O'Key Group S.A.
Annual Report
2011

Leaders in Russian retail

Overview

O'KEY is a leading food retail chain whose customer-oriented approach, efficient operations and strong development plan aims to improve our customers' lifestyle by making a larger number of higher quality products more accessible throughout Russia.

Operational Highlights

14
New stores opened, up from 11 new stores in 2010.

71
Total number of stores, up from 57 stores in 2010.

17
Major cities of Russia, 14 in 2010.

12.7%
Revenue, up to RUB 93.1bn.

2010 results have been restated to be in conformity with the change in accounting policy related to accounting for land and buildings.

Like-for-like indicators, % change
Retail revenue 5.3
Average ticket 5.5
Number of tickets -0.2

Financial Highlights

Revenue (RUB)
93.1bn
+12.7%
(2010: 82.7bn)

EBITDA (RUB)
7.5bn
+5.4%
(2010: 7.1bn)

Gross profit (RUB)
21.3bn
+18.7%
(2010: 17.9bn)

Net profit (RUB)
3.2bn
+20.7%
(2010: 2.7bn)

Gross margin
22.8%
+1.1%
(2010: 21.7%)

Earnings per share (RUB)
12.0 RUB
+14.3%
(2010: 10.5 RUB)

O'KEY at a Glance

We are a rapidly developing Russian retailer whose distinct and modern customer proposition provides a competitive edge in one of Europe's largest and least penetrated food retail markets.

We are perfectly positioned to capture the significant growth opportunities presented by the Russian food retail market:

- We are a leading Russian retailer with 71 stores across North Western, Southern, Central, Urals and Siberian regions – giving us significant reach and economies of scale.
- O'Key hypermarkets follow the successful European concept, providing a large product selection, a high proportion of fresh and ultra-fresh foods, competitive prices, unique own-label products, large car parks, children's play areas and third party services. O'Key supermarkets operate under the 'O'Key Express' banner and offer a convenient shopping experience in densely populated residential neighbourhoods.
- O'Key has the highest brand equity among its competitors in St. Petersburg*, where we opened our first store and which is now one of the most competitive markets in Russia.
- 24% CAGR in selling space since 2007, which now exceeds 346,000 m^2.
- O'Key owns 55% of the real estate it operates in, providing significant flexibility, plus 15 land plots that are ready for construction of new stores.
- High operational efficiency means that O'Key generates one of the highest revenues per m^2 among the largest publicly traded Russian food retailers**, and has the lowest SG&A costs.
- O'Key is led by a highly experienced management team with a strong track record in Russia and international food retail markets.

* AC Nielsen survey in 2011.
** Compared to X5 Retail Group, Dixy and Magnit, based on HY 2011 results.

Fast facts...

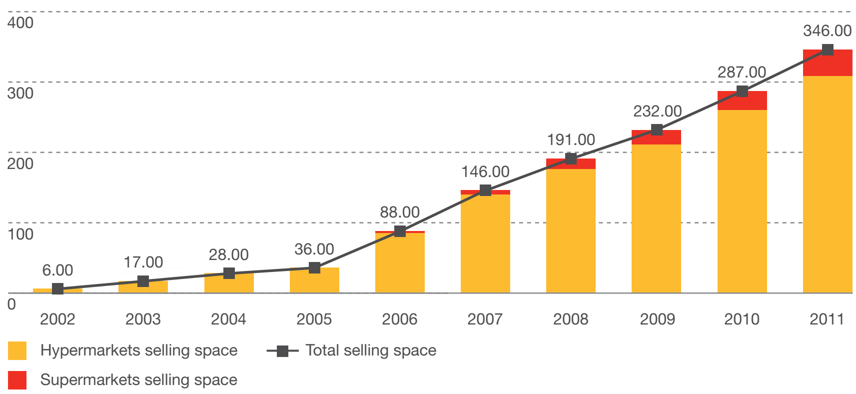
19,000 employees in Russia

71 stores

O'KEY plans to replicate the success it has had in St. Petersburg by expanding its presence in Moscow and other Russian regions. Making use of our land bank, we intend to be in 25 Russian cities by 2015. The company will keep developing its supply chain by implementing new ERP modules in its IT and logistics network, expanding its warehouse capacity, setting up a network of cross-docking platforms and taking advantage of current volumes to increase import operations.

1 Including Krasnoe Selo and Kingisep.
2 Including Noginsk and Lobnya.

Selling Space '02-'11
'000 m²



Source: Company Data

847 RUB average basket (in hypermarkets)

346,000 m² total selling space

17 cities in 2011, 25 by 2015

Chairman's Statement

We are a successful and ambitious company, but we never allow that ambition to undermine the service we provide to our customers.

Dear Customers, Shareholders and Colleagues,

I am pleased to present O'Key Group S.A.'s second Annual Report, in which we provide not only a review of our financial results and operations for 2011, but also emphasise our commitment to all our stakeholders to carry out business in an efficient, ethical and transparent manner. We are a successful and ambitious company, but we never allow that ambition to undermine the service we provide to our customers. Indeed, we firmly believe that providing the goods and services that our customers want, in the locations they want, in a pleasant environment and at competitive prices are the cornerstones of our success.

2011 started with a tragic and unfortunate accident at our Ozerki hypermarket in St. Petersburg where a roof collapsed. The safety of O'Key's employees and customers is a top priority for us and we have ensured that all of our stores adhere to strict structural tests that comply with industry norms. We closed down our Ozerki store in January and conducted safety reviews across the majority of other outlets, which led to temporary closures. The Ozerki store was reopened in September after major restoration work.

The closures did have a financial impact for the Group, but customer traffic has now been fully restored. Aside from Ozerki, 2011 has been another year of progress for O'Key, which we have maintained through significant company-wide efforts. Our network of hypermarkets and supermarkets has expanded across Russia, with 14 new store openings and we now have a total of 71 stores in 17 major cities.

Our focus on having a wide range of high quality products at competitive prices enables us to attract new customers, as well as encouraging more frequent visits by our regular customers. This has brought us a net profit of RUB 3.2bn for the year, representing 20.7% year-on-year growth. We are committed to providing the best possible investment return for our long-term shareholders – we believe there remains considerable further potential in the food and wider retail market in Russia, and we are excited that, following our IPO in November 2010, investors from around the world have joined us on this journey.

Key to further growth is our flexibility. We are leaders in the development of hypermarkets where, in addition to the products we sell to our customers, we let space to providers of other services, such as restaurant chains and pharmacies, and provide plenty of parking and supervised play areas for children. At the same time, we are continuing to create smaller supermarkets in the heart of residential areas, focused on food products – which is ideal for customers who may need to make some purchases between major shopping trips. In all our stores, the emphasis is on convenience, freshness, value for money and customer service.

Other areas of significant development continue to be our distribution network and IT platform – both essential for a modern food retailer committed to delivering fresh products to its customers at competitive prices.

We would not have reached this point without the contribution of our Board of Directors, management and employees. I am very grateful to them all for their loyalty and professionalism. Our employees in particular are key people, meeting and serving our customers daily, so our success depends on them. We place a great emphasis on rewarding them fairly, on recognising individual achievement, and on providing ongoing training and a good career development structure.

O'Key is at a most exciting stage in its development. Growth has been fast. The market is competitive, but we are proud to say that our company is now one of the leaders. We are confident that there is considerable further potential for food retail across the country. Thanks to the experience we have already gained, as well as a businesslike but socially responsible approach, and a strategic vision that is founded on deep knowledge of the market, we are well positioned to grow as Russian consumers become ever more discerning.

Heigo Kera
Chairman
April 2012

Sustained Growth

O'Key is at a most exciting stage in its development. Growth has been fast. The market is competitive, but we are proud to say that our company is now one of the country's leaders. We are confident that there is considerable further potential for food retail across Russia.

Chief Executive's Review

Despite the challenges faced in 2011, we reconfirm our commitment towards the long-term targets set at the time of our IPO.

Dear Customers, Shareholders and Colleagues,

2011 was a challenging year for O'KEY Group. The accident at 'Ozerki' deeply affected us all personally, and as a business, and it takes time to recover from such incidents. Furthermore, we faced industry-wide cost increases that impacted margins and also a significant deceleration in food inflation, which resulted in a slowdown in average basket growth. As a result, our like-for-like revenue increased by 5.3%, our consolidated revenues reached RUB 93.1bn, and our EBITDA margin was 8.1%.

Challenging market conditions made all retailers reconsider their annual targets several times during the year. I am pleased to say that, notwithstanding these circumstances, O'KEY demonstrated yet again the resilience of its business model. In an environment where a number of competitors were losing customers, we retained our customer base and maintained the strength of our brand. It is very pleasing that the quality of our product offering and our consistently competitive pricing strategy are highly appreciated by our customers across Russia.

Our major achievement in 2011 was the recovery of traffic we lost following the 'Ozerki' accident. We are delighted that we regained our loyal customer base during the course of the year, following an initial decline after the accident and the resulting store closures which impacted store visits. By the end of the year the number of active loyalty cards had increased by 17.2% y-o-y and our LFL traffic increased from -2.8% in Q1 to -0.2% by the year end, supported by a very strong traffic inflow of 1.5% in Q4.

Operating efficiency remained strong in 2011 despite the headwinds we faced. This is reflected in the achievement of our target EBITDA margin of 8.1% for the full year. Higher utility charges and increased rates for social taxes led to higher costs across the board, with the reaction of many service providers being to raise prices. At O'KEY we were able to offset these cost pressures by improving our purchasing terms. As a result, our gross margin increased to 22.8%, up from 21.7% the previous year.

We also completed the implementation of projects we started in 2010. We have further developed retail operations at the city level by enhancing our local teams and focusing on bringing management closer to local customers, which enables us to react quicker to changing consumer preferences. At the same time, we finalised the centralisation of our purchasing function, which improved our bargaining power with suppliers. We also installed two cross-docking platforms in Moscow and St. Petersburg, which helped us to improve operating efficiency in those cities for a substantial range of products.

The cash we generated through retail operations increased in 2011 to RUB 6.4bn – a 25% increase on 2010 results.

Working capital turnover remained stable at the previous year's level. Healthy cash generation enabled us to finance a substantial part of our 2011 investment program with our own resources and to keep indebtedness at a comfortable ratio of 1.2 Net Debt/EBITDA.

By the end of the year we had added 14 stores – seven hypermarkets and seven supermarkets – and had increased our selling space by 20.5% to 346,000 m^2. The number of cities in which we are present has increased to 17. A few hypermarket openings were delayed due to administrative issues, and will take place in the first half of 2012, becoming part of that year's pipeline.

Despite the challenges faced in 2011, we reconfirm our commitment towards the long-term targets set at the time of IPO. The Company's priority remains the organic expansion of our hypermarket network at an annual rate of 30%. We are also actively working on the expansion of our land bank to ensure we can complete our planned store openings over the next two years. Our long-term profitability target remains at over 8% on the EBITDA line, and we think there are further opportunities to improve our operating efficiency going forward. We continue to develop our range of products through our non-food offering, our private labels and own production, and we will ensure that our prices remain the most attractive in the market.

Patrick Longuet
Chief Executive Officer
April 2012

Realising our Full Potential

Difficult market conditions made retailers reconsider their annual targets several times during the year. Notwithstanding these circumstances, O'KEY demonstrated yet again the resilience of its business model and our goal of expanding our hypermarket network at an annual organic rate of 30% remains in place.

The Russian Retail Market

Driven by rapid economic growth and increasing consumer demand, Russia is one of the largest and most attractive food retail markets in Europe, with one of the lowest rates of modern retail outlet penetration in the developed world.

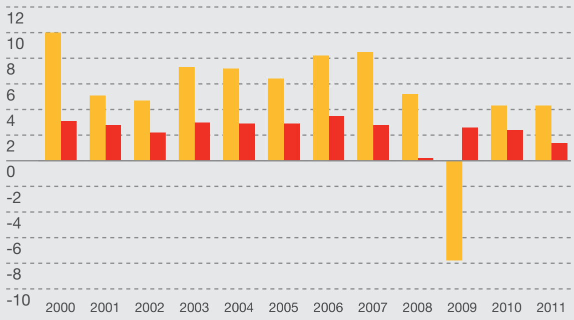
Macroeconomic Situation

With a population of approximately 140 million, Russia has the largest consumer market in Central and Eastern Europe, and the fastest growing market in Europe. Despite suffering a record level of economic contraction in 2009, Russia's economy has grown at an average annual rate of over 5% since 2000. High oil prices and the stability of the Russian ruble over the past two years have also had a positive effect on economic productivity.

The Russian rate of inflation, measured using changes in the Consumer Price Index, fell from 13.3% in 2008 to 6.1% in 2011, and the unemployment rate as at December 31, 2011 was 6.1%, compared to 7.2% at the same point in 2010.

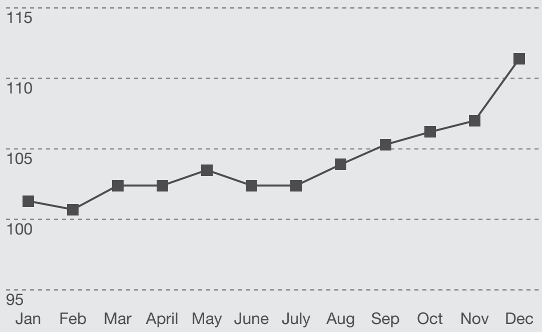
Russians have, on average, 70% disposable income (Source: Euromonitor International), compared to 40% for Western consumers. This makes Russia a very attractive consumer market and demonstrates how economic growth has helped boost consumer confidence back to near pre-crisis levels.

Real GDP Russia vs. EU
Annual %* Growth Rate



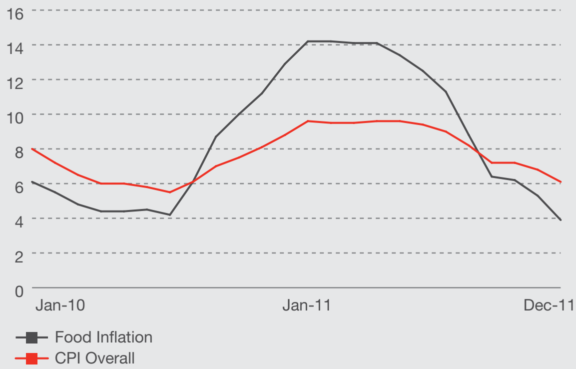
Source: Bloomberg
* as at 31 Dec

Russian Real Wages in 2011
% Change



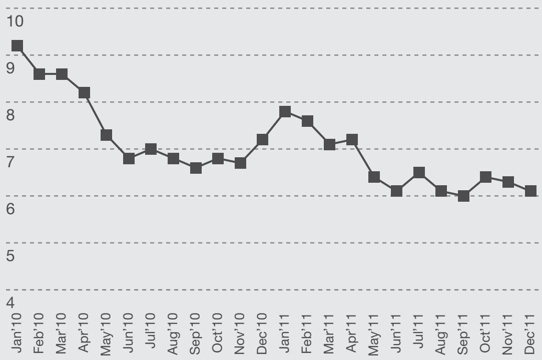
Source: Rosstat

Inflation
%



Source: Rosstat

Unemployment Rate
% of Total Population



Source: Rosstat

The Russian Retail Market

The current operating environment presents O'Key Group with significant opportunities to further develop its operations and generate future growth.

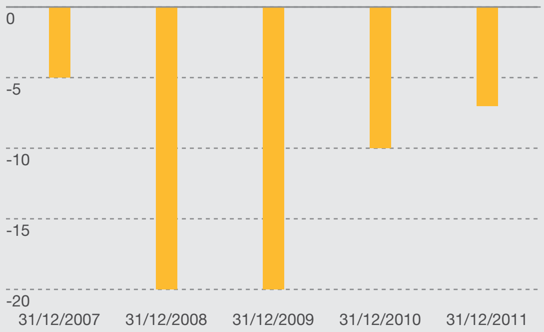
According to the Association of European Businesses, Russia is the fastest growing market for Food & Drinks in Europe, and is expected to be the largest F&D retail market in Europe by 2015. Turnover in the retail industry reached US$470.3 billion in 2009 (Source: Spotlight), with food retailers contributing about half of the industry's total revenue.

