RUB 320.8 million). In 2010 we used hedging instruments to hedge interest rate and foreign exchange risks.

Profit before tax and income tax
Profit before income tax increased by RUB 2,689.8 million to RUB 4,341.1 million in the year ended 31 December 2010. The table on the next page sets out our income tax expense in the year ended 31 December 2009 and 2010.

Reconciliation of effective tax rate:

RUB millions	2009	2010
Profit/(loss) before income tax	1,651.3	4,341.1
Income tax at applicable tax rate (2010: 20%, 2009: 20%)	330.3	868.2
Effect of income taxed at different rates	5.9	8.8
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Inventory shrinkage expenses	272.8	259,5
- Other non-deductible expenses	80.6	124,1
Tax withheld on dividends received from subsidiaries	–	106.1
Write-off of deferred tax asset of tax losses carried forward	209.0	–
Adjustments to current income tax for previous periods	38.3	49.9
Other items	–	20.9
Income tax expense for the year	936.9	1,338.1

Total income tax expense increased by – 42.8%, to RUB 1,338.1 million in the year ended 31 December 2010 primarily due to an increase in profit from retail operations.

The effective income tax rate amounted to 30.8% in the year ended 31 December 2010. The excess over the nominal tax rate of 20.0% was attributable to inventory shrinkage expenses and other non-deductible expenses.

Profit for the Year

As a result of all the changes described above our profit for the year ending 31 December 2010 increased by RUB 2,288.6 million to RUB 3,003.0 million compared to RUB 714.4 million for 2009.

Liquidity and Capital Resources

In addition to financing existing operations, our liquidity needs arise principally from the need to finance the acquisition of land plots for new hypermarkets and supermarkets, the acquisition or construction of new stores, the purchase of machinery and equipment necessary to support expanding operations and the ongoing optimization of our IT systems. During the period under review, we met a part of our liquidity needs with net cash generated from operations and proceeds of primary issue of shares.

We expect that net cash generated from operations, short- and long-term loans, bond issuances and leasing will be important sources of cash in the future.

Cash Flows and working capital

The following table sets out summary cash flow information for the years ended 31 December, 2009 and 2010:

RUB millions	2009	2010
Net cash from operating activities	2,872.2	5,110.9
Net cash used in investing activities	(3,289.6)	(3,393.2)
Net cash from financing activities	128.3	2,404.2
Net increase/(decrease) in cash and cash equivalents	(289.0)	4,121.9
Effect of exchange rate fluctuations on cash and cash equivalents	77.9	122.9

Cash Generated from Operations

Net cash from operating activities increased from RUB 2,872.2 million in 2009 to RUB 5,110.9 million in 2010. The increase in cash flow from operating activities was primarily due to an increase in the Group's profitability and improvements in working capital. This change in working capital was due to an increase in trade accounts payable were comparable periods which exceeded the increase in inventories and net trade and other receivables.

Cash Flows from Investing Activities

Cash used in investing activities was principally used for purchases of property, plant and equipment. The net cash used in investing activities was equal to RUB 3,393.2 million in 2010. The outflow increased compared to 2009 as a result of the higher number of new openings, which was partially offset by higher proportion of leased stores among the openings.

Cash Flows from Financing Activities

Net cash from financing activities contributed RUB 2,404.2 million to the overall cash flow. This was primarily due to the receipt of IPO proceeds in November 2010, and was partially offset by repayment of borrowings.

Working Capital

Our primary sources of liquidity are cash provided from operating activities and debt financing. As of 31 December 2010, working capital, defined as current assets (excluding cash and cash equivalents and short-term investments) less current liabilities (excluding short-term loans), was negative RUB 4,250.3 million. The measures of working capital in the food retail industry are customarily negative and the Company intends to maintain a negative working capital position.

We consider the ratio of net debt to EBITDA as the principal indicator for evaluating the impact of the total size of our borrowings on our operations. Going forward our target is to keep this ratio below 2.0. As at 31 December 2010, O'Key's net debt to EBITDA ratio was 0.8.

Debt highlights

RUB millions	2009	2010
Total Debt	15,466.2	11,571.7
Short-Term Debt	6,439.7	3,702.3
Long-Term Debt	9,026.5	7,869.4
Net Debt	14,003.9	5,864.5
Net Debt / EBITDA	2.4	0.8

Research and development

In the period under review and as of the date of this report the Company was not involved in any research and development activities.

Risk Management

We have risk and crisis management systems in place, and they help us to achieve our business objectives and deliver long-term value to our shareholders. By implementing risk and crisis management processes we also provide more confidence to our shareholders, employees, customers and suppliers. Our goal is to balance risk management with our tolerance for risk to maximize the value of our assets and projects, and to encourage innovation and optimization of our resources. Risk management is naturally integrated in our critical business processes, activities and decision making.

Twice a year the operational directors review and consider the risk profile for the whole business within the framework of the risk management committee. This risk profile covers strategic, operational, financial and compliance risks. Risks are identified, analyzed and rated in a consistent manner using common methodology. The oversight of risk and crisis management is delegated to the Internal Audit and Security departments.

On the following pages, we give an overview of some of the key risks our business faces, and what we are doing to mitigate these risks.

Our key risks:

	Risk and Impact	Mitigating activitie
Strategic		
1	Risk of failure to meet performance and expansion targets resulting in a loss of investor trust.	• Ensure that performance and expansion targets are communicated clearly to all employees and are based on realistic assumptions. • Regular control over achievement of performance and expansion targets is performed by company management. • Update of performance and expansion targets takes place on a regular basis.
2	Risk of failure to meet customer expectations on quality, price, assortment, etc. resulting in loss of customers.	• Performance targets aiming at meeting customers' expectations are set and communicated to all employees. • Analysis of customers' expectations and feedback is performed regularly by Department of Trade Development. • Regular monitoring of business processes in stores per checklist with set standards is performed by Department of Internal Control. • Regular adaptation of product assortment to meet changing customer expectations. • Strict monitoring of competitors' activities and prices in order to react on time and take appropriate measures.
3	Risk of deterioration in our financial position resulting in limitation of our flexibility and ability to grow the business.	• Performance targets are set and communicated within the company to support planned financial position. • Regular forecasting and monitoring of capital structure, debt capacity, and liquidity issues. • Communication with rating agencies, brokers and financial institutions.
Operations		
4	Risk of ineffective business process in stores resulting in loss of market share.	• Policies and procedures regulating all business processes in stores are set in the Company and communicated to employees. • Regular monitoring of business processes in stores per checklists with set standards is performed by Department of Internal Control. • Regular review of business processes aimed at their improvement.

5	Risk of ineffective stock management resulting in poor availability in stores.	• Stock management targets are set and communicated to all responsible employees. • Policies and procedures on stock management are in place. • Implementation of new ERP system is in progress to improve stock management and control. • Implementation of new tools to improve stock management is in progress.
6	Risk of suppliers being unable to fulfill their contractual obligations resulting in an inferior service to our customers.	• Monitoring of financial sustainability of suppliers. • Regular review of accounts receivable ageing report. • Policies and procedures on selection of supplies are in place, communicated to all accountable employees and strictly followed. • Control dependency on key suppliers.
7	Risk of failure to recruit, develop and retain key personnel resulting in our disability to meet strategic and operational plans.	• Activities to promote Employer's brand are underway. • Employee performance management system is in place. • Bonus scheme for employees is in place and is based on performance objectives appraisal. • Profound internal and external training and development activities are in place. • Full compliance with local labor law in terms of salary management, employment and social package.
8	Risk of failure in IT security resulting in severe service disruption or disclosure of personal customer information.	• Policies and procedures are in place to prevent failure in IT security. • Regular assessment of IT security including IT infrastructure. • Crisis Management is developed to address all significant IT security incidents. • Information Security Management is established.
9	Risk of losing a shop because of natural disasters or manmade incidents resulting in injuries of employees or customers, financial loss, damage of company reputation, loss of market share and loss of competitive advantage.	• EHS, Sanitary, Fire regulations, Construction (GOST/ SNIP), etc. compliance. • Crisis Management and Business Continuity Plans are developed and implemented. • Maintenance plans are in place and followed strictly on schedule. • Security Passport is developed and approved by the Ministry of emergencies.

	Risk	Mitigation
Finance		
10	Risk of poor cash management resulting in time value losses and transaction costs due to delays in invoicing, purchase order processing, collections, claim processing, etc.	• Policies and procedures are in place to address cash management issues. • Regular review of cash forecast is performed by treasury department. • Sound cash management controls are being implemented. • Implementation of new ERP system is in progress to improve cash management. • Regular review of cash management process to identify areas for improvement.
11	Risk of non-compliance with tax regulations resulting in adverse tax consequences.	• Internal controls are in place to prevent non-compliance with tax regulations. • Policies and procedures are in place to prevent non-compliance with tax regulations.
12	Risk of misleading financial reporting leading to misstatements in financial statements.	• Internal controls over financial reporting are in place to prevent misstatements in financial statements. • Proper communication is organized to obtain relevant business information from external and internal sources and assess whether adjustments to or disclosures in the financial statements are required in order to present financial position, results of operations and sources and uses of cash fairly. • Regular review of policies and procedures related to preparation of financial statements is performed.
Compliance		
13	Risk of non-compliance with all applicable international and statutory laws and regulations resulting in loss of reputation.	• Leadership, operating structure and people allow the business activity to be compliant with all applicable laws and regulations. • Risk management process and regular executive management reviews strive to prevent non-compliance with laws and regulations. • Policies, procedures and controls are in place and regularly assessed to make sure that business practice is in full compliance with applicable laws and regulations.

Corporate Governance

Our management and corporate governance has undergone important changes in 2010, with new Directors joining the Board and changes to the committee structure. Our goal in making these changes was to implement internationally-recognized good corporate governance practices, which we believe will help to build long-term shareholder value, which is ultimately how we measure success.

The Board of Directors is entrusted by the shareholders with O'Key's long-term performance. The Board's primary activities include:

- Setting strategic priorities and analysing management's performance against those goals;
- Oversight of control and risk management procedures;
- Considering M&A opportunities if/when they arise;
- Exercising oversight of O'Key senior management, including advice on key strategic decisions.