Growth is driven by Russia's increasing middle class and the development of the domestic retail sector. In recent years, the Russian food retail industry has witnessed particularly high levels of growth, with retail food sales more than doubling from RUB 434.4 billion in 2006 to RUB 971 billion at the end of 2011, representing a CAGR of 14% (Source: Bloomberg).

The retail food industry continues to be highly fragmented, with the top five retailers controlling only 15% of the market (Source: Datamonitor) with O'Key responsible for 1.27% of this. This provides significant scope for consolidation and the expansion of O'Key's hypermarket model.

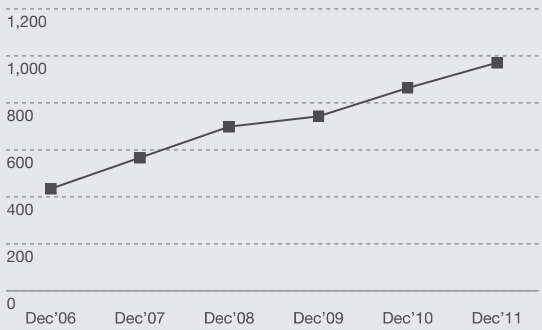
Organised, modern retail penetration in Russia currently stands at 53% (Source: Euromonitor), significantly below global trends, demonstrating the high level of growth potential in the market, especially as the availability of retail space increases and as traditional open markets close.

Consumer Confidence Trend In Russia 2007-2011
% Change



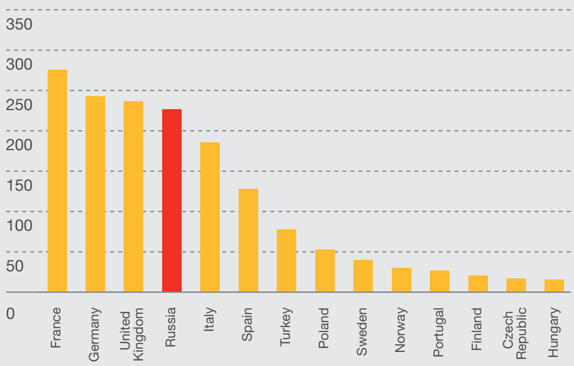
Source: Bloomberg

Retail Food Sales
RUB, bln; Annual Volume



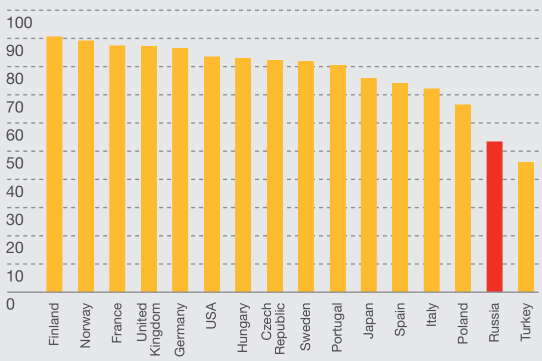
Source: Bloomberg

Comparative Food Retail Market Turnover
USD, bln



Source: Euromonitor as at 31 Dec 2011

Modern Retail Penetration
% of Food Retail Market



Source: Euromonitor as at 31 Dec 2011

Our History

We have grown consistently since opening our first store in 2002, we now operate 71 stores in 17 cities and have become one of the leading national Russian retailers – with plans to be in 25 cities by 2015.

2002
First store opening

- First hypermarket is launched in St. Petersburg.
- Strategy centred around creating the leading food retailer in St. Petersburg.

2003–2006
Strong presence in St. Petersburg

- 8 hypermarkets and 2 supermarkets launched in St. Petersburg.
- Total selling space increased from 6 to 87,000 m^2 with 12 stores in operation.

2007–2008
Regional expansion

- Strong, international management team joins O'Key.
- Stores opened in 6 new regions in 3 Federal districts.
- Number of stores grows to 37, doubling selling space to more than 190,000 m^2.
- O'Key breaks into Russia's top 10 retailers by revenue.
- The lease rights for 6 Ramstore stores are assigned to O'Key.

2009–2011
Becoming a leading national retailer

- Developing in the Moscow market.
- Expansion and construction team enhanced.
- Lease rights acquired for 2 Carrefour stores.
- O'Key breaks into Russia's top 3 food retailers (excluding multinationals) in terms of 2009 revenues.
- 14 stores opened in 2011, taking the total number of stores to 71.

Our Strategy

The successful execution of our group strategy has enabled us to become a leading national retailer with unparalleled customer loyalty and a highly efficient network of profitable stores.

Continue regional expansion

- By 2015, establish a presence in more than 25 cities.
- Capture the growth potential of the underpenetrated hypermarket space, and grow our customer base by offering attractive prices, made possible by realising economies of scale.
- Increase our footprint in Moscow, still a large market with high potential.
- Expand O'Key's presence outside St. Petersburg in cities with high population density and/or above average net disposable income.
- Maintain a fast pace of new store openings in the next 4 years.

Tailor our product ranges

- Continue to perfect our product selection to attract more customers and encourage more frequent visits.
- Work with local suppliers to customise the range of goods offered to local tastes and needs.
- Further increase our share of higher margin non-food products (clothing, DIY, sports goods and home appliances).
- Develop O'Key's private label ranges, positioning them as high quality at a competitive price, and thus taking advantage of high margins and greater brand visibility.
- Maintain our unique range of goods by continuing to offer popular, high quality fresh food products.

Creating shareholder value

Support the supply chain by expanding and refining our logistics capabilities

- Facilitate the availability of O'Key's full range of products as we expand across Russia.
- Expand our warehousing capacity to support the import of private label, non-food and non-branded products coming mainly from China, India and Italy.
- Set-up a network of cross-docking platforms to enable O'Key to:
  - Procure products from all over Russia.
  - Strengthen our competitive positioning by ensuring the availability of quality products at the best prices and by decreasing inventory levels.

Implement innovative IT solutions

- Enhance O'Key's technological platform to support expansion and secure operations.
- Implement advanced solutions to manage retail operations more efficiently with particular focus on demand forecasting, customer-focused category management and supply chain optimisation.

Uncompromising Commitment to Our Customers

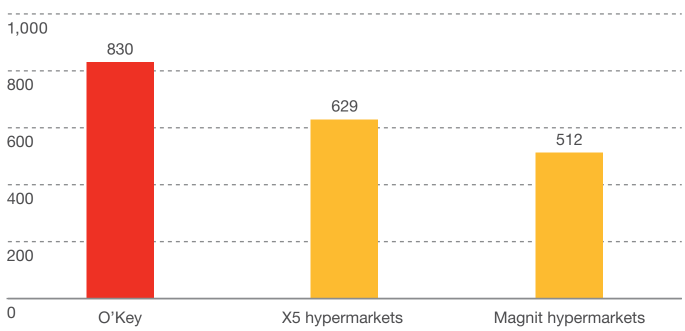
A bright, convenient and family-friendly shopping experience, offering a full assortment of quality goods for all shoppers at competitive prices.

Customer satisfaction is the key to our success

Customer satisfaction is O'Key's number one priority, so we recognise that every element of the O'Key shopping experience must exceed expectations. Our stores are located near major transport hubs to ensure easy access by car or public transport. Moreover, our 'urban hypermarket' concept enables us to pay attention to the immediate catchment area, with a significant number of our stores being easily accessible by foot. Plenty of free parking space is part of the O'Key shopping experience, and busy parents can leave their children at our supervised play areas.

Customers are made to feel welcome by our helpful staff, and our good signage ensures that they easily find what they want. Our stores are clean, functional, with wide aisles, but at the same time, our bright, warm atmosphere ensures that our stores do not feel like warehouses. We try to minimise queuing time by making sure that every store has a sufficient number of cash tills.

Higher Than Average Basket
RUB
Source: Companies Data



139m

Purchases made in 2011

82%

of sales are conducted using loyalty cards

355k

*Sales per m² in thousand RUB**

* Including VAT.

Brand leadership model achieved by offering quality products at competitive prices

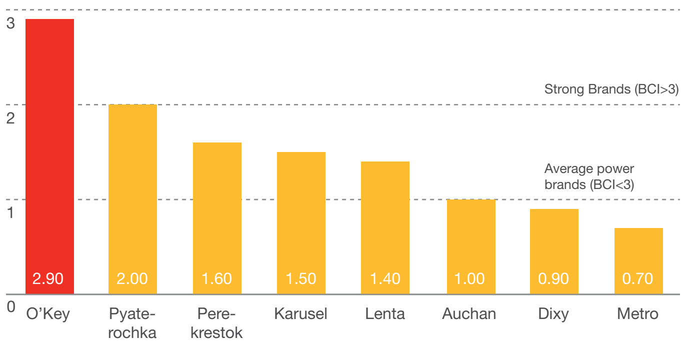
We offer a range of low price products as well as standard and higher quality goods, and we run regular promotions to help our customers get to know new products and alternative brands. We also take note of regional preferences and make sure that each store carries the product lines that our customers want to buy. Wherever we operate, we aim to offer the best quality products at the most competitive prices. Together with our successful loyalty card programme, which enables customers to receive useful discounts, and our policy of gathering and taking action on customer feedback, this strengthens our bond with our customers.

Our hypermarket customers also benefit from a range of additional services, thanks to our policy of letting out sufficient space to other service providers. Shoppers can stop for a meal at a cafe, see to their dry cleaning, have their shoes repaired or draw some money or pay bills at a bank machine – all in a single visit and under one roof!

St. Petersburg Brand Leadership

Nielsen Store Equity Index

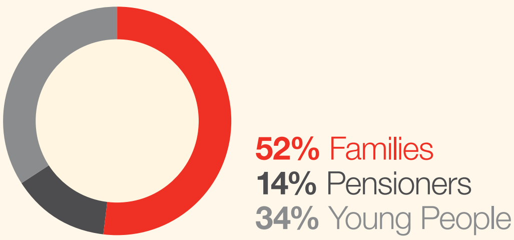
Source: Nielsen, 2011



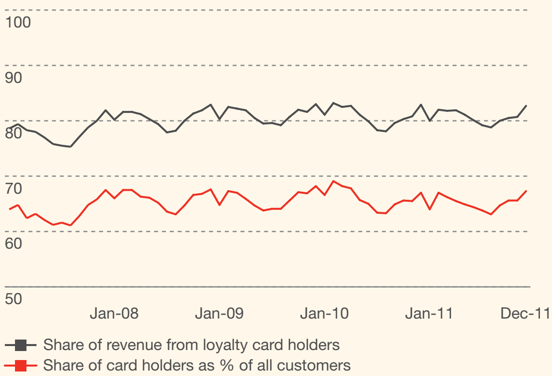
Uncompromising Commitment to Our Customers continued

An enormous range of high quality local, national and international products at competitive prices.

O'Key Reaches All Customer Segments
% of Revenue
Source: Companies Data



Customer Loyalty
%
Source: Companies Data



O'Key's customer focus has resulted in the highest levels of customer loyalty and a market leading average basket of 847 RUB (in hypermarkets). We provide customers with the freshest produce available and a broad selection of high quality, in-demand non-food goods at competitive prices, backed up by friendly and efficient service from our helpful staff.

O'Key gives customers what they want...
We ensure that we have the widest possible range of products to cater for our broad customer base, including:

> Basic Basket for price-sensitive consumers (25% of O'Key's SKU);
> Average Basket for well-known brands and competitive prices (35% of O'Key's SKU); and
> Average Plus Basket for more expensive branded products and imported goods (40% of O'Key's SKU).

And there is really no need to shop anywhere else...
Food goods, which include ultra fresh foods and delicatessen products, accounted for approximately 76% of O'Key's total revenue in 2011.

In-house production of our fresh food range encourages more frequent visits by our customers and increases brand loyalty. We either prepare our fresh food on-site or it is sourced locally from high-quality producers, which is highly appreciated by our customers.

O'Key's private label and non-branded products provide customers with excellent value for money. Our main target in developing our private label range is to offer quality products at lower prices than branded alternatives, thus generating additional traffic. Private labels also deliver higher margins due to the lower product cost and lower marketing spend. Our private label goods are increasing in popularity, with their total revenue contribution growing to 7.0 percentage points in 2011.

Share of Fresh Food in Total Revenue (2011)
% of Revenue
Source: Companies Data

Hypermarkets

Supermarkets

Our non-food goods accounted for 24% of O'Key's total revenue in 2011. We sell cosmetics, clothing, shoes, household cleaning products, domestic appliances, toys, sports and fitness products, etc. We believe that this part of our range has great potential for sales growth going forward.

They all deliver a higher average margin for us, and our customers like being able to find everything they need in our stores. We plan to develop our non-food ranges further, with the aim that they will account for a 30% contribution to total revenue in the medium term.

Better value for money...
By constantly monitoring local prices, O'Key ensures that our prices are in line with local competition. At the same time, we restrict the mark-up we apply in our quality ranges, where there is less competition, thereby creating a price gap with our closest competitors and ensuring that our customers benefit from the lowest prices.

And our staff members are ready to help customers with their requests, providing superior customer service and making them smile...
Once inside our stores, our customers meet friendly, practical and knowledgeable members of staff who help them at the tills and solve any problems at our customer reception desks. We strive to hire good, dedicated people who will provide excellent customer service, and some of them actually bake the bread our customers eat at home!

Our Locations and Growing Presence

The prime locations of our stores across 17 Russian cities enable our customers to enjoy their shopping experience to the maximum. We aim to be present in 25 cities in Russia by 2015.

"Hypermarkets demonstrate the strongest growth in traffic between the first and third year after opening."

"Hypermarkets continue to increase their customer base after reaching maturity in year three."

55%

O'Key owns approximately 55% of its total space and leased the remaining 45%.

Our Development:

> 17 cities by the end of 2011, an increase from 14 cities in 2010

> 71 stores across Russia…

> 42 hypermarkets and 29 supermarkets…

> 346,000 m² of selling space, exceeding 20% growth year-on-year and a 24% CAGR since 2007…

> 15 land plots available for construction of hypermarkets by the end of 2011

O'Key Selling Area Breakdown

89% Hypermarkets
11% Supermarkets

O'Key Owned v Leased Total Space

55% Space Owned
45% Space Leased

Our Locations and Growing Presence continued

Where We Open Stores

O’Key aims to build a national network of hypermarkets and supermarkets across Russia, expanding its presence to 25 cities by 2015. Our main focus is on major cities in the Urals, Western Siberia and on Moscow, as their residents represent some of the most attractive target groups for the Company.

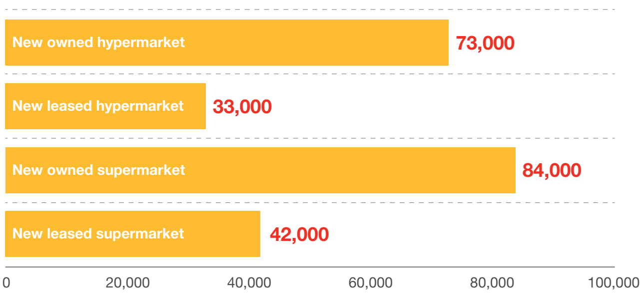
Other regions are however also being considered. This year, we increased our presence by adding new hypermarkets in St. Petersburg (2), Moscow (1), Astrakhan (1), and opening the first hypermarkets in Saratov (1), Omsk (1) and Novosibirsk (1).

To choose the best locations for our stores, we consider various factors and criteria, among which are a city’s population size, income and consumer spending power, as well as the amount of local competition in the retail sector. Of course, customer convenience is also a key consideration.

When selecting and developing sites, we design in plenty of free parking, we look for proximity to transport hubs such as railway, metro stations, main roads and we also strive to ensure easy access on foot.

We are flexible when choosing locations for our hypermarkets, and also with regard to ownership structure. The key factor for us is the traffic that exists or can be generated in a target area, and thus the number of customers we can attract. On the outskirts of cities, we target medium-size land plots of around four hectares that can be purchased or leased. However, our ‘urban hypermarket’ concept of around 7,500 m^2 fits perfectly well within city boundaries. We locate supermarkets in densely inhabited neighbourhoods, near main roads, on the ground floor of trade centres or in free-standing buildings.

Average Capex
RUR per m^2 (approximate)



Source: Company Data

The efficiency with which O’Key opens new stores is a key part of the Company’s success...

The development of each O’Key owned hypermarket involves several stages of work before it is opened.

Here’s how we do it...

1. The identification of target cities is our starting point

> A target city is segmented in to areas by number of inhabitants.
> A competitive landscape analysis is conducted for each city district.
> Share of potential revenue in a households’ total spending in a district is calculated.
> Potential turnover is forecasted based on number of households, income levels, daily spending, and other factors.

2. Determining a store’s location is the most important decision we make

Location of a new store is determined by:

> Hypermarkets: proximity to main public transportation hubs with large residential areas within a fifteen-minute car trip or a thirty-minute trip by public transportation.
> Supermarkets: convenient locations near roads and within highly populated residential districts, either a 15 minute walk from customers or a 5 minute car trip.
> The number of inhabitants in the area.
> Levels of competition in the locality.
> Current and expected personal income levels in the area.
> Level of car ownership in the area.
> Availability of large parking areas (target of one car per 10 m^2 of selling space).
> Approximately 30 employees are engaged in analysing opportunities for new store openings and land plot acquisitions.

Opening a hypermarket is a complex process that has multiple stages and involves obtaining a large number of approvals.

The main stages of the process are identifying a site/premises, negotiations on acquisition, due diligence within the company, development and technical review of the design, arranging connection to utilities, construction and fit-out, technical compliance, registration of rights, obtaining the title documents.

The complete process for opening a hypermarket (where we own the premises) might take anything from a year to three years. The average time for opening a new hypermarket, from the moment of identifying a location to opening the doors to customers, is 18 months.

Strong Real Estate Portfolio

At the end of 2011, O'Key owned 55% of its retail space and leased 45%. We believe that the Group has a sound real estate portfolio strategy, which helps us to be flexible in running the business and to take advantage of various opportunities that are offered by the market.

Owning land strengthens the control we have over our operations, helps us schedule the opening of new stores, protects us against fluctuations in rental prices, enables us to rent out some of the space inside our hypermarkets and we can also use our property assets as security collateral for raising debt. At the same time, we welcome the possibility of renting retail space in commercial centres when such opportunities arise.

This business model enables O'Key to penetrate relevant markets and constantly work on increasing our market share, while maintaining comfortable levels of real estate ownership. Over the next few years, the Group intends to maintain a balance between owning and leasing hypermarkets, we will continue to open mostly rented supermarkets, and we will generally employ a flexible approach in managing our real estate portfolio.

"Hypermarkets continue to increase their customer base after reaching maturity in year three."

3. The project development stage is where our plans really start to take shape

- Development of detailed plan for each project with estimated traffic, sales, construction costs and total amount of investment, as well as profitability, cash generation and ultimately expected payback period.
- Verification of suitability in terms of size and layout for a hypermarket and whether the available land plots meet all legal and technical requirements.
- Examination of each project by the Expansion committee, which includes specialists and decision makers from departments involved in project development.

4. Store roll-out process

- Store construction is controlled by O'Key's in-house construction team.
- Subcontractors are selected for each project through a tender process, based on experience, ability to successfully complete projects, anticipated timeline and cost of the construction project.
- Construction takes up to a year for an average hypermarket including ground works, completion of shell, fit-out and equipment installation works.
- Leased hypermarkets are ready for opening within six months upon completion of fit-out and equipment installation works.
- During construction phase we start hiring store personnel and get ready for an advertising campaign.
- The final stage is stocking of a new store with merchandise.

On average it takes 18 months, from the acquisition of land, to have an owned hypermarket ready and open for business.

The time it takes to prepare leased hypermarkets for opening can differ depending on how they are received by O'Key, but where fit-out and installation of equipment is required, work can be completed within six months from the receipt of a site to a store's opening date.

Stores become profitable at an EBITDA level by the end of first full year of opening while the average payback period for owned hypermarkets is 7 years and 4 years for rented space...

Purchasing and Supply Chain

Effective supply chain management designed to support the variety and quality of our range of goods, and ensure a high level of satisfaction for O'Key's customers.

Effective purchasing and management of logistics are fundamental factors in sourcing our products and in keeping prices at a competitive level. One of O'Key's main objectives is to provide our customers with a wide range of goods, and a full product range has to be available in our stores, wherever they are located.

This means completing up to 100 deliveries every day to keep more than 3 million customers satisfied. Our purchasing power, logistics arrangements, IT infrastructure and professional store managers enable us to achieve the best by our customers, and to ensure our shelves are always full of the produce they want.

In 2011, we further strengthened our city-level infrastructure, which enables resources to be shared as the number of stores grows in each city. As a result we have teams in the cities where we are present that are dedicated to store development and to strengthening O'Key's position with local customers. We have continued to implement advanced retail software solutions to improve the management of our supply chain, so that we can further increase our operational efficiency and tailor our range of goods to local needs.

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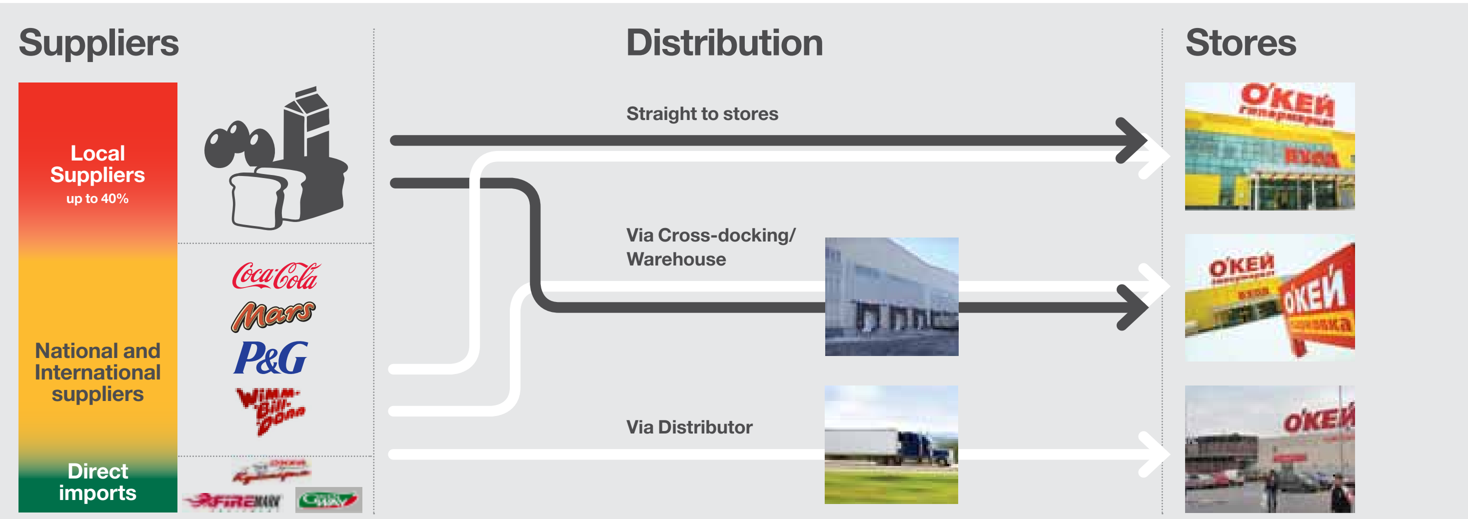
We continued to expand our import operations and private label ranges, which had a positive effect on our margins. We have increased store densities in three cities, and have increased warehouse space to give us more flexibility in distributing products across our network of stores. We also established two additional cross docking facilities during 2011 in Moscow and St. Petersburg to enhance logistics.

Smart supply chain



1. Suppliers

Goods are supplied by a combination of 3,000 local, national and international suppliers. Food products come from local or national providers within Russia, mostly directly and without an intermediary, while non-food items and some of our private label items are imported from China, India, Turkey and Italy through O'Key Logistics. Each city has different tastes, so local suppliers fulfil up to 40% of our orders, and federal suppliers fulfil the rest. O'Key is careful not to rely too much on any single supplier, and all suppliers undergo regular quality, reliability and cost controls.

2. Controlling inventory and placing orders

Responsibility for placing orders lies with the individual section managers within each store, who are motivated to maintain high levels of product availability at all times. Reports on product availability are regularly prepared and analysed at the Company's headquarters. Managers constantly monitor the sales dynamics in each section of their stores and place replenishment orders. The majority of fresh food products are sourced locally and are delivered on a regular basis. The most cost- and time-efficient structure for placing orders is determined, and orders are grouped together before being submitted to strengthen our purchasing power. A key element of O'Key executing its expansion strategy is our ability to leverage both national and regional economies of scale.

3. Distribution

Within two days of placing an order, the majority of goods are delivered directly to our stores, which have the necessary infrastructure to receive up to a hundred large deliveries daily. Direct store delivery provides significant logistical flexibility and has proven successful for O'Key. Imported products and some private label items are delivered from two national storage and distribution centres in St. Petersburg, which have a total area of 31,000 m^2 and capacity for 40,000 pallets. O'Key keeps developing city-level logistical expertise as the density of O'Key stores increases in each city. Cross docking platforms are being set up to address particular issues on a city level, such as the more effective distribution of slow-moving products, improvements in shelf availability and the buffering of safety stock that is used, for example, in promotions that we regularly organise in stores. These platforms are in operation in Volgograd, Krasnoyarsk, Moscow, St. Petersburg and Murmansk, and more will be added as O'Key grows. They enable O'Key to procure goods from all over Russia in a more efficient manner, to source private label items efficiently, and where necessary to improve lead times for perishables

4. Innovative IT solutions

O'Key's technological platform has been further enhanced in 2011 to optimise our supply chain, HR management and management reporting systems. We now have a module related to supply chain contract management in full use, and another module related to price monitoring is at a pilot project stage. We have also launched HR and incident management programmes, and several infrastructure projects. In 2011 we initiated a number of supply chain projects related to product ordering, warehouse and in-store inventory management that are scheduled for launch in 2012. Our strategic targets in terms of IT infrastructure development are on track, and we expect to implement most of the new programmes by 2014.

Microsoft Dynamics 1С ФИРМА "1С" +ableau SOFTWARE Soft Solutions

Benefits: The way we have organised our supply chain brings significant benefits:

> Customers are provided with plenty of choice and products are tailored to local tastes;

> We carry low inventory levels, decreasing the need for goods to be stored in warehouses for long, as our products go straight onto our shelves;

> We are rarely out of stock as deliveries are regular, and inventory is monitored efficiently;

> We can roll out new stores quickly due to the flexibility of our supply chain;

> The costs of warehousing and delivery are born by suppliers;

> Our capital resources can be directed to the development of our stores; and

> O'Key can leverage its national and regional economies of scale to execute its expansion strategy.

Financial Review

Our 2011 Financial Results can be summarised as follows:

Total revenue increased to RUB 93.1 billion
Gross margin rose to 22.8%
Net profit margin of 3.5%
Operating cash flow increased to RUB 6.4 billion

Revenue

Revenue for the year ended 31 December 2011 was RUB 93,134.4 million, a 12.7% increase over the 2010 figure of RUB 82,666.6 million. Both an increase in the amount of selling space and like-for-like revenue growth contributed to the growth in revenue figures.

2011 saw a 5.3% year-on-year (y-o-y) increase in like-for-like (LFL) revenue, with a 5.5% increase in the LFL basket driven primarily by increased inflation. This analysis only includes the 54 stores that we opened before 31 December 2010 and were not subsequently closed, expanded or downsized.

Cost of Goods Sold and Gross Profit

Cost of goods sold were up 11.0%, or RUB 7,110.8 million, in 2011 when compared to 2010. Higher sales of trading stock, driven by new store openings, and LFL revenue expansion drove this increase.

In the following table, revenue, cost of goods sold, gross profit and gross margin in years ended 31 December 2011 and 2010 are set out:

(RUB millions, except percentages)	Year ended 31 December 2011	Year ended 31 December 2010	Percentage change (%)
Revenue	**93,134.4**	82,666.6	12.7
Cost of goods sold (less supplier bonus)	**(71,853.4)**	(64,742.6)	11.0
Gross profit	**21,281.0**	**17,924.0**	**18.7**
Gross margin	**22.8%**	**21.7%**	**1.1**

In the following table, we provide further detail of our cost of goods sold in the years ended 31 December 2011 and 2010:

	Year 31 December 2011 (RUB millions)	Percentage of revenue (%)	Year 31 December 2010 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Cost of trading stock sold (less supplier bonuses)	**(70,176.9)**	**75.4**	(63,477.9)	76.8	(1.2)
Inventory shrinkage	**(953.2)**	**1.0**	(840.6)	1.0	0.0
Logistic costs	**(304.8)**	**0.3**	(49.7)	0.1	0.2
Packing and labelling costs	**(418.6)**	**0.5**	(374.4)	0.5	0.0
Total cost of goods sold	**(71,853.4)**	**77.2**	**(64,742.6)**	**78.3**	**(1.1)**

In the year ended 31 December 2011 we achieved an increase in gross profit of 18.7% to RUB 21,281.0 million, compared to RUB 17,924.0 million in the year ended 31 December 2010.

In 2011 we improved our gross margin as compared to 2010. Two factors in particular drove this improvement – one being price increases in July, which compensated for growing social taxes and utility charges, and the other being a general improvement in commercial terms due to the increased scale of our operations and growing purchasing power. Logistic costs increased significantly as a result of the reclassification of lease expenses for rented warehouses from operating leases into this category. Another element that led to higher logistic costs is the increase in the number of logistic platforms.

General, Selling and Administrative Expenses

These expenses for the year ended 31 December 2011 totalled RUB 15,749.9 million, representing a 26.9% increase on RUB 12,406.4 million reported in year ended 31 December 2010.

In the following table, we provide further details relating to our general, selling and administrative expenses for the years ended 31 December 2011 and 2010:

	Year 31 December 2011 (RUB millions)	Percentage of revenue (%)	Year 31 December 2010 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Personnel costs	**(7,538.3)**	**8.1**	(5,989.1)	7.2	0.9
Depreciation and amortisation	**(1,977.3)**	**2.1**	(1,572.0)	1.9	0.2
Operating leases	**(1,672.6)**	**1.8**	(1,069,9)	1.3	0.5
Communication and utilities	**(1,503.2)**	**1.6**	(1,101.4)	1.3	0.3
Security expenses	**(659.7)**	**0.7**	(520.8)	0.6	0.1
Advertising and marketing	**(508.3)**	**0.5**	(429.9)	0.5	0.0
Materials and supplies	**(404.6)**	**0.4**	(357.5)	0.4	0.0
Operating taxes	**(369.1)**	**0.4**	(348.9)	0.4	0.0
Insurance and bank commission	**(349.4)**	**0.4**	(327.8)	0.4	0.0
Repairs and maintenance costs	**(308.1)**	**0.3**	(257.1)	0.3	0.0
Legal and professional expenses	**(262.0)**	**0.3**	(163.3)	0.2	0.1
Other costs	**(197.3)**	**0.2**	(268.7)	0.3	(0.1)
Total general, selling and administrative expenses	**(15,749.9)**	**16.9**	**(12,406.4)**	**15.0**	**1.9**

The increase in general, selling and administrative expenses in 2011 compared to 2010 was due to the growth of our operations and increased costs related to personnel, utilities and leases. In addition we incurred substantial costs as an indirect result of the unfortunate accident in one of our stores.