Who is on our Board:

The Board of Directors is composed of five members, including two Directors who are independent. The Directors are appointed by the general meeting of shareholders by a simple majority of the votes cast for a period not exceeding six years or until their successors are elected. Biographies of the current Directors are provided below:

Dmitrii Troitckii—Director
Dmitrii was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. From 2005 until 2007, Mr. Troitckii served as a member of the Board of Directors of the Ochakovo Dairy Plant. He also serves as a member of the Supervisory Board of Bank Saint-Petersburg, a position he has held since December 2005 and as Development Director of Neva-Rus, a position he has held since 2005. Mr. Troitckii graduated from Leningrad Shipbuilding Institute, currently known as State Marine Technical University of Saint Petersburg, and holds a degree in engineering. Dmitrii indirectly owns 28.0047% of the shares of O'KEY Group S.A.

Dmitry Korzhev—Director
Dmitrii was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. From 2005 until April 2010, Mr. Korzhev served as a member of the Supervisory Board of Bank Saint-Petersburg. Dmitry graduated from Leningrad Shipbuilding Institute, currently known as State Marine Technical University of Saint Petersburg, and holds a degree in engineering. Dmitry indirectly owns 28.0047% of the shares of O'KEY Group S.A.

Boris Volchek—Director
Boris was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. He has also served as President of the Union Group of companies since 1995. In addition, since 2000 Boris has served as General Director of Saint Petersburg Automobile Museum. Mr. Volchek graduated from Leningrad Institute of Railway Engineers, currently known as Saint Petersburg State University of Communications, and holds a degree in engineering. Boris indirectly owns 22.2460% of the shares of O'KEY Group S.A.

Heigo Kera—Independent Director, Chairman of the Board
Heigo was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. He is the owner and, since 2008, a member of the Board of Directors of Silverko Consult OU, an Estonian consulting company specialising in providing consulting services in different countries. Since 2008 Heigo has been working as a Retail Projects Manager with HT Project Management OU and is responsible for starting a gourmet supermarket in Ukraine. Prior to that, from 2002 until 2008, Mr. Kera provided private consulting services, including research on

retail markets in Belarus, Kazakhstan and China. He was hired by O'Key management to consult on the development of a hypermarket format concept in Russia from 1998 until 2002. He is a graduate of the Tallinn Technical University (Estonia) and holds a degree in economics.

Mykola Buinyckyi—Independent Director
Mykola was elected as a member of the Company's Board of Directors on 6 October 2010, with the effective date of appointment being 2 November 2010. His experience includes more than 35 years in international financial management with major companies in Moscow, London, Paris, Brussels, Prague, Vilnius and Lagos. Mykola has more than 18 years of experience working in Russia for both Russian and international companies. Prior to Russia, Mr. Buinyckyi worked for seven years as a management consultant with Coopers & Lybrand and prior to that for a number of years in senior financial management positions in oil support services, construction, and the IT and retail sectors. He also has experience in corporate finance including investment appraisals, raising funds on public and private equity/debt markets, as well as in dealing with international financial institutions/agencies, commercial and investment banks, International Finance Corporation, European Bank for Reconstruction and Developments and rating agencies. Mr. Buinyckyi is graduate of Edinburgh University (U.K.) and is also a fellow of the Chartered Institute of Management Accountants and a member of the Institute of British Management. He holds Joint Diploma in Management Accounting.

Structure of the Board and Committees

Our Board of Directors is responsible for overall strategic development and, ultimately, for ensuring that O'Key achieves growth over the long term for its shareholders. The Board normally plans four meetings per year, where it regularly reviews financial reporting, the company's strategic performance and new initiatives. The committees conduct an initial review and discussion of the issues that they are responsible for before making a recommendation to the board for final review. The key responsibilities of the Board's committees are described below:

Remuneration committee

Members	Position
Heigo Kera	Chairman
Boris Volchek	Member
Dmitrii Troitckii	Member
Alvidas Brusokas	Member, non-director appointed April 2011
Ruslan Sadovnikov	Member, non-director appointed April 2011

The remuneration committee responsibilities include reviewing compensation policy, making proposals to the Directors as to the remuneration of executive directors and management, and advising on any benefit or incentive schemes. The bonuses and remuneration of the General Director of O'KEY LLC are also determined by the Board of Directors.

Audit committee

Members	Position
Mykola Buinyckyi	Chairman
Boris Volchek	Member
Dmitriy Korzhev	Member
Alexander Andrianov	Member, non-director appointed April 2011
Sergey Eganov	Member, non-director appointed April 2011

The audit committee has oversight responsibilities relating to the integrity of financial statements, including periodically reporting to the Board of Directors on its activities and the adequacy of internal control systems over financial reporting; and to make recommendations for

the appointment, compensation, retention and oversight of, and consider the independence of, the external auditors and perform such other duties imposed by applicable laws and regulations of the regulated market or markets on which the shares or global depositary receipts may be listed, as well as any other duties entrusted to the committee by the Board of Directors.
The ultimate responsibility for preparing the annual report and accounts and the half yearly reports remains with the Directors.

Remuneration of members of the Board of Directors and Management

In 2010, O'Key management were paid remuneration and compensation in an aggregate amount of RUB 209.8 million. Members of the Board of Directors were paid a Net Fee of US$40,000 in 2010. Members of the Board of Directors shall receive up to (and not more than) U.S.$300,000 per year as compensation for the entire board.

Management Incentives

We are committed to recruiting and retaining highly skilled personnel. One of the ways that we achieve this is by offering management performance linked and other incentives. These incentives are designed to motivate and award management for achieving long-term corporate financial and operational performance goals and maximizing shareholder value. Long-term incentives also serve to encourage retention of management.

Currently, a share price linked bonus scheme for our senior management is being finalized. This program will include a three-year term bonus linked to share price increase from the IPO in 2010.

Corporate Social Responsibility

We create new jobs and contribute to the social and economic development of the regions where we operate both directly – through opening new stores – and indirectly, by purchasing from local suppliers and utilizing 3rd party logistics and other services.

We support our employees' career development and progression by providing stable and fair compensation and benefits, as well as extensive training.

In addition, we share a desire to help those who are in need of care and support. Through various charity foundations, we support a large number of community organisations in Northwest Russia, including:

- Rodnichok boarding school for mentally handicapped children (town of Volkhov)
- Russian Red Cross (St. Petersburg)
- Vsevolozhsk psycho-neurological boarding house for children
- Specialized boarding school No. 14 of St. Petersburg
- Specialized boarding school No. 16 ofSt. Petersburg
- Centre for social rehabilitation for handicapped children in the Central Region of St. Petersburg
- Centre for social rehabilitation for thehandicapped in the Phrunzensky Region of St. Petersburg
- Centre for social rehabilitation for the handicapped in the Kurortny Region of St. Petersburg
- Moscow Regional Council for WWII war and labour veterans of the Siege of Leningrad
- Catholic charity centre Caritas
- Reto charity association

Our total CSR and charity budget for 2010 was RUB 4.4 million. We hope that through our contributions to important social initiatives affecting the most vulnerable members of society, we are able to improve the quality of their lives.

Management and Directors Responsibility Statement

We confirm, to the best of our knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of O'Key Group S.A. and the undertakings included in the consolidation taken as a whole, and that the Consolidated Directors' report includes a fair review of the development and performance of the business and the position of O'Key Group S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Luxembourg, 27 April 2011

Member of Board of Directors

Member of Board of Directors

CEO
Patrick Longuet

Financial Director
Dmitry Pryanikov

O'KEY GROUP S.A.

(formerly named DORINDA HOLDING S.A.)

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2010

(with the report of the Réviseur d'Entreprises Agréé thereon)

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To the Shareholders of
O'KEY GROUP S.A. (formerly DORINDA HOLDING S.A.)
23, rue Beaumont
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O'KEY GROUP S.A. (formerly DORINDA HOLDING S.A.) , which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 41 to 84.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

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 as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. 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 judgement of the Réviseur d'Entreprises agréé, 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 Réviseur d'Entreprises agréé 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 the Board of Directors, 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 give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. (formerly DORINDA HOLDING S.A.) as of December 31, 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as set out on pages 41 to 84.

Report on other legal and regulatory requirements

The consolidated Directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, 27 April 2011

KPMG Audit S.àr.l.
Cabinet de révision agréé

Thierry Ravasio

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'000 RUB	Note	2010	2009
ASSETS			
Non-current assets			
Investment Property	16	517 000	1 567 424
Property, plant and equipment	14	17 533 638	18 995 363
Construction in progress	14	1 204 602	974 042
Intangible assets	15	559 252	481 426
Long-term loans issued		1 338	9 362
Deferred tax asset	18	194 009	243 107
Other non-current assets	17	4 194 648	3 622 627
Total non-current assets		**24 204 487**	**25 893 351**
Current assets			
Inventories	19	5 995 208	5 145 489
Trade and other receivables	20	1 276 531	980 402
Prepayments for current assets		677 703	463 162
Short-term loans issued		31	1 724
Cash and cash equivalents	21	5 707 185	1 462 312
Total current assets		**13 656 658**	**8 053 089**
Total assets		**37 861 145**	**33 946 440**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 48 to 84.

'000 RUB	Note	2010	2009
EQUITY AND LIABILITIES			
Equity	**22**	**12 481 451**	**7 135 792**
Non-current liabilities			
Loans and borrowings	24	7 869 355	9 026 488
Deferred income tax liability	18	496 164	392 541
Deferred income		–	1 108
Other non-current liabilities		1 101 942	–
Total non-current liabilities		**9 467 461**	**9 420 137**
Current liabilities			
Loans and borrowings	24	3 702 261	6 439 677
Trade and other payables	25	11 736 964	10 800 614
Current income tax payable		473 008	150 220
Total current liabilities		**15 912 233**	**17 390 511**
Total liabilities		**25 379 694**	**26 810 648**
Total equity and liabilities		**37 861 145**	**33 946 440**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 48 to 84.

'000 RUB	Note	2010	2009
Revenue	7	82 666 633	67 874 615
Cost of goods sold		(64 742 611)	(53 106 388)
Gross profit		**17 924 022**	**14 768 227**
General, selling and administrative expenses	8	(12 407 970)	(10 303 667)
Other operating income and expenses	9	274 827	(846 307)
Operating profit		**5 790 879**	**3 618 253**
Finance income	11	16 583	37 791
Finance costs	11	(1 354 208)	(1 683 931)
Foreign exchange losses	12	(112 174)	(320 812)
Profit before income tax		**4 341 080**	**1 651 301**
Income tax expense	**13**	**(1 338 086)**	**(936 879)**
Profit for the year		**3 002 994**	**714 422**
Other comprehensive income			
Foreign currency translation differences for foreign operations		150 319	30 063
Revaluation of property, plant and equipment	14	721 306	(47 300)
Change in fair value of hedges	11	140 765	22 266
Income tax on other comprehensive income	13	(172 414)	5 007
Other comprehensive income for the year, net of income tax		**839 976**	**10 036**
Total comprehensive income for the year		**3 842 970**	**724 458**
Earnings per share			
Basic and diluted earnings per share (RUB)	23	**11.7**	**6.6**

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 48 to 84.