As a percentage of revenue, our general, selling and administrative expenses increased by 1.9 percentage points to 16.9% for the year ended 31 December 2011. We give more detail below on those categories of expenses where significant changes were seen in 2011.

Personnel Costs
2011 saw a 25.9% increase in personnel costs to RUB 7,538 million. Payroll costs mainly increased due to staffing requirements for the 14 stores we opened in 2011 and an indexation of salaries that took place in July 2011. A large part of the increase, about 40%, was due to the social taxes rate rising from 26% to 34% on 1 January 2011. The cost of other benefits for personnel increased significantly following the reclassification of voluntary medical insurance costs to this expense category from the categories where they had previously been allocated (insurance and bank commissions). In 2011, the first tranche of share-based payment arrangements was accrued, which is disclosed in the notes to financial statements. In addition to the above mentioned factors, employees in the store where the accident occurred were relocated to other stores until the store reopened, contributing to an increase in personnel costs.

Due to the above factors, as a percentage of revenue, personnel costs increased in 2011 by 0.9 p.p. to 8.1%. The major part of the increase, around 0.5%, came about as a result of a higher social taxes rate. Other factors described above resulted in slight increases individually.

Operating Leases
Expenses for operating lease equalled RUB 1,672.6 million in 2011, an increase of 56.3% over the 2010 figure of RUB 1,069.9. This was primarily due to an increase in the rent we paid on three stores that were transferred under lease-back arrangements in late 2010. These stores were paying rent for the full year in 2011, compared to only paying for a fraction of 2010. Another factor that led to the increase in this expense category is the proportion of leased space we are occupying, which reached 45% of the total space our stores occupy by the end of 2011. We added 5 new leased hypermarkets and 6 new leased supermarkets in 2011, thus increasing leased space by 31% compared to the position at the end of 2010.

Communications and Utilities
Communications and utility charges increased to RUB 1,503.2 million in 2011, representing a 36,5% increase over the previous period. Most of this cost increase is due to the addition of new stores during the year. Another significant element is the sharp increase in utility charges that took place in the beginning of 2011.

Legal and Professional Expenses
Legal and professional expenses increased 60.4% to RUB 262.0 million for the year ended 31 December 2011. This was the result of putting new consultancy projects in place, and maintenance charges on recently implemented modules of our IT platform.

Other Operating Income and Expenses
Net other operating income and expenses resulted in a loss of RUB 142.6 million in the year ended 31 December 2011, compared to a loss of RUB 121.7 million in the year ended 31 December 2010. This was primarily due to the impairment of raw materials and Ozerki-accident related expenses. Both items are non-recurring one-off expenses. At the same time considerable improvements we made in controlling the collection of receivables. The amount of receivables due for more than 180 days has almost halved in comparison to 2010 figures.

Operating Profit/(Loss)
In the year ended 31 December 2011 operating profit remained flat at RUB 5,388.5 million, compared to an operating profit of RUB 5,395.9 million in the year ended 31 December 2010. The reported growth in our gross profit has not been reflected in the operating profit as it was offset by the substantial increase in operating expenses, as detailed above.

Financial Review
continued

Finance Costs
Finance costs decreased by RUB 576.7 million to RUB 777.5 million in the year ended 31 December 2011, in principle due to the Group having a reduced loan portfolio during most of 2011 in comparison to the position in 2010. The Group used cash proceeds generated by the IPO and cash generated by operations to repay part of its loan portfolio at the beginning of 2011 while we started to make additional borrowings in the second half of 2011. As a result the average loan balance in 2011 was below 2010 levels. With regards to effective interest rate, it increased from 8.1% for the year ended 31 December 2010 to 8.2% for the year ended 31 December 2011.

Profit Before Tax and Income Tax
Profit before income tax increased by RUB 423.6 million to RUB 4,369.7 million in the year ended 31 December 2011. Significant improvement over operating profit was achieved due to the reduction in financing costs which was partially offset by foreign exchange losses.

The table below sets out our income tax expense in the years ended 31 December 2010 and 2011:

Reconciliation of Effective Tax Rate:

	2011	2010
Profit/(loss) before income tax	**4,369.7**	**3,946.1**
Income tax at applicable tax rate (2010: 20%, 2009: 20%)	**(873.9)**	(789.2)
Effect of income taxed at different rates	**2.9**	(8.8)
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Inventory shrinkage expenses	**(307.3)**	(259.5)
– Other non-deductible expenses	**(58.7)**	(124.1)
Tax withheld on dividends received from subsidiaries	**(91.2)**	(106.1)
Adjustments to current income tax for previous periods	**201.4**	49.6
Other items	**(2.9)**	(23.9)
Income tax expense for the year	**(1,129.7)**	**(1,262.1)**

The total income tax expense decreased by 10.5% to RUB 1,129.7 million in the year ended 31 December 2011, primarily due to the increased profit we made from our retail operations.

The effective income tax rate amounted to 25.9% in the year ended 31 December 2011, which is an improvement from the figure of 32.0% for 2010. The effective tax rate reduced significantly due to the reversal of the thin capitalisation reserve made in previous years. Another important reason for the improvement was the reduction in the amount of other non-deductible expenses when compared to the figures for 2010.

Profit for the Year
As a result of the various developments and changes described above, our profit for the year ending 31 December 2011 increased by RUB 555.9 million to RUB 3,239.9 million, compared to RUB 2,684.0 million for 2010. The amount of the increase in profit for the year is greater than the revenue and operating profit growth, due to lower levels of financing costs and income tax expenses.

Liquidity and Capital Resources
Our liquidity needs arise principally in relation to financing our existing retail operations, the acquisition of land plots to enable new stores to be built, the acquisition or construction of new stores, the purchase of the machinery and equipment we need to support the growth of our operations and financing ongoing improvements to our IT systems. In 2011 we partly met our liquidity needs through net cash generated from operations and the proceeds of our primary share issue.

We continue to expect that net cash generated from our retail operations, short and long-term loans, bond issuances and leasing will represent important sources of cash in the years ahead.

Cash Flows and Working Capital
The following table sets out summary cash flow information for the years ended 31 December, 2011 and 2010:

(RUB millions)	2011	2010
Net cash from operating activities	**6,400.9**	5,110.9
Net cash used in investing activities	**(8,692.5)**	(3,393.2)
Net cash used in financing activities	**(449.3)**	2,404.2
Net increase/(decrease) in cash and cash equivalents	**(2,740.9)**	4,121.2
Effect of exchange rate fluctuations on cash and cash equivalents	**(24.4)**	122.9

Cash Flows from Operating Activities

Net cash from operating activities was significantly higher in 2011 compared to 2010 – RUB 6,400.9 million compared to RUB 5,110.9 million. Working capital improvements played a major role in increasing operating cash flow. Improvements in trade accounts payable and net trade and other receivables significantly exceeded the uptake in inventories. The increases in trade accounts payable and inventories were driven by the higher volumes of operations and the greater number of stores in operation. Improvements achieved in net trade and other receivables were due to reduced prepayments for current assets and improved collection time of supplier bonuses.

Cash Flows from Investing Activities

Cash used in investing activities was principally used for purchases of property, plant and equipment, and increased to RUB 8,692.5 million in 2011. The major part of this was spent on the completion of the seven new hypermarkets, of which two were constructed, and the seven supermarkets, of which one was constructed, which were opened during the year. By the end of 2011 we had large investments that were classified as construction in progress. This relates to stores that were at different degree of completion, but not yet opened, at the end of the year. The final element of our investment activities is the acquisition of plots and long-term lease rights on land and investment into intangible assets.

Cash Flows from Financing Activities

The net cash used in financing activities figure of RUB 449.3 million results from the repayment of debts during the year and the payment of dividends. The Group used excess cash balances available at the beginning of the year to partially repay its current loans and borrowings.

Working Capital

Our primary sources of liquidity are cash derived from operating activities and debt financing. As of 31 December 2011, our 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 5,508.5 million. Working capital figures in the food retail industry are usually negative, and we intend to maintain a negative working capital position.

We consider the ratio of net debt to EBITDA as the principal means for evaluating the impact of the total size of our borrowings on our operations. At 31 December 2011, our net debt to EBITDA ratio was 1.2.

RUB million	2011	2010
Total Debt	**12,071**	11,572
Short-Term Debt	**5,303**	3,702
Long-Term Debt	**6,768**	7,869
Net Debt	**9,129**	5,864
Net Debt/EBITDA	**1.2**	0.8

Research and Development

In the period under review, and as of the date of this report, while the Company was not involved in any material research and development activities, O'Key does monitor market trends on an on-going basis to identify additional areas of opportunity and ensure the Company has the flexibility to respond to the needs of its customers and the potential of all its local market places.

Risk Management

The risk management process we have in place helps us to achieve our business objectives and deliver long-term value to our shareholders. By implementing a risk management process we also gain more trust from our shareholders, employees, customers and suppliers. Our risk management policy stems from a philosophy of pursuing sustainable growth while avoiding and managing inappropriate risks. Risk management is an integral part of how we plan and execute our business strategies.

Our risk management process aims for an early identification and evaluation of, and response to, those risks and opportunities that could materially affect the achievement of our business objectives. Our operational directors review and consider the risk register twice a year for the whole business within the framework of the Risk Committee meeting. The risk register covers strategic, operational, financial and compliance risks. Risks are identified, analysed and rated in a consistent manner using common methodology. For every risk we develop, we initiate and monitor the appropriate response measures. Our risk management process is based on a net risk approach, covering risks and opportunities remaining after the execution of existing control measures.

Below we describe the risks that could have a material adverse effect on our business, our financial condition and on the results of operations, the price of our shares and on our reputation. The order in which the risks are presented in each of the four categories reflects the currently estimated relative exposure for our Company associated with these risks and thus provides an indication of the risks' current importance to us. Nevertheless, risks that are currently considered to entail a lower risk exposure could potentially result in a higher negative impact for O'Key Group S.A. than risks currently considered to entail a higher risk exposure. Additional risks not known to us or that we currently consider immaterial may also impair our business operations. We do not expect to incur any risks that alone or in combination would appear to jeopardise the continuity of our business.

Strategic Risks

	Risk	Mitigation
1	**Risk of failure to meet performance and expansion targets resulting in a loss of investor trust.**	We operate in a competitive market both in our current areas of operations and in areas that we are likely to enter through our expansion strategy. Our business is affected by the uncertainties of economic and political conditions, particularly in the current macroeconomic environment, which is characterised by the continuing crisis in the financial markets and the potential threat of a global economic downturn. Successful expansion depends on our ability to locate, acquire or lease appropriate sites on commercially reasonable terms, open new stores in a timely manner, employ, train and retain additional store and supervisory personnel and integrate the new stores into our existing operations on a profitable basis.
2	**Risk of failure to meet customer expectations on quality, price, assortment, etc. resulting in loss of customers.**	We strive to provide our customers with the best quality of goods and services, competitive prices and the right product assortment. We constantly assess and improve our business processes to meet these goals. > changes in consumer preferences and demands; > changes in overall economic conditions that impact consumer spending.

Operational Risks

	Risk	Mitigation
1	**Risk of failure to hire and retain highly qualified management and store personnel.**	Competition for highly qualified management and store personnel remains intense in Russia. To meet our expansion plans we will need highly skilled employees. Our future success depends in part on our continued ability to hire, assimilate and retain new employees. We understand that an inability to attract and retain highly qualified employees and key personnel needed in the future, including in appropriate regions, could have a material adverse effect on our business. To retain our employees we constantly organise and improve training programs and personnel development courses.
2	**Risk of supply chain interruption, including the inability of third parties to deliver merchandise and services on time, and we may be subject to rising purchase prices.**	Our financial performance depends in part on reliable and effective supply chain management. Capacity constraints and supply shortages resulting from ineffective supply chain management may lead to delays and additional cost. We rely on third parties to supply us with merchandise and services. The third parties that supply us with merchandise and services also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Currently, we are working to increase the share of local suppliers in our total purchases to avoid shortages. Also we continue to develop partnerships with logistics facility operators to reduce the impact of potential out-of stock issues. Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems in the future or that we will be able to replace a supplier that is not able to meet our demand. Shortages and delays could materially harm our business. Unanticipated increases in prices could also adversely affect our performance. Furthermore, we may be exposed to the risk of delays and interruptions of the supply chain as a consequence of natural disasters, in case we are unable to identify alternative sources of supply in a timely manner or at all.

3	**Increased IT security threats and higher levels of professionalism in computer crime could pose a risk to our systems and solutions as well as to those of our counterparties.**	We are observing a global increase in IT security threats and higher levels of professionalism in computer crime. We attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems such as firewalls and virus scanners. Also in order to meet our strategic plans and to reduce the risk of insufficient IT facilities to provide business continuity we are planning the long-term development of our business support processes and any necessary infrastructure. Nonetheless, our systems and solutions, as well as those of our counterparties remain potentially vulnerable to attacks. Depending on their nature and scope, such attacks could potentially lead to the leakage of confidential information, improper use of our systems, manipulation and destruction of data, sales downtimes and supply shortages, which in turn could adversely affect our reputation, competitiveness, business, financial condition and results of operations.
4	**Risk of losing stores because of natural disasters or manmade incidents resulting in injuries of employees or customers, financial loss and damage to company reputation.**	On 25 January 2011 we had an accident that occurred at our Ozerki hypermarket in St. Petersburg where a roof collapse led to the death of an employee and left 15 people injured. We voluntarily stopped operations at several of our hypermarkets in January 2011 to check their technical condition and only after the technical condition of sites was confirmed by governmental authorities did we reopen the operations at those sites. The accident took place due to low quality welding of a metal structure on the roof. The responsible party for the accident was named, per court decision, as LLC MP UIMP, a company not affiliated to O'Key Group S.A. All efforts have been made to ensure that our stores comply with security, safety and other applicable requirements as the safety of our employees and customers is our top priority. Nevertheless, we may be exposed to the risk of losing a shop because of natural disasters or manmade incidents that could adversely affect our business.

Financial Risks

	Risk	Mitigation
1	**Exposure to currency and interest rate risks.**	We are exposed to fluctuations in exchange rates because of US Dollar-denominated loans we have received and some of business operations operate in USD and in EUR. Certain currency risks as well as interest rate risks are hedged using derivative financial instruments. Interest rate risks are managed also by borrowing money at both variable and fixed interest rates. Although measures are taken to minimise this risk, there can be no assurance that exchange rate and interest rate fluctuations will not negatively influence our results.
2	**Risk of non-compliance with tax regulations resulting in adverse tax consequences.**	Russian tax law has complex tax rules which may be interpreted in different ways and tax rules are subject to frequent changes. Examinations by tax authorities and changes in tax regulations could adversely affect our business, financial condition and results of operations. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact our taxes receivables and liabilities as well as our deferred tax assets and our deferred tax liabilities. Our tax and legal specialists regularly review regulations to ensure O'Key is compliant with applicable tax regulations, as well current interpretations issued by the authorities and judicial precedents resulting from tax disputes.
3	**Risk of misleading financial reporting leading to misstatements in financial statements.**	We regularly test internal controls over financial reporting to prevent misstatements in financial statements. We have a qualified team of finance professionals responsible for preparing our financial statements and we are currently implementing a new accounting system that will help us to improve automation processes as part of the preparation of our consolidated IFRS financial statements. Nevertheless, we are still exposed to risk of failure in proper financial reporting and the classification of accounting entries, and we are also exposed to risk related to making inaccurate accounting estimates.

Compliance Risks

	Risk	Mitigation
1	**Risk of non-compliance with all applicable international and statutory laws and regulations resulting in loss of reputation.**	Our operations are subject to various government regulations with respect to quality, packaging, health and safety, labelling, distribution and other standards. Some regulations are still in the process of development in Russia. Current and future government regulations or changes thereto may require us to change the way we run our operations and these could result in cost increases. Our goal in this environment is to ensure we are compliant with all applicable regulations, that we regularly monitor developments and changes and that we follow up and respond to changes in regulations and standards in a timely manner.

Board of Directors

In 2011 O'Key has consolidated the progress previously made in creating a professional, visionary Board of Directors who focus on the implementation of good corporate governance practices and risk management in O'Key's day-to-day business. The Board is always looking ahead to ensure that Company's strategy leaves O'Key well placed to take maximum advantage of a developing market and sector, thus continuing to build long-term value for shareholders.

Members of the Board of Directors at the End of 2011

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, he 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. He graduated from Leningrad Shipbuilding Institute, currently known as the State Marine Technical University of Saint Petersburg, and holds a degree in engineering. Dmitrii indirectly owns 25.82% of the shares of O'KEY Group S.A.

Dmitry Korzhev
Director

Dmitry 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, he served as a member of the Supervisory Board of Bank Saint-Petersburg. He graduated from Leningrad Shipbuilding Institute, currently known as the State Marine Technical University of Saint Petersburg, and holds a degree in engineering. Dmitry indirectly owns 25.82% 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 he has served as General Director of Saint Petersburg Automobile Museum. He graduated from the Leningrad Institute of Railway Engineers, currently known as the 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 he 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, he provided private consulting services, including research on retail markets in Belarus, Kazakhstan and China. He was hired by O'Key management to provide consultation on the development of a hypermarket format concept in Russia from 1998 until 2002. Heigo 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 his 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. He has more than 18 years of experience working in Russia for both Russian and international companies. Prior to Russia, he 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, the International Finance Corporation, the European Bank for Reconstruction and Development and various rating agencies. He is a graduate of Edinburgh University (UK) and is also a fellow of the Chartered Institute of Management Accountants and a member of the Institute of British Management. Mykola holds a Joint Diploma in Management Accounting.

O’Key firmly believes that the experience, expertise and enthusiasm of our management team drive our success. We have recruited within Russia and in other countries to ensure we have the best people, who are able to bring a global perspective on the business combined with deep knowledge of local conditions and tastes. Their success is evidenced not just by our financial results, but by the look and atmosphere of our stores and, most importantly, by the satisfaction of our customers.

Senior Management

Patrick Longuet
CEO

> 32 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

> 22 years of retail experience.
> Supervises Finance, Performance Management, Information Systems, Organisation and Change Management, Legal, Audit, Strategic Planning and Investor Relations.
> Previously worked for 17 years for Auchan, including Business Performance and Information Systems Director of Auchan Russia, Information Systems Director of Auchan International in charge of new countries worldwide, and various positions in Auchan Poland and International.

Dmitrii Prianikov
Financial Director

> 10 years with O’Key, since the Company started its activities.
> Financial Director of O’Key Group since 2007.
> Previous financial experience includes various positions in Bank St. Petersburg and a number of privately owned companies.

Vladislav Kurbatov
Operations Director

> 10 years at O’Key, since the Company started its activities.
> Now responsible for day-to-day control and the 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

> 35 years of retail experience.
> Responsible for customer focus, product mix structure, marketing activity and competitor analysis.
> Previously worked for 30 years in Auchan operations, including various positions in Auchan France, Poland and Russia.

Jerome Depeille
Expansion and Real Estate Director

> 12 years of retail experience.
> Responsible for searching and negotiating new store locations for acquisition or rental schemes, construction of new stores, maintenance of existing stores, general fixed asset management.
> Companies worked for include Auchan Russia as Expansion Director, Spie Batignolles as Regional Development Director, Bouygues Construction in various roles.

Vadim Korsunskiy
Commercial Director

> 9 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.

Elmira Hadieva
HR Director

> 5 years at O’Key and has vast experience in HR management in a multinational environment.
> Responsible for developing the Group’s HR business strategy and creating an HR-system aimed at supporting the business overall and also attracting and retaining talent in the retail industry.
> Previously worked in HR for British American Tobacco during 14 years.

Corporate Governance

O'Key Group is committed to managing and conducting its operations in accordance with internationally recognised principles of corporate governance. The Company not only strives to ensure that its Board of Directors follows such guidelines, but also that management teams within the Company adopt these principles. As a company listed on London stock exchange we recognise our obligation to our shareholders to put such systems in place.

Key elements of O'Key's corporate governance policy include:

> Having experienced people as independent directors on our Board of Directors – they occupy key positions and thus participate fully in the most senior level of management in the Company (the members of our Board are listed in the section of this Annual Report entitled 'Board of Directors').
> Key decisions relating to strategy are made by the Board.
> Having a comprehensive system of Board committees, which ensures that due consideration is given to important decisions by experienced people and that a good system of checks and balances exists, including in the areas of remuneration and incentives (the committees, their functions and their membership are also listed in the 'Board of Directors' section).
> The Board exercising oversight of the Company's well-defined control and risk management procedures.

Composition of the Board of Directors

There are five members of our Board, including two independent Directors. The General Meeting of Shareholders appoints Board members by a simple majority of votes cast, for a period not exceeding six years or until their successors are elected.

Structure of the Board and Committees

Our Board of Directors is responsible for the Company's overall strategic development, and ultimately for ensuring that O'Key achieves long-term growth for its shareholders. The Board generally plans four meetings per year, to enable regularly review of financial reporting, the Company's strategic performance and proposed new initiatives.

The Board's committees conduct an initial review and discussion of the issues for which they are responsible, before making recommendations to the full Board.

The key responsibilities of the Board's committees are described below:

Remuneration Committee

Members

Heigo Kera	Chairman
Boris Volchek	Member
Dmitrii Troitckii	Member
Alvidas Brusokas	Member, non-director appointed April 2011
Alexander Andrianov	Member, non-director appointed April 2012

The responsibilities of the remuneration committee include reviewing compensation policy, making proposals to the full Board regarding the remuneration of executive directors and management, and advising on any benefit or incentive schemes. The remuneration and any bonuses paid to the Chief Executive Officer of O'KEY Group LLC are also determined by the Board.

Audit Committee

Members

Mykola Buinyckyi	Chairman
Boris Volchek	Member
Dmitry 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 the Company's financial statements, including periodically reporting to the full Board of Directors on its activities and on the adequacy of internal control systems over financial reporting. The committee also makes recommendations regarding the appointment, compensation, retention and supervision of the external auditors, and monitors their independence. The committee performs such other duties as are imposed by applicable laws and regulations of the regulated market or markets on which the Company's shares or global depositary receipts may be listed, as well as any other duties entrusted to it by the Board of Directors. The ultimate responsibility for preparing the annual report and accounts and the half yearly reports remains with the full Board of Directors.

Remuneration of the members of the Board of Directors and Management

In 2011, O'Key management were paid an aggregate amount of RUB 229 million remuneration and other compensation. Members of the Board of Directors were paid a net fee of US$ 240,876. No more than U.S.$ 300,000 is to be paid per year in compensation to the entire Board.

Corporate Social Responsibility

O'Key Group's Board of Directors and Executive Management are committed to achieving high standards in Corporate Social Responsibility (CSR). A key part of this is ensuring that the Company contributes to the social and economic development of the regions where we operate both directly – through opening new stores and creating employment opportunities – and indirectly, by purchasing from local suppliers and utilising 3rd party logistics and other services. We also care about the welfare and safety of our employees and any environmental impact caused by our operations.

Work-Life Balance in O'Key

Being a socially responsible company, we comply with all the terms and conditions of the local labour legislature to minimise the risks of excessive workload and extra hours worked by all of our employees. We recently introduced a number of socially-oriented programs, which aim to reduce work related stress and promote a sense of ownership by promoting corporate sports programs, wellness club membership and family festivals. We are also about to launch a new initiative within all organisational units called 'Social Boards' which aims to serve as a mediating body to defuse and resolve work related conflicts and issues.

Internal Training and Career Development Policy

The entire policy for internal Talent Development which includes Training and Development and Talent Management parts has recently been upgraded and elaborated to ensure that the technical and managerial skills and capabilities required by employees of all levels are achieved. The policy states that desired skill sets and capabilities are to be developed through internal and external training tools and products. The policy's ultimate goal is to develop and retain the best candidates who are eager to work and thrive in retail industry by creating various opportunities for personal growth and career progression. The entire policy will be formalised by end of the first quarter, 2012. One of the key pillars of Training and Career development policy is a brand new internal management development program called: REX – Retail Excellence Program which was launched in December, 2011.

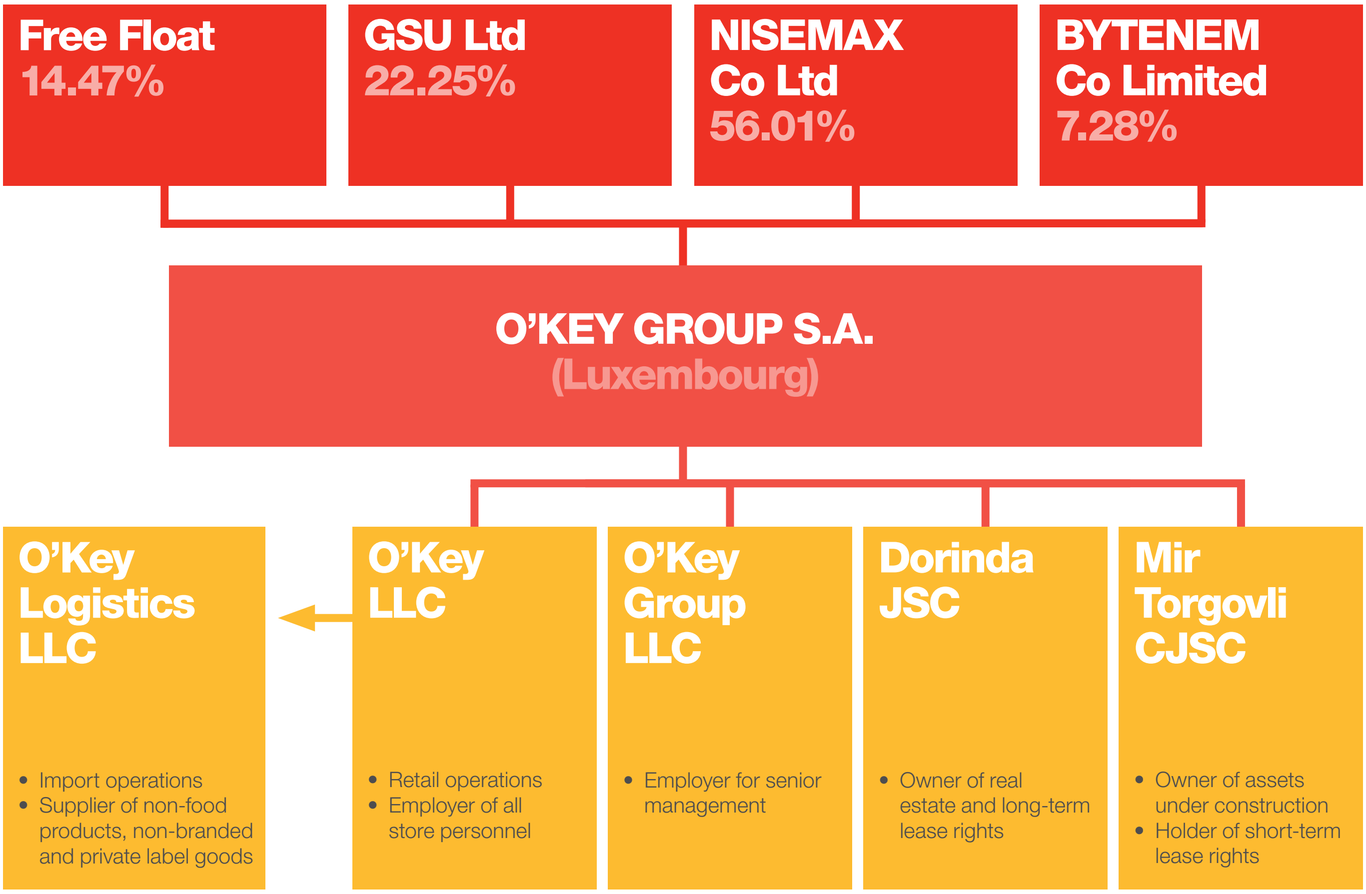
Company Policy Towards Employee Benefits

O'Key is developing and incorporating a balanced, attractive and competitive benefits' package that would stimulate our people to stay within the organisation and help drive higher business results by providing employees with core social privileges such as: medical insurance, sick days reimbursement, fair and taxed salaries, bonus, incentive and rewarding schemes for the employees of all levels (shopping floor staff and office staff), annual guaranteed pay rise, free routine medical checks, meals allowance, transportation, paid holidays and world class working conditions. One of the most valuable benefits that we are providing our employees with is an open and friendly atmosphere of trust which is maintained and supported by a tolerant and adequate management approach that aims to push forward an environment within which people can thrive.

Maintain Good Reputation Within the General Community

We are undertaking steps towards establishing and maintaining good partner relationships with the general community by building up a solid reputation as a socially responsible company. First of all, we support local communities by creating new jobs and paying local taxes, secondly, we are also developing local businesses by attracting a certain percentage of local suppliers to become our B2B clients, we also support and sponsor environmental projects by providing volunteers and we redevelop abandoned sites by constructing O'Key shopping malls.

Legal and Ownership Structure



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 they face,

Luxembourg, 20 April 2012

Member of the Board of Directors

Member of the Board of Directors

Patrick Longuet
CEO

Dmitrii Prianikov
Financial Director

O’Key Group S.A.

Consolidated Financial Statements
for the year ended 31 December 2011

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

Contents

Report of the Reviseur d'Entreprises Agréé

To the Shareholders of
O'KEY GROUP S.A.
23, rue Beaumont
L-1219 Luxembourg

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., which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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. as of December 31, 2011, 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.

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. The accompanying Corporate Governance Statement on page 30 which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law.