O'key Group S.A.
Consolidated Statement of Changes in Equity for the year ended 31 December 2010

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2009		**1 027**	**111**	**3 663 596**	**(122 940)**	**(1 101 997)**	**3 773 360**	**76 373**	**6 289 530**
Total comprehensive income for the year									
Profit for the year		–	–	–	–	714 422	–	–	**714 422**
Other comprehensive income									
Foreign currency translation differences		–	–	–	–	–	–	30 063	**30 063**
Revaluation of property, plant and equipment	14	–	–	–	–	–	(47 300)	–	**(47 300)**
Change in fair value of hedges	11	–	–	–	22 266	–	–	–	**22 266**
Income tax on other comprehensive income	13	–	–	–	(4 453)	–	9 460	–	**5 007**
Total other comprehensive income		–	–	–	17 813	–	(37 840)	30 063	**10 036**
Total comprehensive income for the year		–	–	–	17 813	714 422	(37 840)	30 063	**724 458**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Issue of shares	22	108 788	–	13 016	–	–	–	–	**121 804**
Total contributions by and distributions to owners		108 788	–	13 016	–	–	–	–	**121 804**
Balance at 31 December 2009		**109 815**	**111**	**3 676 612**	**(105 127)**	**(387 575)**	**3 735 520**	**106 436**	**7 135 792**

The consolidated statement of change in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 48 to 84.

O'key Group S.A.
Consolidated Statement of Changes in Equity for the year ended 31 December 2010

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2010		**109 815**	**111**	**3 676 612**	**(105 127)**	**(387 575)**	**3 735 520**	**106 436**	**7 135 792**
Total comprehensive income for the year									
Profit for the year			–	–		3 002 994	–	–	3 002 994
Other comprehensive income									
Foreign currency translation differences		–	–	–		–	–	150 319	150 319
Revaluation of property, plant and equipment	14	–	–	–		–	721 306	–	721 306
Change in fair value of hedges	11	–	–	–	140 765	–	–	–	140 765
Income tax on other comprehensive income	13	–	–	–	(28 153)		(144 261)	–	(172 414)
Total other comprehensive income		–	–	–	**112 612**	–	**577 045**	**150 319**	**839 976**
Total comprehensive income for the year		–	–	–	**112 612**	**3 002 994**	**577 045**	**150 319**	**3 842 970**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Issue of shares	22	9 625	–	5 226 994	–		–	–	5 236 619
Interim dividends paid	22	–	–	–	–	(587 489)	–	–	(587 489)
Distributions to share-holders	6	–	–	–	–	(3 146 441)	–	–	(3 146 441)
Revaluation reserve on disposed assets	22	–	–	–	–	949 905	(949 905)	–	–
Total contributions by and distributions to owners		**9 625**	–	**5 226 994**	–	**(2 784 025)**	**(949 905)**	–	**1 502 689**
Balance at 31 December 2010		**119 440**	**111**	**8 903 606**	**7 485**	**(168 606)**	**3 362 660**	**256 755**	**12 481 451**

The consolidated statement of change in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 48 to 84.

'000 RUB	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		4 341 080	1 651 301
Adjustments for:	14, 15, 17		
Depreciation and amortisation	9	1 573 527	1 361 306
Loss on disposal of property, plant and equipment, investment property, intangible assets and other non-current assets	16	63 539	37 321
(Gain) / loss from revaluation of investment property	15, 17	(7 964)	81 215
Impairment of non-current assets	9	–	134 445
Revaluation of property, plant and equipment	11	(396 541)	618 078
Finance income	11	(16 583)	(37 791)
Finance costs	12	1 354 208	1 683 931
Foreign exchange losses less gains		112 174	320 812
Cash from operating activities before changes in working capital and provisions		**7 023 440**	**5 850 618**
Change in net trade and other receivables		(146 061)	231 646
Change in inventories		(850 239)	(1 204 885)
Change in trade and other payables		1 394 376	675 396
Change in deferred income		(1 108)	(13 345)
Cash flows from operations before income taxes and interest paid		**7 420 408**	**5 539 430**
Interest paid		(1 421 815)	(1 933 703)
Income tax paid		(887 673)	(733 479)
Net cash from operating activities		**5 110 920**	**2 872 248**

The consolidated statement of cash flow is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 48 to 84.

'000 RUB	Note	2010	2009
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(3 240 166)	(3 221 703)
Purchase of lease rights		–	(46 624)
Purchase of other intangible assets		(216 204)	(65 876)
Proceeds from sales of property, plant and equipment and investment property		55 319	16 256
Loans issued / (reimbursed)		(8 705)	–
Interest received		16 583	28 332
Net cash used in investing activities		**(3 393 173)**	**(3 289 615)**
Cash flows from financing activities			
Proceeds from borrowings		27 696 985	17 166 280
Repayment of borrowings		(29 888 926)	(17 125 503)
Interim dividents paid		(587 489)	–
Disposal of subsidiaries net of cash disposed	6	(775 295)	–
Guarantee received	14	914 307	–
Issue of shares		5 084 051	121 804
Repayment of finance lease payables		(39 435)	(34 236)
Net cash from financing activities		**2 404 198**	**128 345**
Net increase/(decrease) in cash and cash equivalents		**4 121 945**	**(289 022)**
Cash and cash equivalents at beginning of year		1 462 312	1 673 466
Effect of exchange rate fluctuations on cash and cash equivalents		122 928	77 868
Cash and cash equivalents at end of year	**21**	**5 707 185**	**1 462 312**

The consolidated statement of cash flow is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 48 to 84.

1 Background

(a) Organisation and operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union for the year ended 31 December 2010 for O'key Group S.A., formerly named Dorinda Holding S.A., (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

In June 2010 the Company has changed its legal name from Dorinda Holding S.A. to O'Key Group S.A.

The major shareholders of the Group are four individuals, Mr.Korzhev, Mr.Troitsky, Mr.Volchek and Mr.Teder ("the shareholder group"), who have the power to direct the transactions of the Group at their own discretion and for their own benefits. They also have a number of other business interests outside of the Group. In November 2010 the Group completed its public offering of 15 974 000 newly issued ordinary shares at USD 11 each and placed global depository receipts ("GDR's") on the London Stock Exchange. For more details on shares offering refer to note 22 below.

Related party transactions are detailed in Note 30.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'Key". At 31 December 2010 the Group operated 58 stores (31 December 2009: 46 stores).

The Company's registered address is: Luxembourg 23, rue Beaumont, L-1219 Luxembourg.

(b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and were authorised for issue by the Board of Directors on 27 April 2011.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are stated at fair value;
- Land, buildings and investment property are remeasured at fair value.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles.

The results and financial position of the Group entities, which functional currencies are different from Russian Roubles, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of the year end;
- profit and loss items for each statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 30.4769; EUR 1 = RUB 40.3331 (2009: USD 1 = RUB 30.2442; EUR 1 = RUB 43.3883).

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 29.

Impairment of non-current assets. The recoverable amount of non-current assets is determined as the higher of fair value less costs to sell and value in use. The details are set out in notes 15 and 17.

Revenue recognition. The Group has recognised revenue amounting to RUB 81 688 million for sales of goods during 2010 (2009: RUB 67 031 million). According to the Group's policy customers have the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

Deferred tax asset recognition. The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on the expectations of future income that are believed to be reasonable under the circumstances.

Assumptions in revaluing land and buildings and investment properties. Fair value of the Group's land and buildings and investment property is determined by registered independent appraisers with appropriate recognised professional qualification and recent experience in the location and type of the property valued. The detailed approaches are outlined in note 14.

Determination of net realizable value of inventory. The Group performs analysis of stock for write-off as at each reporting date and writes down inventories to their net realizable value when necessary. For details of approach used for determination of net realizable value refer to note 19.

(e) Changes in accounting policies

With effect from 1 January 2010, the Group changed its accounting policies in relation to classification of leases of land.

(i) Classification of leases of land

As at 1 January 2010 the Group has reassessed its classification of all unexpired long-term land leases either as operating or finance leases. Since 1 January 2010 the Group performs such assessment for all new land leases.

Previously all land leases were treated as operating leases. The change in accounting policy was due to adoption of amendments to IAS 17 Leases introduced by Improvements to IFRS April 2009 which became effective as at 1 January 2010. After the amendments long-term land leases are classified as finance or operating leases in accordance with the general criteria in IAS 17.

The land title does not pass to the Group at the end of lease term. The rent paid to landlord is reset from time to time following changes in the market. At inception of land leases the present value of minimum lease payments is substantially less than fair value of leased land. The Group regularly performs comparison of purchase of land versus long-term rent and consistently concludes that long-term rent of land is more beneficial than purchase.

The reassessment did not result in reclassification. As at 31 December 2010 the Group classifies all long-term land leases as operating leases.

(f) Changes in estimates

Starting from 2010 the Group changed functional currency of O'Key Group S.A. from EUR to USD, because USD better reflects primary economic environment in which the Company operates, specifically USD is the currency in which most of funds from financing activities are generated.

3 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e),which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Investments in Joint Ventures
Joint Ventures are jointly controlled entities, whereby the Company and other parties undertake an economic activity that is subject to joint control. Jointly controlled entities are accounted for using proportional consolidation method, whereby the Company's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Company's financial statements. Where a sale of assets to joint ventures occurred, and these assets were retained by the joint venture, the Company recognized only that portion of the gain or loss that is attributable to the interests of the other venturers. When a purchase of assets from joint ventures occurred, the Company's share in the profits from this transaction is not recognized until the assets are resold.

(iii) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations
The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(c) Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

(i) Non-derivative financial assets
The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on

the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non–derivative financial liabilities
All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments
The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

(d) Transactions with owners

(i) Ordinary shares/share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Distributions to owners/contributions from owners
The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholders) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

(e) Property, plant and equipment

(i) Recognition and measurement
Property, plant and equipment are stated at cost for equipment and other fixed assets and stated at revalued amounts for land and buildings, as described below, less accumulated depreciation and provision for impairment, where required. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Revaluation of land and buildings
Land and buildings are measured at fair value, based on periodic valuation by external independent appraisers. A revaluation increase on land and buildings is recognised directly in the revaluation reserve in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on land and buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income. When a revalued asset is sold, the amount included in the revaluation reserve is transferred to retained earnings.

(iv) Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings — 30 years
- Machinery and equipment, auxiliary facilities — 2–20 years
- Motor vehicles — 5–10 years
- Leasehold improvements — over the term of underlying lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property, including investment property under construction, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss. If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods vary from 3 to 7 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Leased assets

(i) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortized using straight-line method over the period of lease being up to 51 years.

(ii) Finance leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as other payables (long-term accounts payable for amounts due after 12 months from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of goods for resale includes its purchase price and related transportation costs, as well as other related logistic costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment

(i) Financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or ess than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets
The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Employee benefits

(i) Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits
Other long-term employee benefits represent long-service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(iii) Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, returns and discounts.

(i) Goods sold
Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register.

(ii) Services
Revenue from services rendered is recognised in profit or loss when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(n) Cost of sales

Cost of sales include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories primarily in the form of volume discounts and slotting fees. These bonuses are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of sales.

(o) Finance income and costs

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Value added tax

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- Amended IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets.* The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet determined the potential effect of the amendment.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Land and buildings, investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's land and buildings and investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the allocation of maintenance and insurance responsibilities between the Group and the lessee.

(b) Non-derivative financial assets

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Derivatives

The fair value of interest rate and foreign exchange swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group is engaged in management of retail stores located in Russia and has identified retail operations as a single reportable segment. Although the Group is not exposed to concentration of sales to individual customers, all the Group's sales are in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

The Group identified its operating segments in accordance with the criteria set in IFRS 8 Operating Segments and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources within the Group.

The Group's chief operating decision maker has been determined as the CEO.

The Group operating segments represent individual retail stores. Due to similar economic characteristics (refer below) they were aggregated in one reportable segment.

Within the reportable segment all business components demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the Group manages its operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the Group's activities are mainly limited to Russia which has a uniform regulatory environment.

CEO assesses the performance of the operating segment based on adjusted earnings before interest, tax, depreciation and amortization (EBITDA). Other information provided to CEO is measured in a manner consistent with that in the consolidated financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements as described in note 3.

The segment information for the year ended 31 December 2010 is as follows:

'000 RUB	2010	2009
Revenue	82 666 633	67 874 615
EBITDA	7 126 676	5 813 297

A reconciliation of EBITDA to profit for the year is as follows:

'000 RUB	2010	2009
EBITDA	7 126 676	5 896 309
Revaluation gain/(loss)	404 505	(699 293)
Loss from disposal of non-current assets	(63 539)	(37 321)
Loss from write-off of receivables	(66 395)	(2 110)
Impairment of receivables	(36 841)	(43 581)
Depreciation and amortisation	(1 573 527)	(1 361 306)
Impairment losses	–	(134 445)
Finance income	16 583	37 791
Finance costs	(1 354 208)	(1 683 931)
Foreign exchange losses	(112 174)	(320 812)
Profit before income tax	4 341 080	1 651 301
Income tax	(1 338 086)	(936 879)
Profit for the year	**3 002 994**	**714 422**

6 Distribution of assets

On 23 December 2010 the Group disposed of its 100% owned subsidiaries Denovex Limited, Dextenco Co Limited, Filorus Limited, Lonmax Limited, Macropia Limited, Naviline Limited, Ricandano Co Limited, Gelarous Co Limited, Lefkosan Co Limited, Siltom Holdings Limited, LLC Dorinda Invest, LLC Premium, LLC BC Okkervil, LLC Elart, LLC Legion, LLC Rampazh, LLC Dorinda-Murmansk, LLC N.E.F.-Saint-Petersburg, LLC Region to an entity controlled by the shareholder group (see note 1(a)).

Although the majority of disposed subsidiaries did not own significant assets, some of the disposed subsidiaries owned vacant and developed land plots, long-term lease rights for several developed and vacant land plots, two trade centers for which development has not been completed and three operating O'Key hypermarkets.

Immediately after disposition, the Group leased back three operating O'Key hypermarkets and nearby areas, including parking space and other related assets, under operating lease. Terms of the lease are such that the Group should pay rentals which will include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of Group's retail revenue from operation of these hypermarkets.

Contribution of disposed subsidiaries to Group's profit for the year was not significant.

The disposal of the subsidiaries had the following effect on the Group's assets and liabilities at the date of disposal:

'000 RUB	Note	Carrying amount at date of disposal
Non-current assets		
Investment property	16	1 083 803
Property, plant and equipment	14	4 017 320
Construction in progress	14	116 457
Investments		18 422
Deferred tax assets		35 017
Other non-current assets		500 578
Current assets		
Inventories		520
Trade and other receivables		431 706
Cash and cash equivalents		790 178
Non-current liabilities		
Loans and borrowings		(1 626 456)
Deferred tax liabilities		(322 480)
Other non-current liabilities		(1 230 551)
Current liabilities		
Loans and borrowings		(142 499)
Trade and other payables		(771 875)
Current income tax payable		(10 626)
Net identifiable assets and liabilities		2 889 514
Excess of carrying values of net assets distributed over consideration received		2 874 631
Consideration received, satisfied in cash		14 883
Cash disposed of		(790 178)
Net cash outflow		(775 295)

Difference between net assets disposed and consideration received adjusted for tax effect of disposition (RUB 271 810 thousand) was recognized directly in equity as distributions to shareholders.

Accumulated revaluation reserve on disposed land and buildings was transferred to retained earnings in the amount of RUB 949 905 thousand net of tax effect of RUB 237 476 thousand. Transfer of revaluation reserve to retained earnings was disclosed in the Consolidated Statement of Changes in Equity in the same line as distribution of assets.

7 Revenue

'000 RUB	2010	2009
Sales of trading stock	77 699 520	63 540 249
Sales of self-produced catering products	3 987 986	3 490 440
Revenue from sale of goods	81 687 506	67 030 689
Rental income	705 937	636 317
Revenue from advertising services	273 190	207 609
Total revenues	**82 666 633**	**67 874 615**

Total revenues comprise sale of goods, rental income from tenants which rent trade area in the Group stores and income from placing advertising in the Group stores.

8 General, selling and administrative expenses

'000 RUB	Note	2010	2009
Personnel costs	10	(5 989 087)	(5 229 496)
Depreciation and amortization		(1 573 527)	(1 361 306)
Advertising and marketing		(429 923)	(363 425)
Operating leases		(1 069 935)	(672 162)
Repairs and maintenance costs		(257 120)	(239 400)
Communication and utilities		(1 101 438)	(891 509)
Materials and supplies		(357 473)	(179 146)
Security expenses		(520 781)	(428 525)
Insurance and bank commission		(327 795)	(255 827)
Legal and professional expenses		(163 292)	(133 425)
Operating taxes		(348 872)	(391 455)
Other costs		(268 727)	(157 991)
		(12 407 970)	**(10 303 667)**

Fees billed to the Company and its subsidiaries by KPMG Audit S.à r.l., Luxembourg, and other member firms of the KPMG network during the year are as follows:

'000 RUB	2010	2009
Auditors' remuneration for annual and consolidated accounts	17 165	18 916
Auditors' remuneration for other assurance services	24 511	-
Auditors' remuneration for tax advisory services	259	111
Auditors' remuneration for non-audit services	4 335	536
	46 270	**19 563**

9 Other operating income and expenses

'000 RUB	Note	2010	2009
Loss from disposal of non-current assets		(63 539)	(37 321)
Loss from write-off of receivables		(66 395)	(2 110)
Impairment of receivables	26	(36 841)	(43 581)
Gain/(loss) from revaluation of investment property	16	7 964	(81 215)
Gain/(loss) from revaluation of property, plant and equipment		396 541	(618 078)
Loss from impairment of non-current assets	15, 17	-	(134 445)
Sundry income		37 097	70 443
		274 827	**(846 307)**

The Group measures land and buildings at fair value. For accounting policy in respect of revaluation of land and buildings refer to note 3(e)(iii). For major assumptions underlying revaluation of land and buildings refer to note 14(a).

10 Personnel costs

'000 RUB	2010	2009
Wages and salaries	(3 802 377)	(3 304 911)
Contributions to state pension fund	(1 042 651)	(869 131)
Employee benefits	(1 099 679)	(1 004 008)
Other	(44 380)	(51 446)
Total personnel costs	**(5 989 087)**	**(5 229 496)**

During the year ended 31 December 2010 the Group employed 14 thousand employees on average (2009: 12 thousand employees on average). Approximately 95% of employees are store employees and the remaining part is office employees.

11 Finance income and finance costs

'000 RUB	2010	2009
Recognised in profit or loss		
Interest income on loans and receivables	11 116	30 479
Other finance income	5 467	7 312
Finance income	**16 583**	**37 791**
Interest costs on loans and borrowings	(1 237 793)	(1 687 639)
Reclassification from hedging reserve	(93 377)	–
Ineffective hedges	(22 829)	6 758
Finance leasing costs	(209)	(3 050)
Finance costs	**(1 354 208)**	**(1 683 931)**
Net finance costs recognised in profit or loss	**(1 337 625)**	**(1 646 140)**
The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:		
Total interest income on financial assets	16 583	37 791
Total interest expense on financial liabilities	(1 331 379)	(1 690 689)

'000 RUB	2010	2009
Recognised in other comprehensive income		
Change in fair value of hedges	47 388	22 266
Reclassification from hedging reserve	93 377	–
Income tax on income and expense recognised in other comprehensive income	(28 153)	(4 453)
Finance income recognised in other comprehensive income, net of tax	112 612	17 813

During 2010 the Group has capitalised interests in the value of property, plant and equipment and investment property. The amount of capitalised interest comprised RUB 89 247 thousand (2009: RUB 232 577 thousand).

In 2010 capitalisation rate of 6.4 % was used to determine the amount of borrowing costs eligible for capitalisation (2009: 7.3%).

12 Foreign exchange losses

During 2010 the Group had significant borrowings denominated in US dollars.

The weakening of Russian Rouble during 2010 has resulted in foreign exchange loss for the year amounting to RUB 112 174 thousand (2009: RUB 320 812 thousand). In 2010 the Group has used hedging instruments to hedge foreign exchange risks.