Luxembourg, April 20, 2012

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

Thierry Ravasio

Consolidated Statement of Financial Position
as at 31 December 2011

	Note	2011 '000 RUB	2010 '000 RUB Restated	1 January 2010 '000 RUB Restated
	2(e)			
Assets				
Non-current assets				
Investment property	17	573,000	517,000	1,567,424
Property, plant and equipment	15	20,435,107	16,599,565	19,067,102
Construction in progress	15	3,136,848	1,204,602	974,042
Intangible assets	16	518,099	559,252	481,426
Long-term loans issued		–	1,338	9,362
Deferred tax asset	19	356,034	194,009	243,107
Other non-current assets	18	5,530,502	4,194,648	3,622,627
Total non-current assets		**30,549,590**	**23,270,414**	**25,965,090**
Current assets				
Inventories	20	7,917,657	5,995,208	5,145,489
Trade and other receivables	21	1,924,108	1,276,531	980,402
Prepayments for current assets		398,595	677,703	463,162
Short-term loans issued		–	31	1,724
Cash and cash equivalents	22	2,941,947	5,707,185	1,462,312
Total current assets		**13,182,307**	**13,656,658**	**8,053,089**
Total assets		**43,731,897**	**36,927,072**	**34,018,179**
Equity and liabilities				
Equity	23	**14,303,743**	**11,734,192**	**7,193,183**
Non-current liabilities				
Loans and borrowings	25	6,768,282	7,869,355	9,026,488
Deferred income tax liability	19	470,839	309,350	406,889
Deferred income		–	–	1,108
Other non-current liabilities		1,137,192	1,101,942	–
Total non-current liabilities		**8,376,313**	**9,280,647**	**9,434,485**
Current liabilities				
Loans and borrowings	25	5,302,948	3,702,261	6,439,677
Trade and other payables	26	15,337,559	11,736,964	10,800,614
Current income tax payable		411,334	473,008	150,220
Total current liabilities		**21,051,841**	**15,912,233**	**17,390,511**
Total liabilities		**29,428,154**	**25,192,880**	**26,824,996**
Total equity and liabilities		**43,731,897**	**36,927,072**	**34,018,179**

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 36 to 71.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 '000 RUB	2010 '000 RUB Restated
	2(e)		
Revenue	7	93,134,430	82,666,633
Cost of goods sold		(71,853,387)	(64,742,611)
Gross profit		**21,281,043**	**17,924,022**
General, selling and administrative expenses	8	(15,749,895)	(12,406,423)
Other operating income and expenses	9	(142,628)	(121,714)
Operating profit		**5,388,520**	**5,395,885**
Finance income	12	25,216	16,583
Finance costs	12	(777,463)	(1,354,208)
Foreign exchange losses	13	(266,619)	(112,174)
Profit before income tax		**4,369,654**	**3,946,086**
Income tax expense	14	(1,129,774)	(1,262,078)
Profit for the year		**3,239,880**	**2,684,008**
Other comprehensive income			
Foreign currency translation differences for foreign operations		(58,636)	150,319
Change in fair value of hedges and reclassification from hedging reserve	12	201,422	140,765
Income tax on other comprehensive income	14	(40,285)	(28,153)
Other comprehensive income for the year, net of income tax		**102,501**	**262,931**
Total comprehensive income for the year		**3,342,381**	**2,946,939**
Earnings per share			
Basic and diluted earnings per share (RUB) – restated	24, 2(e)	**12.0**	**10.5**

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 36 to 71.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2010, as previously reported		109,815	111	3,676,612	(105,127)	(387,575)	3,735,520	106,436	7,135,792
Impact of change in accounting policy	2(e)	–	–	–	–	3,792,911	(3,735,520)	–	57,391
Balance at 1 January 2010 (restated)		**109,815**	**111**	**3,676,612**	**(105,127)**	**3,405,336**	**–**	**106,436**	**7,193,183**
Total comprehensive income for the year									
Profit for the year (restated)		–	–	–	–	2,684,008	**–**	**–**	**2,684,008**
Other comprehensive income									
Foreign currency translation differences		–	–	–	–	–	–	150,319	**150,319**
Change in fair value of hedges	12	–	–	–	140,765	–	–	–	**140,765**
Income tax on other comprehensive income	14	–	–	–	(28,153)	–	–	–	**(28,153)**
Total other comprehensive income		**–**	**–**	**–**	**112,612**	**–**	**–**	**150,319**	**262,931**
Total comprehensive income for the year		**–**	**–**	**–**	**112,612**	**2,684,008**	**–**	**150,319**	**2,946,939**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Issue of shares	23	9,625	–	5,226,994	–	–	–	–	5,236,619
Interim dividends paid	23	–	–	–	–	(587,489)	–	–	(587,489)
Distributions to shareholders (restated)	6, 2(e)	–	–	–	–	(3,055,060)	–	–	(3,055,060)
Total contributions by and distributions to owners		**9,625**	**–**	**5,226,994**	**–**	**(3,642,549)**	**–**	**–**	**1,594,070**
Balance at 31 December 2010 (restated)		**119,440**	**111**	**8,903,606**	**7,485**	**2,446,795**	**–**	**256,755**	**11,734,192**

	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2011 (restated)		**119,440**	**111**	**8,903,606**	**7,485**	**2,446,795**	**256,755**	**11,734,192**
Total comprehensive income for the year								
Profit for the year		–	–	–	–	3,239,880	–	**3,239,880**
Other comprehensive income								
Foreign currency translation differences		–	–	–	–	–	(58,636)	**(58,636)**
Change in fair value of hedges	12	–	–	–	201,422	–	–	**201,422**
Income tax on other comprehensive income	14	–	–	–	(40,285)	–	–	**(40,285)**
Total other comprehensive income		**–**	**–**	**–**	**161,137**	**–**	**(58,636)**	**102,501**
Total comprehensive income for the year		**–**	**–**	**–**	**161,137**	**3,239,880**	**(58,636)**	**3,342,381**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Interim dividends paid	23	–	–	–	–	(772,830)	–	(772,830)
Allocation to legal reserve	23		10,486	–	–	(10,486)	–	–
Total contributions by and distributions to owners		**–**	**10,486**	**–**	**–**	**(783,316)**	**–**	**(772,830)**
Balance at 31 December 2011		**119,440**	**10,597**	**8,903,606**	**168,622**	**4,903,359**	**198,119**	**14,303,743**

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 36 to 71.

Consolidated Statement of Cash Flows
for the year ended 31 December 2011

	Note	2011 '000 RUB	2010 '000 RUB Restated
	2(e)		
Cash flows from operating activities			
Profit before income tax		4,369,654	3,946,086
Adjustments for: Depreciation and amortisation	15, 16, 18	1,977,278	1,571,980
Loss on disposal of property, plant and equipment, investment property, intangible assets and other non-current assets	9	18,620	63,539
(Gain)/Loss from revaluation of investment property	17	(18,633)	(7,964)
Finance income	12	(25,216)	(16,583)
Finance costs	12	777,463	1,354,208
Foreign exchange losses less gains	13	266,619	112,174
Cash from operating activities before changes in working capital and provisions		**7,365,785**	**7,023,440**
Change in net trade and other receivables		113,696	(146,061)
Change in inventories		(1,922,449)	(850,239)
Change in trade and other payables		3,142,085	1,394,376
Change in deferred income		–	(1,108)
Cash flows from operations before income taxes and interest paid		**8,699,117**	**7,420,408**
Interest paid		(902,149)	(1,421,815)
Income tax paid		(1,396,052)	(887,673)
Net cash from operating activities		**6,400,916**	**5,110,920**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(8,623,578)	(3,240,166)
Purchase of intangible assets		(115,249)	(216,204)
Proceeds from sales of property, plant and equipment and investment property		19,703	55,319
Loans issued		1,369	(8,705)
Interest received		25,216	16,583
Net cash used in investing activities		**(8,692,539)**	**(3,393,173)**
Cash flows from financing activities			
Proceeds from borrowings		16,971,297	27,696,985
Repayment of borrowings		(16,800,281)	(29,888,926)
Interim dividends paid		(772,830)	(587,489)
Disposal of subsidiaries net of cash disposed		–	(775,295)
Guarantee received	15	–	914,307
Proceeds from issue of shares in 2010		152,568	5,084,051
Repayment of finance lease payables		–	(39,435)
Net cash (used in)/from financing activities		**(449,246)**	**2,404,198**
Net (decrease)/increase in cash and cash equivalents		**(2,740,869)**	**4,121,945**
Cash and cash equivalents at beginning of year		5,707,185	1,462,312
Effect of exchange rate fluctuations on cash and cash equivalents		(24,369)	122,928
Cash and cash equivalents at end of year	22	**2,941,947**	**5,707,185**

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 36 to 71.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

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 2011 for O'KEY Group S.A. 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.

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.

As at 31 December 2011 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts ('GDRs').

Related party transactions are detailed in note 31.

The Group's principal business activity is operation of retail chain in Russia under brand name 'O'KEY'. At 31 December 2011 the Group operated 71 stores (31 December 2010: 58 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 20 April 2012.

(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;
- Liabilities incurred in cash-settled share-based payment transactions are remeasured at fair value; and
- Investment property is 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 2011 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 32.1961; EUR 1 = RUB 41.6714 (2010: USD 1 = RUB 30.4769; EUR 1 = RUB 40.3331).

(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 several 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 30.

Revenue recognition. The Group has recognised revenue amounting to RUB 92,197 million for sales of goods during 2011 (2010: RUB 81,688 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.

Determination of net realisable value of inventory. The Group performs analysis of stock for write-off as at each reporting date and writes down inventories to their net realisable value when necessary. For details of approach used for determination of net realisable value refer to note 20.

Determination of fair value of liabilities incurred in cash-settled share-based payment transactions. The Group's remeasures liabilities incurred in cash-settled share-based payment transactions at fair value as at each reporting date, which requires making judgments and assumptions about future market and vesting conditions.

(e) Changes in accounting policies

At the end of 2011 the Group changed its accounting policies in relation to accounting for land and buildings. The Group decided to account for land and buildings using the Cost model as described in IAS 16 Property, Plant and Equipment. Previously land and buildings were accounted for using the Revaluation model.

Management believes that such change should result in the consolidated financial statements providing more reliable and relevant information about the Group's operations. Before such change Group's net profit showed significant fluctuations depending on changes in Russia's real estate market rather than reflecting the Group's operational performance as a retailer. It also caused incomparability of the Group's net profit to competitors on the market as retailers usually do not apply revaluation model in accounting for property, plant and equipment.

Comparative information has been restated so that it is also in conformity with the revised accounting policy. The effect on the consolidated statement of financial position and the consolidated statement of comprehensive income was as follows:

Effect on the consolidated statement of financial position as at 1 January 2010:	1 January 2010 as previously reported '000 RUB	Effect of change in accounting policy '000 RUB	1 January 2010 Restated '000 RUB
Assets			
Property, plant and equipment	18,995,363	71,739	19,067,102
Equity and liabilities			
Retained earnings	(387,575)	3,792,911	3,405,336
Revaluation reserve	3,735,520	(3,735,520)	–
Deferred income tax liability	392,541	14,348	406,889

Effect on the consolidated statement of financial position as at 31 December 2010:

	31 December 2010 as previously reported '000 RUB	Effect of change in accounting policy '000 RUB	31 December 2010 Restated '000 RUB
Assets			
Property, plant and equipment	17, 533,638	(934,073)	16,599,565
Equity and liabilities			
Retained earnings	(168,606)	2,615,401	2,446,795
Revaluation reserve	3,362,660	(3,362,660)	–
Deferred income tax liability	496,164	(186,814)	309,350

Change of accounting policy resulted in decrease of property, plant and equipment as at 31 December 2010 by RUB 934,073 thousand (1 January 2010: increase of RUB 71,739 thousand with corresponding decrease of deferred income tax liability as at 31 December 2010 by RUB 186,814 thousand (1 January 2010: increase of RUB 14,348 thousand).

Revaluation reserve as at 31 December 2010 and 1 January 2010 was decreased down to Nil.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

2 Basis of Preparation (continued)
(e) Changes in accounting policies (continued)
Effect on the consolidated statement of comprehensive income for the year ended 31 December 2010:

	2010 as previously reported '000 RUB	Effect of change in accounting policy '000 RUB	2010 restated '000 RUB
Profit and loss			
General, selling and administrative expenses	(12,407,970)	1,547	(12,406,423)
Other operating income and expenses	274,827	(396,541)	(121,714)
Income tax expense	(1,338,086)	76,008	(1,262,078)
Other comprehensive income	721,306	(721,306)	
Revaluation of property, plant and equipment	(172,414)	144,261	(28,153)
Income tax on other comprehensive income			
Earnings per share			
Basic and diluted earnings per share (RUB)	11.7	(1.2)	10.5

Change of accounting policy resulted in decrease of depreciation expense for the year ended 31 December 2010 by RUB 1,547 thousand which was recorded in profit and loss as reduction of general, selling and administrative expenses. Reversal of revaluation loss on property, plant and equipment previously recorded in profit and loss in the amount of RUB 396,541 thousand for the year ended 31 December 2010 was reversed. Revaluation gain on property, plant and equipment previously recorded in other comprehensive income in the amount of RUB 721,306 thousand for the year ended 31 December 2010 was reversed. Tax effect of re-statements was recorded in profit and loss and other comprehensive income for the year ended 31 December 2010 in the amount of RUB 76,008 thousand and RUB 144,261 thousand, respectively.

Earnings per share have been restated for the year ended 31 December 2010 accordingly.

During the year ended 31 December 2010 the Group disposed several subsidiaries to an entity controlled by the shareholder group. The difference between net assets disposed and consideration received adjusted for tax effect of disposition was recognised directly in equity during the year ended 31 December 2010 as distribution to shareholders.

The effect of change in accounting policy in relation to property, plant and equipment was to decrease net assets of disposed subsidiaries by RUB 91,381 thousand.

The effect of disposition on the consolidated statement of changes in equity was restated as follows: the amount of distribution to shareholders for the year ended 31 December 2010 was decreased by RUB 91,381 thousand from RUB 3,146,441 thousand to RUB 3,055,060 thousand (see note 6) and the amount of transfer of revaluation reserve on disposed assets to retained earnings was decreased from RUB 949,905 thousand to Nil.

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) 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. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(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 such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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, bank overdrafts 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Significant Accounting Policies (continued)
(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

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. 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.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is 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) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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 of significant items of property, plant and equipment 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
> Other fixed assets	2-10 years

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 are as follows:

> lease rights	5-10 years
> software	1-7 years
> other intangible assets	1-5 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 amortised 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 less 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').

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Significant Accounting Policies (continued)
(j) Impairment (continued)
(ii) Non-financial assets (continued)
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 that are 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.

(iv) Cash-settled share-based payment transactions
The fair value of the amount payable to employees in respect of cash-settled share-based payment transactions is recognised as an employee expense in profit and loss with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes of the fair value of the liability are recognised as personnel expenses in profit or loss.

(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 recognised 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 and unwinding of the discount on provisions. 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 2011, 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.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013 and the amendments to IFRS 9 introduced in December 2011 will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.* The first phase of IFRS 9 was issued in November 2009 and relates to the classification 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 2012. 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. The Group does not intend to adopt this standard early.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Significant Accounting Policies (continued)

(t) New Standards and Interpretations not yet adopted (continued)

> IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

> Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group has not yet analysed the likely impact of the amendment to IAS 1 on its financial position or performance.

> 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 analysed the likely impact of the new Standard on its financial position or performance.

> 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 for annual periods beginning after 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) 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 investment property 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 estimated 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.

(e) Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of Company's historic volatility), expected term of the instruments, expected dividends and the risk-free interest rate.

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 analyse 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 centralised;
- > the Group's activities are mainly limited to Russia which has a uniform regulatory environment.

The CEO assesses the performance of the operating segment based on earnings before interest, tax, depreciation and amortisation ('EBITDA') adjusted for one-off items. EBITDA is non-GAAP measure. Other information provided to the 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 2011 is as follows:

	2011 '000 RUB	2010 '000 RUB
Revenue	93,134,430	82,666,633
EBITDA	**7,510,137**	**7,126,676**

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

	2011 '000 RUB	2010 '000 RUB Restated*
EBITDA	7,510,137	7,126,676
Revaluation of investment property	18,633	7,964
Loss from disposal of non-current assets	(18,620)	(63,539)
Loss from write-off of receivables	(31,973)	(66,395)
Reversal of impairment of receivables	61,884	(36,841)
Depreciation and amortisation	(1,977,278)	(1,571,980)
Impairment of raw materials (one-off)	(101,205)	–
Finance income	25,216	16,583
Finance costs	(777,463)	(1,354,208)
Foreign exchange losses	(266,619)	(112,174)
Hypermarket Ozerki-accident expenses	(73,058)	–
Profit before income tax	4,369,654	3,946,086
Income tax	(1,129,774)	(1,262,078)
Profit for the year	**3,239,880**	**2,684,008**

* See note 2(e).

In January 2011 section of roof of Group's hypermarket in Ozerki, Saint-Petersburg collapsed. The store was closed for repairs until September 2011. Hypermarket Ozerki-accident expenses comprise repairs and other expenses related to this accident.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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 centres 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 an 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 ended 31 December 2010 was not significant.

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

	Note	Carrying amount at date of disposal '000 RUB Restated
Non-current assets	2(e)	
Investment property	17	1,083,803
Property, plant and equipment	15	3,906,832
Construction in progress	15	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		(303,373)
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		2,798,133
Excess of carrying values of net assets distributed over consideration received		2,783,250
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 recognised directly in equity for the year ended 31 December 2010 as distributions to shareholders.