For the current period, the Group's risk management policy is to convert majority of its USD denominated debt into RUB denominated debt. In order to comply with Group's risk management policy, the foreign exchange risk arising from repayment of long-term USD denominated debt is hedged.

13 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2009: 20%).

'000 RUB	2010	2009
Current tax expense	(1 133 667)	(909 831)
Deferred tax expense	(204 419)	(27 048)
Total income tax expense	**(1 338 086)**	**(936 879)**

Income tax recognised directly in other comprehensive income

'000 RUB	2010			2009		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	150 319	–	150 319	30 063	–	30 063
Revaluation of property, plant and equipment	721 306	(144 261)	577 045	(47 300)	9 460	(37 840)
Change in fair value of hedges	140 765	(28 153)	112 612	22 266	(4 453)	17 813
	1 012 390	**(172 414)**	**839 976**	**5 029**	**5 007**	**10 036**

Reconciliation of effective tax rate:

'000 RUB	2010	2009
Profit before income tax	**4 341 080**	**1 651 301**
Income tax at applicable tax rate (2010: 20%, 2009: 20%)	(868 216)	(330 261)
Effect of income taxed at different rates	(8 814)	(5 928)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Inventory shrinkage expenses	(259 498)	(272 800)
- Other non-deductible expenses	(124 086)	(80 626)
Tax withheld on dividends received from subsidiaries	(106 092)	–
Write-off of deferred tax asset of tax losses carried forward	–	(208 985)
Adjustments to current income tax for previous periods	49 562	(38 279)
Other items	(20 942)	–
Income tax expense for the year	**(1 338 086)**	**(936 879)**

14 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Cost or deemed cost/Revalued amount								
Balance at 1 January 2009	6 505 365	8 543 427	201 496	30 946	2 500 380	1 052 483	1 947 007	20 781 104
Additions	92 000	1 525 649	446 057	994	568 238	245 143	524 669	3 402 750
Transfers	–	838 739	48 302	–	38 263	–	(925 304)	–
Transfers to Investment Property	(293 712)	–	–	–	–	–	(547 503)	(841 215)
Revaluation	(203 274)	(809 764)	–	–	–	–	–	(1 013 038)
Disposals	–	–	–	(2 313)	(7 668)	(2 090)	(24 827)	(36 898)
Balance at 31 December 2009	**6 100 379**	**10 098 051**	**695 855**	**29 627**	**3 099 213**	**1 295 536**	**974 042**	**22 292 703**
Balance at 1 January 2010	6 100 379	10 098 051	695 855	29 627	3 099 213	1 295 536	974 042	22 292 703
Additions	171 848	321 208	841 588	7 552	965 095	307 578	608 983	3 223 852
Transfers	(74 924)	103 007	104 716	1 041	100 786	(1 548)	(233 078)	–
Revaluation	284 209	492 495	–	–	–	–	–	776 704
Distribution of assets	(2 796 176)	(1 193 761)	–	(155)	(116 776)	–	(116 457)	(4 223 325)
Disposals	–	–	–	(2 670)	(27 343)	(19 103)	(28 888)	(78 004)
Balance at 31 December 2010	**3 685 336**	**9 821 000**	**1 642 159**	**35 395**	**4 020 975**	**1 582 463**	**1 204 602**	**21 991 930**

'000 RUB	Land	Buildings	Leasehold improvements	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Depreciation and impairment losses								
Balance at 1 January 2009	–	–	(1 169)	(15 556)	(933 887)	(546 393)	(300 000)	(1 797 005)
Depreciation for the year	–	(347 660)	(41 353)	(2 109)	(530 055)	(259 070)	–	(1 180 247)
Revaluation	–	347 660	–	–	–	–	–	347 660
Transfers to Investment property	–	–	–	–	–	–	300 000	300 000
Disposals	–	–	–	1 639	3 274	1 381	–	6 294
Balance at 31 December 2009	**–**	**–**	**(42 522)**	**(16 026)**	**(1 460 668)**	**(804 082)**	**–**	**(2 323 298)**

'000 RUB	Land	Buildings	Leasehold improvements	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Balance at 1 January 2010	–	–	(42 522)	(16 026)	(1 460 668)	(804 082)	–	(2 323 298)
Depreciation for the year	–	(385 238)	(86 408)	(3 808)	(621 987)	(291 387)	–	(1 388 828)
Revaluation	–	341 143	–	–	–	–	–	341 143
Distribution of assets	–	44 095	–	–	45 453	–	–	89 548
Disposals	–	–	–	2 670	20 395	4 680	–	27 745
Balance at 31 December 2010	–	–	**(128 930)**	**(17 164)**	**(2 016 807)**	**(1 090 789)**	–	**(3 253 690)**
Carrying amounts								
At 1 January 2009	**6 505 365**	**8 543 427**	**200 327**	**15 390**	**1 566 493**	**506 090**	**1 647 007**	**18 984 099**
At 31 December 2009	**6 100 379**	**10 098 051**	**653 333**	**13 601**	**1 638 545**	**491 454**	**974 042**	**19 969 405**
At 31 December 2010	**3 685 336**	**9 821 000**	**1 513 229**	**18 231**	**2 004 168**	**491 674**	**1 204 602**	**18 738 240**
Net book value had no revaluations taken place								
At 1 January 2009	**3 489 884**	**10 862 339**	**200 327**	**15 390**	**1 566 493**	**506 090**	**1 647 007**	**18 287 530**
At 31 December 2009	**3 596 158**	**12 720 557**	**653 333**	**13 601**	**1 638 545**	**491 454**	**974 042**	**20 087 690**
At 31 December 2010	**2 025 851**	**10 591 410**	**1 513 229**	**18 231**	**2 004 168**	**491 674**	**1 204 602**	**17 849 165**

Depreciation expense of RUB 1 388 828 thousand has been charged to selling, general and administrative expenses (2009: RUB 1 180 247 thousand).

(a) Revaluation of land and buildings

The carrying amount of land and buildings is the fair value of the land and buildings as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued. Revaluation was made annually, for each reporting date.

In respect of land the appraisers have used the market approach for determining the fair value. In respect of buildings, the appraisers have used primarily the income approach and, secondary the market approach for determining the fair value of buildings. Market approach was mainly used for the buildings of supermarkets.

The market approach considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the nature, conditions and locations of the appraised property relative to the market comparative. In the income approach, an estimate is made of annual net operating income for 5 years, which is mainly based on annual net rent rate varying from RUB 5 000 to RUB 6 900 per sq. m. (2009: from RUB 4 300 to RUB 6 700 per sq.m.) and full occupancy. The annual net operating income is assumed to be constant from year 6 to perpetuity. Discount rates from 13.5% to 17.3% (2009: from 15.8% to 19.3%) were applied in the income based approach, dependent on local risk factors.

(b) Security

At 31 December 2010 property, plant and equipment carried at RUB 5 903 000 thousand (2009: RUB 8 333 576 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 24.

In 2010 the Group has entered into agreement with third party in relation to one of its land plots with carrying value of RUB 690 000 thousand as at 31 December 2010. Under terms of this agreement the third party will build a trade center on this land plot. Upon completion of construction the Group will exchange part of land plot for part of trade center and will locate O'Key hypermarket there. In 2010 the Group received guarantee payment in the amount of RUB 914 307 thousand in relation to this transaction. Guarantee received was included in other non-current liabilities.

15 Intangible assets

'000 RUB	Software	Lease rights	Total
Cost			
Balance at 1 January 2009	117 902	230 572	348 474
Additions	82 100	208 460	290 560
Transfer from other assets	–	52 443	52 443
Balance at 31 December 2009	**200 002**	**491 475**	**691 477**
Balance at 1 January 2010	200 002	491 475	691 477
Additions	216 204	–	216 204
Balance at 31 December 2010	**416 206**	**491 475**	**907 681**
Amortisation and impairment losses			
Balance at 1 January 2009	(64 538)	–	(64 538)
Amortisation for the year	(52 099)	(69 969)	(122 068)
Impairment losses	–	(23 445)	(23 445)
Balance at 31 December 2009	**(116 637)**	**(93 414)**	**(210 051)**
Balance at 1 January 2010	(116 637)	(93 414)	(210 051)
Amortisation for the year	(76 107)	(62 271)	(138 378)
Balance at 31 December 2010	**(192 744)**	**(155 685)**	**(348 429)**
Carrying amounts			
At 1 January 2009	53 364	230 572	283 936
At 31 December 2009	83 365	398 061	481 426
At 31 December 2010	**223 462**	**335 790**	**559 252**

Amortisation and impairment charge

Amortisation of RUB 138 378 thousand has been charged to selling, general and administrative expenses (2009: RUB 122 068 thousand).

16 Investment property

'000 RUB	Investment property	Investment property under construction	Total investment property
Investment properties at fair value as at 1 January 2009	**1 041 642**	**–**	**1 041 642**
Additions	–	65 358	**65 358**
Transfers from property, plant and equipment	293 712	247 503	**541 215**
Expenditure on subsequent improvements	424	–	**424**
Fair value (loss)/gain	(173 954)	92 739	**(81 215)**
Investment properties at fair value as at 31 December 2009	**1 161 824**	**405 600**	**1 567 424**
Investment properties at fair value as at 1 January 2010	**1 161 824**	**405 600**	**1 567 424**
Additions	–	22 379	22 379
Expenditure on subsequent improvements	3 036	–	3 036
Distribution of assets	(655 824)	(427 979)	(1 083 803)
Fair value gain	7 964	–	7 964
Investment properties at fair value as at 31 December 2010	**517 000**	**–**	**517 000**

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued. Refer to note 14.

At 31 December 2010 investment property carried at RUB 517 000 thousand (2009: RUB 1 161 824 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 24.

Direct operating expenses arising from investment property that generated rental income amounted to RUB 69 153 thousand for the year ended 31 December 2010 (2009: RUB 68 081 thousand). There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2010 (2009: Nil).

17 Other non-current assets

'000 RUB	2010	2009
Prepayments for non-current assets	383 080	688 768
Initial cost of land lease	2 433 694	2 787 467
Long-term deposits to lessors	118 081	95 359
Long-term prepayments to entities under control of shareholder group	1 230 054	–
Deferred bank commissions	29 739	51 033
	4 194 648	**3 622 627**

Initial cost of land lease includes purchase price and the costs directly attributable to acquisition of lease rights and is amortised over the period of the lease (49-51 years).

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2017. Related party transactions are detailed in note 30.

Movements in the carrying amount of initial cost of land lease were as follows:

'000 RUB	2010	2009
Cost		
Balance at 1 January	**3 290 913**	**3 299 117**
Additions	249 666	16 557
Distribution of assets	(517 539)	–
Disposals	(72 439)	(24 761)
Balance at 31 December	**2 950 601**	**3 290 913**
Amortization and impairment losses		
Balance at 1 January	**(503 446)**	**(335 243)**
Amortization charge	(46 321)	(58 991)
Impairment losses	–	(111 000)
Distribution of assets	29 020	–
Disposals	3 840	1 788
Balance at 31 December	**(516 907)**	**(503 446)**
Net book value	**2 433 694**	**2 787 467**

At 31 December 2010 initial cost of land lease carried at RUB 426 795 thousand (2009: RUB 492 683 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 24.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	2010	2009	2010	2009	2010	2009
Investment property	55 309	–	–	(89 166)	55 309	(89 166)
Property, plant and equipment	–	–	(660 632)	(595 414)	(660 632)	(595 414)
Construction in progress	–	–	–	(26 838)	–	(26 838)
Intangible assets	–	–	–	(123)	–	(123)
Investments	3 365	3 327		–	3 365	3 327
Other non-current assets	5 522	59 028	–	–	5 522	59 028
Inventories	156 748	117 199	–	(905)	156 748	116 294
Trade and other receivables	69 037	18 768	–	(1 821)	69 037	16 947
Trade and other payables	68 496	252 805	–	–	68 496	252 805
Tax losses carry-forwards	–	113 706	–	–	–	113 706
Tax assets/(liabilities)	**358 477**	**564 833**	**(660 632)**	**(714 267)**	**(302 155)**	**(149 434)**
Set off of tax	(164 468)	(321 726)	164 468	321 726	–	–
Net tax assets/(liabilities)	**194 009**	**243 107**	**(496 164)**	**(392 541)**	**(302 155)**	**(149 434)**

(b) Unrecognised deferred tax liability

As at 31 December 2010 a temporary difference of RUB 11 713 761 thousand (2009: RUB 6 214 166 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10–15% would apply.

(c) Movement in temporary differences during the year

'000 RUB	1 January 2010	Recognised in profit or loss	Recognised in hedging reserve	Recognised in revaluation reserve	Distribution to shareholders	31 December 2010
Investment property	(89 166)	19 549	–	–	124 926	55 309
Property, plant and equipment	(595 414)	(67 349)	–	(144 261)	146 392	(660 632)
Construction in progress	(26 838)	26 838	–	–	–	–
Intangible assets	(123)	123	–	–	–	–
Investments	3 327	38	–	–	–	3 365
Other non-current assets	59 028	(69 651)	–	–	16 145	5 522
Inventories	116 294	40 454	–	–	–	156 748
Trade and other receivables	16 947	52 090	–	–	–	69 037
Trade and other payables	252 805	(156 156)	(28 153)	–	–	68 496
Tax loss carry-forwards	113 706	(50 355)	–	–	(63 351)	–
	(149 434)	**(204 419)**	**(28 153)**	**(144 261)**	**224 112**	**(302 155)**

'000 RUB	1 January 2009	Recognised in profit or loss	Recognised in hedging reserve	Recognised in revaluation reserve	Reclassified to intangible assets	31 December 2009
Investment property	16 026	(105 192)	–	–	–	(89 166)
Property, plant and equipment	(788 874)	190 121	–	9 460	(6 121)	(595 414)
Construction in progress	53 031	(79 869)	–	–	–	(26 838)
Intangible assets	(4 533)	250	–	–	4 160	(123)
Investments	4 490	(1 163)	–	–	–	3 327
Other non-current assets	90 206	20 170	–	–	(51 348)	59 028
Inventories	85 329	30 965	–	–	–	116 294
Trade and other receivables	17 820	(873)	–	–	–	16 947
Deferred income	754	(754)	–	–	–	–
Trade and other payables	128 880	128 378	(4 453)	–	–	252 805
Tax loss carry-forwards	322 787	(209 081)	–	–	–	113 706
	(74 084)	**(27 048)**	**(4 453)**	**9 460**	**(53 309)**	**(149 434)**

19 Inventories

'000 RUB	2010	2009
Goods for resale	6 022 609	4 997 712
Raw materials and consumables	287 597	313 387
Write-down to net realisable value	(314 998)	(165 610)
	5 995 208	**5 145 489**

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 314 998 thousand as at 31 December 2010 (2009: RUB 165 610 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

The write-down is included in cost of goods sold.

20 Trade and other receivables

'000 RUB	Note	2010	2009
Trade receivables		64 966	85 293
VAT receivable		604 032	517 069
Prepaid taxes		23 748	46 763
Foreign exchange and interest rate swap receivables	26	21 896	6 758
Other receivables		561 889	324 519
		1 276 531	**980 402**

Taxes prepaid include RUB 17 879 thousand of prepaid Income tax (2009: RUB 40 144 thousand).

Other receivables include RUB 349 173 thousand (2009: RUB 302 527 thousand) of bonuses receivable from suppliers.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

21 Cash and cash equivalents

'000 RUB	2010	2009
Cash on hand	204 284	153 282
RUB denominated bank current account	683 249	610 850
USD denominated bank current account	54 280	12 373
RUB term deposits (interest rate: 3.2% p.a. – 5.75% p.a.; 2009 – 7.7% p.a.)	3 942 129	11 204
Cash in transit	823 243	674 603
Cash and cash equivalents	**5 707 185**	**1 462 312**

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: Sberbank, Baltiysky Bank, Raiffeisen bank, VTB bank, Credit Evropa bank, Swedbank, TransCredit bank, BSGV, Hansa Bank, Unicredit bank and Uralsib bank.

The Group's exposure to credit and currency risks related to cash and cash equivalents is disclosed in note 26.

22 Equity

Reconciliation of number of shares from 1 January to 31 December is provided in the table below.

Number of shares unless otherwise stated	Ordinary shares 2010	2009
Par value	EUR 0.01	EUR 10
On issue at 1 January	253 100	3 100
Split of shares	252 846 900	–
Issued for cash	15 974 000	250 000
On issue at 31 December, fully paid	**269 074 000**	**253 100**

As at 31 December 2010 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 2009: EUR 2 531 thousand) is represented by 269 074 000 shares (2009: 253 100 shares) with a par value of 0.01 EUR (2009: 10 EUR) each.

In October 2010 share capital of O'Key Group S.A. was restructured in the form of share split in proportion of 1000/1 (from 253 100 shares with par value of 10 EUR each to 253 100 000 shares with par value of 0.01 EUR each).

In November 2010 O'Key Group S.A. issued 15 974 000 ordinary shares with par value of 0.01 EUR each. In November 2010 the Group completed its public offering of newly issued shares at USD 11 each and placed GDR's on London Stock Exchange.

Gross proceeds from shares offering amounted to RUB 5 411 517 thousand. Costs directly attributable to shares offering amounted to RUB 174 898 thousand. Net proceeds from shares offering amounted to RUB 5 236 619 thousand. Excess of net proceeds over par value of newly issued shares was recognised in additional paid-in capital in the amount of RUB 5 226 994 thousand.

The Rouble value of the subscribed capital is determined with application of RUB/EUR historical exchange rate as at the date of each equity transaction.

In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

In August 2010 the Group paid interim dividends to shareholders in amount of RUB 587 489 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Movements in Revaluation reserve and additional paid-in capital were as follows:

'000 RUB	Revaluation reserve for property, plant and equipment	Additional paid-in capital	Total
At 1 January 2009	**3 773 360**	**3 663 596**	**7 436 956**
Revaluation loss	(47 300)	–	(47 300)
Income tax effect	9 460	–	9 460
Issue of shares	–	13 016	13 016
At 31 December 2009	**3 735 520**	**3 676 612**	**7 412 132**
Revaluation gain	721 306	–	721 306
Revaluation reserve on disposed assets	(1 187 381)	–	(1 187 381)
Income tax effect	93 215	–	93 215
Issue of shares	–	5 226 994	5 226 994
At 31 December 2010	**3 362 660**	**8 903 606**	**12 266 266**

23 Earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of RUB 3 002 994 thousand (2009: RUB 714 422 thousand), and a weighted average number of ordinary shares outstanding of 255 582 203 (2009: 107 894 521), calculated as shown below. The Company has no dilutive potential ordinary shares.

Number of shares	2010	2009
Issued shares at 1 January	253 100	3 100
Effect of share split in 2010	252 846 900	107 786 626
Effect of shares issued	2 482 203	104 795
Weighted average number of shares for the year ended 31 December	255 582 203	107 894 521

For more details on share split and issue of shares refer to note 22 above.

24 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

'000 RUB	2010	2009
Non-current liabilities		
Secured bank loans	6 960 333	7 677 614
Unsecured loans from Related parties	909 022	1 348 874
	7 869 355	**9 026 488**
Current liabilities		
Secured bank loans	1 796 655	5 622 922
Unsecured loans from Related parties	–	813 884
Unsecured bank facilities	1 902 747	–
Unsecured loans from third parties	2 859	2 871
	3 702 261	**6 439 677**

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of RUB 8 756 988 thousand (2009: RUB 12 146 747 thousand). Refer to notes 14, 16 and 17.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUB	Currency	Nominal interest rate	Year of maturity	31 December 2010 Face value	31 December 2010 Carrying amount	31 December 2009 Face value	31 December 2009 Carrying amount
Secured bank loan	USD	LIBOR + 3.9–5%	2013	838 165	838 165	1 032 439	1 032 439
Secured bank loan	USD	LIBOR + 5%	2012-2014	–	–	575 421	575 421
Secured bank loan	USD	9.2–10%	2011	–	–	963 373	963 373
Secured bank loan	USD	LIBOR + 3.15%	2010–2015	5 677 945	5 677 945	6 061 058	6 061 058
Secured bank loan	RUB	7%	2011–2012	735 290	735 290	1 586 613	1 586 613
Secured bank loan	RUB	12.75–16.25%	2012–2014	–	–	1 962 301	1 962 301
Secured bank loan	RUB	10%	2010	–	–	452 558	452 558
Secured bank loan	RUB	10%	2010	–	–	50 178	50 178
Secured bank loan	RUB	9.2–10.5%	2010	–	–	36 595	36 595
Secured bank loan	RUB	13–13.25%	2010	–	–	150 000	150 000
Secured bank loan	RUB	12,5%	2010	–	–	430 000	430 000
Secured bank loan	RUB	8.5%	2015	1 505 588	1 505 588	–	–
Unecured bank loan	RUB	5%	2011	1 302 298	1 302 298	–	–
Unecured bank loan	RUB	6,75%	2011	600 449	600 449	–	–
Unsecured loans from related parties	USD	8%	2013	619 640	619 640	1 172 973	1 172 973
Unsecured loans from related parties	USD	10%	2010	–	–	175 901	175 901
Unsecured loans from related parties	USD	8%	2013	289 382	289 382	813 884	813 884
Unsecured loans from other companies	RUB	0%	2011	2 859	2 859	2 871	2 871
				11 571 616	**11 571 616**	**15 466 165**	**15 466 165**

(b) Breach of loan covenant

The Group monitors compliance with loan covenants on an ongoing basis. Where incompliance is unavoidable in managements' view, the Group obtains waiver letters from the banks before the year-end, confirming that the banks shall not use its right to demand early redemption.