7 Revenue

	2011 '000 RUB	2010 '000 RUB
Sales of trading stock	87,796,613	77,699,520
Sales of self-produced catering products	4,400,126	3,987,986
Revenue from sale of goods	92,196,739	81,687,506
Rental income	733,164	705,937
Revenue from advertising services	204,527	273,190
Total revenues	**93,134,430**	**82,666,633**

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

	Note	2011 '000 RUB	2010 '000 RUB Restated
	2(e)		
Personnel costs	10	(7,538,304)	(5,989,087)
Depreciation and amortisation		(1,977,278)	(1,571,980)
Operating leases		(1,672,616)	(1,069,935)
Communication and utilities		(1,503,215)	(1,101,438)
Security expenses		(659,657)	(520,781)
Advertising and marketing		(508,338)	(429,923)
Materials and supplies		(404,607)	(357,473)
Operating taxes		(369,119)	(348,872)
Insurance and bank commission		(349,383)	(327,795)
Repairs and maintenance costs		(308,122)	(257,120)
Legal and professional expenses		(261,981)	(163,292)
Other costs		(197,275)	(268,727)
		(15,749,895)	**(12,406,423)**

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

	2011 '000 RUB	2010 '000 RUB
Auditors' remuneration for annual and consolidated accounts	15,207	17,165
Auditors' remuneration for other assurance services	7,255	24,511
Auditors' remuneration for tax advisory services	79	259
Auditors' remuneration for non-audit services	3,735	4,335
	26,276	**46,270**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011 (continued)

9 Other Operating Income and Expenses

	Note	2011 '000 RUB	2010 '000 RUB Restated
	2(e)		
Loss from disposal of non-current assets		(18,620)	(63,539)
Loss from write-off of receivables		(31,973)	(66,395)
Reversal of impairment/(impairment) of receivables	27	61,884	(36,841)
Gain from revaluation of investment property	17	18,633	7,964
Impairment of raw materials (one-off)		(101,205)	–
Ozerki-accident expenses		(73,058)	–
Sundry income		1,711	37,097
		(142,628)	**(121,714)**

10 Personnel Costs

	Note	2011 '000 RUB	2010 '000 RUB
Wages and salaries		(4,503,911)	(3,802,377)
Social security contributions		(1,647,603)	(1,042,651)
Employee benefits		(1,207,964)	(1,099,679)
Share-based payments	11	(50,961)	–
Other		(127,865)	(44,380)
Total personnel costs		**(7,538,304)**	**(5,989,087)**

During the year ended 31 December 2011 the Group employed 16 thousand employees on average (2010: 14 thousand employees on average). Approximately 93% of employees are store employees and the remaining part is office employees.

11 Shared-based Payment Arrangements

During the year ended 31 December 2011 the Group granted share appreciation rights to key management personnel and senior employees that entitle them to cash payment in the years ending 31 December 2012 and 31 December 2013. The amount of cash payments is based on share price of the Company at the dates of exercise. The payments are subject to service conditions which require employees to stay with the Group until settlement date.

The fair value of the rights granted to the employees was measured based on Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

The inputs used in the measurement of the fair value at 31 December 2011 were as follows:

Rights with settlement date during the year ending 31 December	2012	2011
Share price	USD 6.85	USD 6.85
Exercise price	Nil	USD 11.00
Expected volatility	58.8%	58.8%
Risk-free rate	2.5%	2.5%
Annual dividend yield	0.68%	0.68%
Term until exercise date	0.34 years	1.85 years

Total expense on share appreciation rights recognised as personnel costs in general, selling and administrative expenses in profit and loss amounted to RUB 50,961 thousand for the year ended 31 December 2011 (2010: Nil). Carrying amount of liabilities as at 31 December 2011 amounted to RUB 50,961 thousand (2010: Nil), including long-term liabilities in the amount of RUB 17,627 thousand.

12 Finance Income and Finance Costs

	2011 '000 RUB	2010 '000 RUB
Recognised in profit or loss		
Interest income on loans and receivables	24,800	11,116
Other finance income	416	5,467
Finance income	**25,216**	**16,583**
Interest costs on loans and borrowings	(811,783)	(1,237,793)
Reclassification from hedging reserve	34,320	(93,377)
Ineffective hedges	–	(22,829)
Finance leasing costs	–	(209)
Finance costs	**(777,463)**	**(1,354,208)**
Net finance costs recognised in profit or loss	**(752,247)**	**(1,337,625)**

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	**25,216**	**16,583**
Total interest expense on financial liabilities	**(777,463)**	**(1,331,379)**

Recognised in other comprehensive income		
Change in fair value of hedges	310,811	47,388
Reclassification to profit and loss	(109,389)	93,377
Income tax on income and expense recognised in other comprehensive income	(40,285)	(28,153)
Finance income recognised in other comprehensive income, net of tax	**161,137**	**112,612**

During 2011 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 101,627 thousand (2010: RUB 89,247 thousand).

In 2011 capitalisation rate of 5.16% was used to determine the amount of borrowing costs eligible for capitalisation (2010: 6.4%).

13 Foreign Exchange Losses

During 2011 the Group had significant borrowings denominated in US Dollars. The weakening of Russian Rouble during 2011 has resulted in foreign exchange loss for the year amounting to RUB 266,619 thousand (2010: RUB 112,174 thousand). In 2011 and 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 part of its USD denominated debt into RUB denominated debt. In order to comply with the Group's risk management policy, the foreign exchange risk arising from repayment of long-term USD denominated debt is hedged.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

14 Income Tax Expense
The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2010: 20%).

	2011 '000 RUB	2010 '000 RUB Restated*
Current tax expense	(1,170,595)	(1,133,667)
Deferred tax benefit/(expense)	40,821	(128,411)
Total income tax expense	**(1,129,774)**	**(1,262,078)**

* See note 2(e).

Income tax recognised directly in other comprehensive income

	2011			2010 Restated*		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(58,636)	–	(58,636)	150,319	–	150,319
Change in fair value of hedges	201,422	(40,285)	161,137	140,765	(28,153)	112,612
	142,786	**(40,285)**	**102,501**	**291,084**	**(28,153)**	**262,931**

* See note 2(e).

Reconciliation of effective tax rate:

	2011 '000 RUB	2010 '000 RUB Restated*
Profit before income tax	**4,369,654**	**3,946,086**
Income tax at applicable tax rate (2011: 20%, 2010: 20%)	(873,931)	(789,217)
Effect of income taxed at different rates	2,867	(8,814)
Tax effect of items which are not deductible for taxation purposes:		
– Inventory shrinkage expenses	(307,301)	(259,498)
– Other non-deductible expenses	(58,702)	(124,086)
Tax withheld on dividends received from subsidiaries	(91,204)	(106,092)
Adjustments to current income tax for previous periods	201,441	49,562
Other items	(2,944)	(23,933)
Income tax expense for the year	**(1,129,774)**	**(1,262,078)**

* See note 2(e).

15 Property, Plant and Equipment

	Land '000 RUB Restated*	Building '000 RUB Restated*	Leasehold improvements '000 RUB	Auxiliary facilities '000 RUB	Machinery and equipment '000 RUB	Other fixed assets '000 RUB	Construction in progress '000 RUB	Total '000 RUB Restated*
Cost or deemed cost								
Balance at 1 January 2010	3,596,158	13,903,196	695,855	29,627	3,099,213	1,295,536	974,042	23,593,627
Additions	171,848	321,208	841,588	7.552	965,095	307,578	608,983	3,223,852
Transfers	924	27,159	104,716	1,041	100,786	(1,548)	(233,078)	–
Distribution of assets	(1,743,079)	(2,360,548)	–	(155)	(116,776)	–	(116,457)	(4,337,015)
Disposals	–	–	–	(2,670)	(27,343)	(19,104)	(28,888)	(78,005)
Balance at 31 December 2010	**2,025,851**	**11,891,015**	**1,642,159**	**35,395**	**4,020,975**	**1,582,462**	**1,204,602**	**22,402,459**
Balance at 1 January 2011	2,025,851	11,891,015	1,642,159	35,395	4,020,975	1,582,462	1,204,602	22,402,459
Additions	839,019	2,034,256	832,645	810	1,044,531	483,610	2,328,914	7,563,785
Transfers	–	267,896	51,922	286	39,419	12,232	(371,755)	–
Transfers to Investment property	–	–	–	–	–	–	(9,260)	(9,260)
Disposals	–	–	–	(445)	(73,475)	(23,680)	(15,653)	(113,253)
Balance at 31 December 2011	**2,864,870**	**14,193,167**	**2,526,726**	**36,046**	**5,031,450**	**2,054,624**	**3,136,848**	**29,843,731**
Depreciation and impairment losses								
Balance at 1 January 2010	–	(1,229,185)	(42,522)	(16,026)	(1,460,668)	(804,082)	–	(3,552,483)
Depreciation for the year	–	(383,691)	(86,408)	(3,808)	(621,987)	(291,387)	–	(1,387,281)
Distribution of assets	–	268,274	–	–	45,452	–	–	313,726
Disposals	–	–	–	2,670	20,396	4,680	–	27,746
Balance at 31 December 2010	**–**	**(1,344,602)**	**(128,930)**	**(17,164)**	**(2,016,807)**	**(1,090,789)**	**–**	**(4,598,292)**
Balance at 1 January 2011	–	(1,344,602)	(128,930)	(17,164)	(2,016,807)	(1,090,789)	–	(4,598,292)
Depreciation for the year	–	(408,279)	(190,238)	(2,862)	(710,801)	(447,958)	–	(1,760,138)
Transfers	–	(13)	13	–	(10)	10	–	–
Disposals	–	–	–	420	66,685	19,549	–	86,654
Balance at 31 December 2011	**–**	**(1,752,894)**	**(319,155)**	**(19,606)**	**(2,660,933)**	**(1,519,188)**	**–**	**(6,271,776)**
Carrying amounts								
At 1 January 2010 (restated)	**3,596,158**	**12,674,011**	**653,333**	**13,601**	**1,638,545**	**491,454**	**974,042**	**20,041,144**
At 31 December 2010 (restated)	**2,025,851**	**10,546,413**	**1,513,229**	**18,231**	**2,004,168**	**491,673**	**1,204,602**	**17,804,167**
At 31 December 2011	**2,864,870**	**12,440,273**	**2,207,571**	**16,440**	**2,370,517**	**535,436**	**3,136,848**	**23,571,955**

* See note 2(e).

Depreciation expense of RUB 1,760,138 thousand has been charged to selling, general and administrative expenses (2010: RUB 1,387,281 thousand).

Security

At 31 December 2011 property, plant and equipment carried at RUB 4,214,640 thousand (2010: RUB 4,897,301 thousand) have been pledged to third parties as collateral for borrowings. Refer to notes 25 and 30.

In 2010 the Group has entered into agreement with third party in relation to one of its land plots with carrying value of RUB 554,967 thousand as at 31 December 2011. Under terms of this agreement the third party will build a trade centre on this land plot. Upon completion of construction the Group will exchange part of land plot for part of trade centre and will locate O'KEY hypermarket there. In 2010 the Group received guarantee payment in relation to this transaction. Guarantee received was included in other non-current liabilities and amounted to RUB 914,307 thousand as at the date of receipt and to RUB 965,883 thousand as at 31 December 2011.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

16 Intangible Assets

	Software '000 RUB	Lease rights '000 RUB	Other intangible assets '000 RUB	Total '000 RUB
Cost				
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**
Balance at 1 January 2011	416,206	491,475	–	907,681
Additions	101,219	–	14,030	115,249
Balance at 31 December 2011	**517,425**	**491,475**	**14,030**	**1,022,930**
Amortisation and impairment losses				
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)**
Balance at 1 January 2011	(192,744)	(155,685)	–	(348,429)
Amortisation for the year	(91,778)	(63,930)	(694)	(156,402)
Balance at 31 December 2011	**(284,522)**	**(219,615)**	**(694)**	**(504,831)**
Carrying amounts				
At 1 January 2010	**83,365**	**398,061**	**–**	**481,426**
At 31 December 2010	**223,462**	**335,790**	**–**	**559,252**
At 31 December 2011	**232 903**	**271,860**	**13,336**	**518,099**

Amortisation and impairment charge

Amortisation of RUB 156,402 thousand has been charged to selling, general and administrative expenses (2010: RUB 138,378 thousand).

17 Investment Property

	Investment property '000 RUB	Investment property under construction '000 RUB	Total investment property '000 RUB
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**
Investment properties at fair value as at 1 January 2011	**517,000**	**–**	**517,000**
Transfers from property, plant and equipment	9,260	–	**9,260**
Expenditure on subsequent improvements	28,107	–	**28,107**
Fair value gain	18,633	–	**18,633**
Investment properties at fair value as at 31 December 2011	**573,000**	**–**	**573,000**

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.

The appraisers used income approach for determining the fair value. An estimate was made of annual net operating income for five years which is mainly based on annual net rent rate of RUB 7,900 per m^2 (2010: RUB 6,800) and expected occupancy. The annual net operating income was assumed to be constant from year six to perpetuity. Discount rate of 17% (2010: 18%) was applied to discount future cash flows.

At 31 December 2011 no investment property have been pledged to third parties (2010: RUB 517,000 thousand). Refer to note 25.

Direct operating expenses arising from investment property that generated rental income amounted to RUB 70,773 thousand for the year ended 31 December 2011 (2010: RUB 69,153 thousand). There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2011 (2010: Nil).

18 Other Non-current Assets

	2011 '000 RUB	2010 '000 RUB
Initial cost of land lease	3,369,934	2,433,694
Long-term prepayments to entities under control of shareholder group	1,045,171	1,230,054
Prepayments for non-current assets	978,490	383,080
Long-term deposits to lessors	125,406	118,081
Deferred bank commissions	11,501	29,739
	5,530,502	**4,194,648**

Initial cost of land lease includes purchase price and 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 31.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

18 Other Non-current Assets (continued)
Movements in the carrying amount of initial cost of land lease were as follows:

	2011 '000 RUB	2010 '000 RUB
Cost		
Balance at 1 January	**2,950,601**	**3,290,913**
Additions	1,008,702	249,666
Distribution of assets	–	(517,539)
Disposals	(12,679)	(72,439)
Balance at 31 December	**3,946,624**	**2,950,601**
Amortisation and impairment losses		
Balance at 1 January	**(516,907)**	**(503,446)**
Amortisation charge	(60,738)	(46,321)
Distribution of assets	–	29,020
Disposals	955	3,840
Balance at 31 December	**(576,690)**	**(516,907)**
Net book value	**3,369,934**	**2,433,694**

At 31 December 2011 initial cost of land lease carried at RUB 349,591 thousand (2010: RUB 426,795 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 25.

19 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	
	2011 '000 RUB	2010 '000 RUB Restated*	2011 '000 RUB	2010 '000 RUB Restated*	2011 '000 RUB	2010 '000 RUB Restated*
Investment property	9,391	55,309	–	–	9,391	55,309
Property, plant and equipment	33,711	–	(520,773)	(473,818)	(487,062)	(473,818)
Construction in progress	–	–	(20,325)	–	(20,325)	–
Intangible assets	–	–	(2,667)	–	(2,667)	–
Investments	–	3,365	–	–	–	3,365
Other non-current assets	88,621	5,522	(104,065)	–	(15,444)	5,522
Inventories	257,552	156,748	–	–	257,552	156,748
Trade and other receivables	110,865	69,037	(49,493)	–	61,372	69,037
Trade and other payables	82,378	68,496	–	–	82,378	68,496
Tax assets/(liabilities)	**582,518**	**358,477**	**(697,323)**	**(473,818)**	**(114,805)**	**(115,341)**
Set off of tax	(226,484)	(164,468)	226,484	164,468	–	–
Net tax assets/(liabilities)	**356,034**	**194,009**	**(470,839)**	**(309,350)**	**(114,805)**	**(115,341)**

* See note 2(e).