At 31 December 2010 the Group complied with all loan covenants.

25 Trade and other payables

'000 RUB	Note	2010	2009
Trade payables		10 505 712	9 625 067
Advances received		130 878	117 996
Taxes payable (other than income tax)		388 238	318 711
Payables to staff		634 130	564 081
Interest rate swap liabilities	26	28 611	131 409
Finance lease liability		–	39 226
Other current payables		49 395	4 124
		11 736 964	**10 800 614**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

26 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

(i) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of the customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'Key outlets. Thus, the credit risk in part of Trade receivables is mostly managed through procedures for selection of suppliers and tenants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

(ii) Investments
As at 31 December 2010 the Group has insignificant amount of loans issued, consequently credit risk is considered to be insignificant.

(iii) Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUB	Note	Carrying amount	
		2010	2009
Trade and other receivables	20	626 855	416 570
Loans issued		1 369	11 086
Cash and cash equivalents	21	5 707 185	1 462 312
		6 335 409	**1 889 968**

Due to the fact that the Group's principal activities are located in Russian Federation the credit risk is mainly associated with domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditability.

Impairment losses
The aging of trade receivables at the reporting date was:

'000 RUB	Gross 2010	Impair-ment 2010	Gross 2009	Impair-ment 2009
Not overdue and past due less than 90 days	517 257	–	307 071	–
Past due 90-180 days	64 818	–	6 414	–
Past due 180-360 days	18 997	–	20 704	–
More than 360 days	134 205	(108 422)	187 304	(104 923)
	735 277	**(108 422)**	**521 493**	**(104 923)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 RUB	2010	2009
Balance at beginning of the year	104 923	179 921
Impairment loss recognised	36 841	43 581
Impairment loss utilised	(33 342)	(118 579)
Balance at end of the year	108 422	104 923

The management has performed thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than 1 year. Based on past experience the management believes that normally the balances outstanding less than 180 days should not be impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 2.5;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

(i) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including future interest payments:

2010 '000 RUB	Carrying amount	Contractual cash flows	0–6 mths	6–12 mths	1–5 yrs
Non-derivative financial liabilities					
Secured bank loans	8 756 988	(9 932 166)	(1 190 180)	(1 009 730)	(7 732 256)
Unsecured bank loans	1 902 747	(1 971 644)	(1 355 222)	(616 422)	–
Unsecured loans from related parties	909 022	(1 072 397)	(35 863)	(35 863)	(1 000 671)
Unsecured loans from other companies	2 859	(2 861)	(1)	(2 860)	–
Trade and other payables	11 189 237	(11 189 237)	(11 189 237)	–	–
Other non-current liabilities	914 307	(914 307)	–	–	(914 307)
Derivative financial liabilities					
Foreign exchange and interest rate swap receivables	(21 896)	(798 194)	(162 365)	(145 995)	(489 834)
Interest rate swap liability	28 611	(28 696)	(13 147)	(13 325)	(2 224)
	23 681 875	**(25 909 502)**	**(13 946 015)**	**(1 824 195)**	**(10 139 292)**

2009 '000 RUB	Carrying amount	Contractual cash flows	0–6 mths	6–12 mths	1–5 yrs
Non-derivative financial liabilities					
Secured bank loans	13 300 536	(14 586 404)	(4 357 466)	(1 787 706)	(8 441 232)
Unsecured bank loans	2 162 758	(2 660 634)	(40 360)	(854 913)	(1 765 361)
Unsecured loans from related parties	2 871	(2 874)	(6)	(2 868)	–
Trade and other payables	10 193 272	(10 193 272)	(10 193 272)	–	–
Finance lease liabilities	39 226	(40 560)	(33 060)	(7 500)	–
Derivative financial liabilities					
Interest rate swap liability	131 409	(132 276)	(89 646)	(42 630)	–
	25 830 072	**(27 616 020)**	**(14 713 810)**	**(2 695 617)**	**(10 206 593)**

There are no payments due after 5 years.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys derivatives in order to manage market risk. All such transactions are carried out within the guidelines set in Group's policy on hedging market risk. The Group applies hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group holds its business in Russian Federation and mainly collects receivables nominated in Russian Roubles. However financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar.

Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to acceptable level by keeping proportion of financial assets and liabilities in foreign currencies to total financial liabilities at acceptable level. From time to time the Group converts assets and liabilities from one currency to another. The Group regularly considers necessity of using derivatives to hedge its exposure to currency risk. During 2010 the Group used currency swap in order to hedge currency risk on loan denominated in US Dollars.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 RUB	USD-denominated 2010	Euro-denominated 2010	USD-denominated 2009	Euro-denominated 2009
Trade and other receivables	193 709	9 082	28 532	81 342
Secured bank loans	(6 516 110)	–	(8 632 291)	–
Unsecured bank loans	–	–	–	–
Unsecured loans from related parties	(909 022)	–	(2 162 758)	–
Trade and other payables	(93 495)	(50 912)	(24 427)	(2 216)
Finance lease liabilities	–	–	(39 226)	–
Other non-current liabilities	(914 307)	–	–	–
Foreign exchange and interest rate swap receivables	21 896	–	–	–
Interest rate swap liabilities	(28 611)	–	(131 409)	–
Gross exposure	**(8 245 940)**	**(41 830)**	**(10 961 579)**	**79 126**
Foreign exchange and interest rate swap	5 677 945	–	–	–
Net exposure	**(2 567 995)**	**(41 830)**	**(10 961 579)**	**79 126**

The following significant exchange rates applied during the year:

Russian Rouble equals	Average rate		Reporting date rate	
	2010	2010	2009	2009
US Dollar	30.3692	31.7231	30.4769	30.2442
Euro	40.2980	44.1320	40.3331	43.3883

Sensitivity analysis

A 10% strengthening of the RUB, as indicated below, against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

'000 RUB	Equity	Profit or loss
2010		
USD (10% strengthening)	256 800	272 992
EUR (10% strengthening)	4 183	4 183
2009		
USD (10% strengthening)	1 096 158	1 083 017
EUR (10% strengthening)	–	(7 913)

A weakening of the RUB against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk
The Group has material exposure to interest rate risk. As at 31 December 2010 70 % of the Group's financial liabilities were subject to re-pricing within 6 months after the reporting date (2009: 83%).

The Group also uses interest rate swaps to hedge its exposure to variability of interest and exchange rates. As at 31 December 2010, the Group has entered into three agreements with VTB Bank and Morgan Stanley & Co International Plc. Under these agreements the Group swaps LIBOR rate for fixed rate varying from 1.3% to 2.3%. These swaps have maturity up to 2012.

The Group also has foreign exchange and interest swap agreement with VTB Bank. Under this agreement the Group swaps LIBOR rate for fixed rate of 9.5% and swaps USD for RUB at fixed rate of 30.4 RUB/USD. At inception, the swap had maturity of five years.

The Group hedged 87% (2009: 95%) of its borrowings with variable rate applying these hedges.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUB	Carrying amount	
	2010	2009
Fixed rate instruments		
Financial assets	1 369	22 290
Financial liabilities	(5 055 560)	(7 649 878)
Variable rate instruments		
Financial assets	21 896	6 758
Financial liabilities	(6 544 721)	(7 986 922)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

'000 RUB	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2010				
Variable rate instruments	(65 049)	65 049	–	–
Interest rate swap	56 687	(56 687)	183 199	(183 199)
Cash flow sensitivity (net)	**(8 362)**	**8 362**	**183 199**	**(183 199)**
2009				
Variable rate instruments	(78 328)	78 328	–	–
Interest rate swap	74 216	(74 216)	79 098	(55 297)
Cash flow sensitivity (net)	(4 112)	4 112	79 098	(55 297)

(e) Fair value hierarchy

The Group carries derivative financial assets and liabilities at fair value. Fair value of derivative financial assets and liabilities was determined based on inputs that are not based on observable market data (unobservable inputs).

The changes in fair value of derivative financial assets and liabilities during the year were as follows:

'000 RUB	2010		2009	
	Derivative financial assets	Derivative financial liabilities	Derivative financial assets	Derivative financial liabilities
Balance at 1 January	6 758	(131 409)	–	(153 675)
Gains/(losses) on instruments held at year end, recognised in profit or loss	(6 758)	(16 071)	6 758	–
Gains on instruments held at year end, recognised in other comprehensive income	21 896	25 493	–	22 266
Gains on instruments not held at year end, recognised in other comprehensive income	–	93 376	–	–
Balance at end of the year	21 896	(28 611)	6 758	(131 409)

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

27 Operating leases

Leases as lessee

The Group has both own and leased land plots. The own land plots are included in either property, plant or equipment or investment property depending on the use of a respective land plot. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are capitalized as initial cost of land lease and are amortised over the period of the lease (49-51 years). The further information on leases is detailed below.

When the Group leases land plots under operating leases, the lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 49 years.

The Group also rents premises under operating leases. These leases typically run up to 10 years. The Group has non-cancellable leases and contingent rent arrangements. The Group has subleases.

During the year ended 31 December 2010 RUB 1 116 256 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUB 46 321 thousand) in the profit and loss in respect of operating leases (2009: RUB 731 153 thousand).

Non-cancellable operating lease rentals are payable as follows:

RUB 000'	2010	2009
Less than one year	198 137	485 781
Between one and five years	558 697	1 152 053
More than five years	3 278 600	3 659 317
	4 035 434	**5 297 151**

Contingent rent recognised as an expense for the year ended 31 December 2010 amounted RUB 108 800 thousand (2009: RUB 13 974 thousand). Contingent rent is determined as excess of 3%–5% of the revenue of related stores over fixed rent rate.

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2010 RUB 705 937 thousand was recognised as rental income in the consolidated statement of comprehensive income (2009: RUB 636 317 thousand). The Group has no non-cancellable leases. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 20 701 thousand for the year ended 31 December 2010 (2009: RUB 109 933 thousand). Contingent rent is determined as excess of 7%–35% of the tenant's revenue over fixed rent rate.

28 Capital commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 1 877 202 thousand as at 31 December 2010 (2009: RUB 886 566 thousand).

29 Contingencies

(a) Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group companies entered into intragroup transactions which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax and interest. The Group companies have also undertaken financial intragroup transactions which if tax authorities take a different view to management may potentially lead to assessment of additional tax, fine and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules and practical application of the law, but could be significant. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

(c) Assets pledged or restricted

At 31 December 2010 the Group has the following assets pledged as collateral:

'000 RUB	Note	2010	2009
Fixed assets (carrying value)	14	5 903 000	8 333 576
Investment property (carrying value)	16	517 000	1 161 824
Initial cost of land lease (carrying value)	17	426 795	492 683
Total		**6 846 795**	**9 988 083**

30 Related party transactions

(a) Major shareholders

The major shareholders of the Group are four individuals Mr. Korzhev, Mr. Troitsky, Mr. Volchek and Mr. Teder ("the shareholder group").

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 10):

'000 RUB	2010	2009
Salaries and bonuses	168 277	79 567
Contributions to State pension fund	147	1 472
Long-service bonus	41 333	149 641
	209 757	**230 680**

In addition members of Board of Directors received remuneration of RUB 1 523 thousand, which is included in Legal and professional expenses (see note 8).

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group (see note 1(a)).

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Services provided:				
Other related parties	23 153	21 013	(1 694)	4 374
	23 153	21 013	(1 694)	4 374

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

'000 RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Lease of premises				
Other related parties	–	–	1 334 466	–
Other services received:				
Other related parties	(31 730)	(18 470)	11 822	(71)
Finance costs:				
Other related parties	(121 128)	(207 384)	–	–
	(152 858)	(225 854)	1 346 288	(71)

In the table above finance costs do not include RUB 1 371 thousand of interest costs, which were capitalised and thus increased initial cost of the Group's property, plant and equipment (2009: RUB 39 384 thousand).

Outstanding balance of RUB 1 334 466 thousand represents prepayments for rent of hypermarkets for the period until 2017. Long-term part of prepayments is RUB 1,230,054 thousand, refer to note 17.

All other outstanding balances are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

'000 RUB	Amount loaned 2010	Amount loaned 2009	Outstanding balance 2010	Outstanding balance 2009
Loans received:				
Other related parties	–	(1 288 623)	(909 022)	(2 162 758)

The loans from other related parties bear interest at 8% per annum and are repayable in 2013.

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

During 2010 the Group disposed several subsidiaries to an entity controlled by the shareholder group. For more details on disposition refer to note 6 above.

31 Subsidiaries

Subsidiary	Country of incorporation	2010 Ownership/voting	2009 Ownership/voting
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Stoxx Investments Ltd	BVI	–	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	–	100%
Dextenco Co. Limited	Cyprus	–	100%
Filorus Limited	Cyprus	–	100%
Legondia Co. Limited	Cyprus	100%	100%
Lonmax Limited	Cyprus	–	100%
Marcopia Limited	Cyprus	–	100%
Naviline Limited	Cyprus	–	100%
Ricandano Co. Limited	Cyprus	–	100%
LLC Dorinda Invest	Russian Federation	–	100%
LLC Premium	Russian Federation	–	100%
LLC Elart	Russian Federation	–	100%
LLC Legion	Russian Federation	–	100%
LLC O'Key Group	Russian Federation	100%	100%
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor	Russian Federation	100%	100%
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	100%	100%
LLC Dorinda-Murmansk	Russian Federation	–	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	100%
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC N.E.F.-Saint-Petersburg	Russian Federation	–	100%
LLC Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	100%	100%
LLC Tagar-City	Russian Federation	100%	100%
LLC Region	Russian Federation	–	100%
LLC Tandem Group	Russian Federation	–	100%
JSC Olips D	Russian Federation	100%	–

The Group has 50% share in joint venture LLC Adamant-Diksi which is accounted for using proportionate consolidation method. Contribution of LLC Adamant-Diksi to the Group's profit for the year and effect on Group's assets and liabilities is not significant.

During 2010 the Group liquidated two subsidiaries: LLC Tandem Group and Stoxx Investments Ltd. The contribution of these subsidiaries to Group's profit and the effect of liquidation of the subsidiaries on the Group's assets and liabilities were not significant.

During 2010 the Group acquired subsidiary – JSC Olips D for the purpose of obtaining lease right on land plot. The acquisition of subsidiary was classified as acquisition of assets.

During 2010 the Group disposed several subsidiaries, including Denovex Ltd., Dextenco Co. Ltd., Filorus Ltd., Lonmax Ltd., Marcopia Ltd., Naviline Ltd., Ricandano Co. Ltd., LLC Dorinda Invest, LLC Premium, LLC Elart, LLC Legion, LLC Rampazh, LLC Dorinda-Murmansk, LLC N.E.F.-Saint-Petersburg, LLC Region, LLC BC Okkervil, Gelarous Co. Ltd., Lefkosan Co. Ltd., Siltom Holdings Ltd. Entities LLC BC Okkervil, Gelarous Co Limited, Lefkosan Co Limited, Siltom Holdings Limited, Rampazh LLC were established in 2010. For more details on disposition refer to note 6 above.

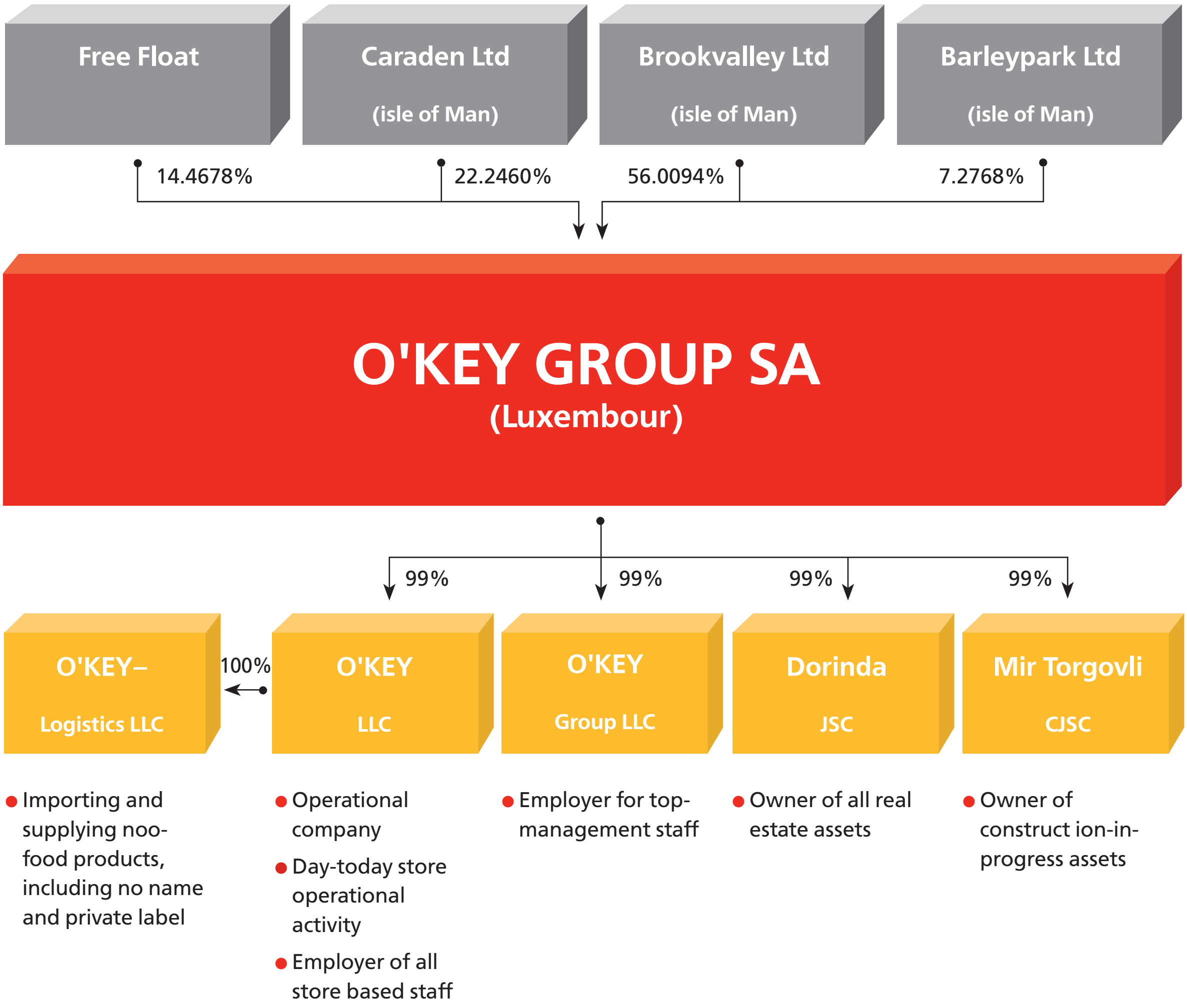
32 Events subsequent to the reporting date

As of 25 January 2011 a 462 sq.m. (which is 5% of total square of roof) section of roof in hypermarket in Ozerki, St Petersburg (the oldest store opened in 2002) collapsed. One employee and 21 customers were injured. The store was closed for repairs. The Group has paid financial compensation to the injured and has paid for all of the medical expenses. In addition, following the incident, the Group assessed all measures if any need to be taken as a result to ensure this issue is not repeated.

In February 2011 the Group acquired 100% share in LLC Lux Development in order to obtain rights of long-term lease of land plot in Moscow region.

In February – March 2011 the Group has opened supermarket in Saint-Petersburg and hypermarket in Novosibirsk.

Ownership and legal structure at 31 December 2010



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