(b) Unrecognised deferred tax liability
As at 31 December 2011 a temporary difference of RUB 14,104,538 thousand (2010: RUB 11,713,761 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

	1 January 2011 '000 RUB Restated*	Recognised in profit or loss '000 RUB	Recognised in hedging reserve '000 RUB	31 December 2011 '000 RUB
Investment property	55,309	(45,918)	–	9,391
Property, plant and equipment	(473,818)	(13,244)	–	(487,062)
Construction in progress	–	(20,325)	–	(20,325)
Intangible assets	–	(2,667)	–	(2,667)
Investments	3,365	(3,365)	–	–
Other non-current assets	5,522	(20,966)	–	(15,444)
Inventories	156,748	100,804	–	257,552
Trade and other receivables	69,037	32,620	(40,285)	61,372
Trade and other payables	68,496	13,882	–	82,378
	(115,341)	**40,821**	**(40,285)**	**(114,805)**

	1 January 2010 '000 RUB Restated*	Recognised in profit or loss '000 RUB Restated*	Recognised in hedging reserve '000 RUB	Distribution to shareholders '000 RUB Restated*	31 December 2010 '000 RUB Restated*
Investment property	(89,166)	19,549	–	124,926	55,309
Property, plant and equipment	(609,762)	8,659	–	127,285	(473,818)
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)	–
	(163,782)	**(128,411)**	**(28,153)**	**205,005**	**(115,341)**

* See note 2(e).

20 Inventories

	2011 '000 RUB	2010 '000 RUB
Goods for resale	7,955,952	6,022,609
Raw materials and consumables	344,634	287,597
Write-down to net realisable value	(382,929)	(314,998)
	7,917,657	**5,995,208**

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 382,929 thousand as at 31 December 2011 (2010: RUB 314,998 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011 (continued)

21 Trade and Other Receivables

	Note	2011 '000 RUB	2010 '000 RUB
Trade receivables		45,883	64,966
VAT receivable		936,920	604,032
Prepaid taxes		183,433	23,748
Foreign exchange and interest rate swap receivables	27	320,167	21,896
Other receivables		437,705	561,889
		1,924,108	**1,276,531**

Taxes prepaid include RUB 176,783 thousand of prepaid income tax (2010:RUB 17,879 thousand).

Other receivables include RUB 336,279 thousand (2010: RUB 349,173 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 27.

22 Cash and Cash Equivalents

	2011 '000 RUB	2010 '000 RUB
Cash on hand	283,846	204,284
RUB denominated bank current account	558,846	683,249
USD denominated bank current account	100,426	54,280
RUB term deposits (interest rate: 3.5%-7.06%; 2010-3.2% -5.75% p.a.)	151,425	3,942,129
Cash in transit	1,847,404	823,243
Cash and cash equivalents	**2,941,947**	**5,707,185**

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 27.

23 Equity

		Ordinary shares
Number of shares unless otherwise stated	**2011**	**2010**
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269,074,000	253,100
Split of shares	–	252,846,900
Issued for cash	–	15,974,000
On issue at 31 December, fully paid	**269,074,000**	**269,074,000**

As at 31 December 2011 the Group's subscribed share capital of RUB 119,440 thousand (EUR 2,691 thousand, 2010: EUR 2,691 thousand) is represented by 269,074,000 shares with a par value of 0.01 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 for the year ended 31 December 2010 in the amount of RUB 5,226,994 thousand.

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. During the year ended 31 December 2011 the Company has transferred RUB 10,486 thousand from net profits for 2010 to legal reserve.

In July 2011 the Group paid interim dividends to shareholders in amount of RUB 772,830 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2011 amounted to RUB 2.9 (2010: RUB 2.3).

In June 2011 shareholders of the Company approved annual dividends for the year ended 31 December 2010. The amount of annual dividends for 2010 was paid by the Group to shareholders as interim dividends in 2010 in the amount of RUB 587,489 thousand.

There were no movements in additional paid-in capital during the year ended 31 December 2011.

24 Earnings per Share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of RUB 3,239,880 thousand (2010: RUB 2,684,008 thousand), and a weighted average number of ordinary shares outstanding of 269,074,000, calculated as shown below. The Company has no dilutive potential ordinary shares.

Number of shares	2011	2010
Issued shares at 1 January	269,074,000	253,100
Effect of share split in 2010	–	252,846,900
Effect of shares issued	–	2,482,203
Weighted average number of shares for the year ended 31 December	**269,074,000**	**255,582,203**

25 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 27.

	2011 ’000 RUB	2010 ’000 RUB
Non-current liabilities		
Secured bank loans	5,807,982	6,960,333
Unsecured loans from Related parties	960,300	909,022
	6,768,282	**7,869,355**
Current liabilities		
Secured bank loans	1,417,354	1,796,655
Unsecured bank facilities	3,877,808	1,902,747
Unsecured loans from third parties	7,786	2,859
	5,302,948	**3,702,261**

As at 31 December 2011 loans and borrowings with carrying value of RUB 7,225,336 thousand (2010: RUB 8,756,988 thousand) were secured by property, plant and equipment and initial cost of land lease. Refer to note 30, notes 15, 17 and 18.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011 (continued)

25 Loans and Borrowings (continued)

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2011		31 December 2010	
	Currency '000 RUB	Nominal interest rate '000 RUB	Year of maturity '000 RUB	Face value '000 RUB	Carrying amount '000 RUB	Face value '000 RUB	Carrying amount '000 RUB
Secured bank loan	USD	LIBOR + 3.9-5%	2013	671,941	671,941	838,165	838,165
Secured bank loan	USD	LIBOR + 3.15%	2010-2015	5,095,856	5,095,856	5,677,945	5,677,945
Secured bank loan	RUB	7%	2011-2012	–	–	735,290	735,290
Secured bank loan	RUB	8.5%	2015	1,457,539	1,457,539	1,505,588	1,505,588
Unsecured bank facility	RUB	8%	2013	302	302	–	–
Unsecured bank facility	RUB	8.85-9.85%	2012	370,090	370,090	–	–
Unsecured bank facility	RUB	6.35 -7.9%	2012	3,507,416	3,507,416	1,302,747	1,302,747
Unsecured bank facility	RUB	6.75%	2011	–	–	600,000	600,000
Unsecured loans from related parties	USD	8%	2013	654,595	654,595	619,640	619,640
Unsecured loans from related parties	USD	8%	2013	305,705	305,705	289,382	289,382
Unsecured loans from other companies	RUB	0%	2012	2,862	2,862	2,859	2,859
Unsecured loans from other companies	RUB	7-12%	2012	10	10	–	–
Unsecured loans from other companies	RUB	0%	2012	4,914	4,914	–	–
				12,071,230	**12,071,230**	**11,571,616**	**11,571,616**

(b) Compliance with loan covenants

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 2011 and during the year then ended the Group complied with all loan covenants.

26 Trade and Other Payables

	Note	2011 '000 RUB	2010 '000 RUB
Trade payables		13,885,863	10,505,712
Advances received		120,456	130,878
Taxes payable (other than income tax)		395,160	388,238
Payables to staff		791,050	634,130
Interest rate swap liabilities	27	–	28,611
Short-term liabilities incurred in share-based payment transactions	11	33,334	–
Deferred income		34,309	–
Other current payables		77,387	49,395
		15,337,559	**11,736,964**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

27 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) 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:

	Note	Carrying amount 2011 '000 RUB	Carrying amount 2010 '000 RUB
Trade and other receivables	21	483,588	626,855
Interest rate and foreign exchange swap receivables		320,167	–
Loans issued		–	1,369
Cash and cash equivalents	22	2,941,947	5,707,185
		3,745,702	**6,335,409**

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.

(ii) 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.

Impairment losses

The aging of trade and other receivables at the reporting date was:

	Gross 2011 '000 RUB	Impairment 2011 '000 RUB	Gross 2010 '000 RUB	Impairment 2010 '000 RUB
Not overdue and past due less than 90 days	422,770	–	517,257	–
Past due 90-180 days	21,527	–	64,818	–
Past due 180-360 days	10,262	–	18,997	–
More than 360 days	73,255	(44,226)	134,205	(108,422)
	527,814	**(44,226)**	**735,277**	**(108,422)**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

27 Financial Instruments and Risk Management (continued)
(b) Credit risk (continued)
(ii) Trade and other receivables (continued)
The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 '000 RUB	2010 '000 RUB
Balance at beginning of the year	108,422	104,923
Impairment loss recognised	31,973	36,841
Impairment loss reversed	(61,884)	–
Impairment loss utilised	(34,285)	(33,342)
Balance at end of the year	44,226	108,422

The management has performed thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than one year. Based on past experience the management believes that normally the balances outstanding less than 360 days should not be impaired.

(iii) Cash and cash equivalents
The Group held cash and cash equivalents of RUB 2,941,947 thousand at 31 December 2011 (2010: RUB 5,707,185 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated ruAAA based on Standard and Poor's national rating for Russian Federation and AAA.ru based on Moody's Investors Service national rating for Russian Federation.

(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:

2011

	Carrying amount '000 RUB	Contractual cash flows '000 RUB	0-6 mths '000 RUB	6-12 mths '000 RUB	1-5 yrs '000 RUB
Non-derivative financial liabilities					
Secured bank loans	7,225,336	(8,077,028)	(885,672)	(853,208)	(6,338,148)
Unsecured bank facilities	3,877,808	(4,026,728)	(3,994,472)	(32,256)	–
Unsecured loans from related parties	960,300	(1,047,602)	(37,886)	(37,886)	(971,830)
Unsecured loans from other companies	7,786	(7,798)	(4,935)	(2,863)	–
Trade and other payables	14,754,300	(14,754,300)	(14,754,300)	–	–
Other non-current liabilities	965,883	(965,883)	–	–	(965,883)
Derivative financial assets					
Foreign exchange and interest rate swap receivables	(320,167)	(350,286)	(101,830)	(87,244)	(161,212)
	27,471,246	**(29,229,625)**	**(19,779,095)**	**(1,013,457)**	**(8,437,073)**

2010

	Carrying amount '000 RUB	Contractual cash flows '000 RUB	0-6 mths '000 RUB	6-12 mths '000 RUB	1-5 yrs '000 RUB
Non-derivative financial liabilities					
Secured bank loans	8,756,988	(9,932,166)	(1,190,180)	(1,009,730)	(7,732,256)
Unsecured bank facilities	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)**

There are no payments due after five 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 2011 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:

	USD-denominated 2011 '000 RUB	USD-denominated 2010 '000 RUB
Trade and other receivables	41,632	193,709
Secured bank loans	(5,767,797)	(6,516,110)
Unsecured loans from related parties	(960,300)	(909,022)
Trade and other payables	(118,925)	(93,495)
Other non-current liabilities	(965,883)	(914,307)
Foreign exchange and interest rate swap receivables	320,167	21,896
Interest rate swap liabilities	–	(28,611)
Gross exposure	**(7,451,106)**	**(8,245,940)**
Of which carrying amount of hedged secured bank loans	5,095,856	5,677,945
Net exposure	**(2,355,250)**	**(2,567,995)**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

27 Financial Instruments and Risk Management (continued)
(d) Market risk (continued)
(i) Currency risk (continued)
The following significant exchange rates applied during the year:

Russian Rouble equals	Average rate 2011	2010	Reporting date rate 2011	2010
US Dollar	29.3874	30.3692	32.1961	30.4769

Sensitivity analysis
A 10% strengthening of the RUB, as indicated below, against USD at 31 December 2011 would have increased equity by RUB 745,111 thousand (2010: RUB 256,800 thousand) and profit or loss by RUB 267,542 thousand (2010: RUB 272,992 thousand). 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 2010.

A weakening of the RUB against USD at 31 December would have had the equal but opposite effect on equity and profit and loss, 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 2011 76% of the Group's interest bearing financial liabilities were subject to re-pricing within six months after the reporting date (2010: 70%).

The Group uses swaps to hedge its exposure to variability of interest and exchange rates. As at 31 December 2011 the Group had 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 88% (2010: 87%) of its borrowings with variable rate applying this hedge.

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

	Carrying amount 2011 '000 RUB	2010 '000 RUB
Fixed-rate instruments		
Financial assets	–	1,369
Financial liabilities	(6,303,433)	(5,055,560)
Variable rate instruments		
Financial assets	320,167	21,896
Financial liabilities	(5,767,797)	(6,544,721)

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 2010.

	Profit or loss 100 bp increase '000 RUB	Profit or loss 100 bp decrease '000 RUB	Equity 100 bp increase '000 RUB	Equity 100 bp decrease '000 RUB
2011				
Variable rate instruments	(57,575)	57,575	–	–
Interest rate swap	50,870	(50,870)	80,942	(57,177)
Cash flow sensitivity (net)	(6,705)	(6,705)	80,942	(57,177)
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)

(e) Fair value hierarchy

Group's derivative financial assets and liabilities comprise foreign exchange and interest rate swaps which are carried at fair value. Fair value of swaps was determined based on observable market data, including forward foreign exchange and interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs.

(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.

28 Operating Leases

Leases as lessee

The Group has both own and leased land plots. The own land plots are included in property, plant or equipment. 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 capitalised 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 two to three 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 ten years. Some of Group's leases are non-cancellable and contain contingent rent arrangements. The Group has subleases.

During the year ended 31 December 2011 RUB 1,733,354 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUB 60,738 thousand) in the profit and loss in respect of operating leases (2010: RUB 1,116,256 thousand).

Non-cancellable operating lease rentals are payable as follows:

	2011 '000 RUB	2010 '000 RUB
Less than one year	222,673	198,137
Between one and five years	744,618	558,697
More than five years	5,248,576	3,278,600
	6,215,867	**4,035,434**

Contingent rent recognised as an expense for the year ended 31 December 2011 amounted RUB 596,634 thousand (2010: RUB 108,800 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 2011 RUB 733,164 thousand was recognised as rental income in the consolidated statement of comprehensive income (2010: RUB 705,937 thousand). All leases whether the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 4,238 thousand for the year ended 31 December 2011 (2010: RUB 20,701 thousand). Contingent rent is determined as excess of 7%-35% of the tenant's revenue over fixed rent rate.

29 Capital Commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 1,661,253 thousand as at 31 December 2011 (2010: RUB 1,877,202 thousand).

30 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

30 Contingencies (continued)
(b) Taxation contingencies (continued)
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 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.

The Group has treated bonuses received from suppliers based on clarifications issued by the Russian Ministry of Finance, and management believes that this approach is consistent with applicable tax law. However, based on uncertainty of tax legislation and recent development of court practice, the tax authorities could take a different position and attempt to assess additional tax liabilities.

The potential amount of such assessment cannot be reasonably estimated due to uncertainty of legislation and absence of practise in determining of the amount of additional tax liabilities, 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 2011 the Group has the following assets pledged as collateral:

	Note 2(e)	2011 ’000 RUB	2010 ’000 RUB Restated
Fixed assets (carrying value)	15	4,214,640	4,897,301
Investment property (carrying value)	17	–	517,000
Initial cost of land lease (carrying value)	18	349,591	426,795
Total		**4,564,231**	**5,841,096**

31 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):

	2011 ’000 RUB	2010 ’000 RUB
Salaries and bonuses	125,339	168,277
Social security contributions	660	147
Long-service bonus	71,839	41,333
Share-based payments	31,321	–
	229,159	209,757

In addition members of Board of Directors received remuneration in the amount of RUB 8,858 thousand for the year ended 31 December 2011 (2010: 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

	Transaction value ’000 RUB 2011	Transaction value ’000 RUB 2010	Outstanding balance ’000 RUB 2011	Outstanding balance ’000 RUB 2010
Services provided:				
Other related parties	21,689	23,153	(3,786)	(1,694)
	21,689	**23,153**	**(3,786)**	**(1,694)**

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

	Transaction value '000 RUB 2011	Transaction value '000 RUB 2010	Outstanding balance '000 RUB 2011	Outstanding balance '000 RUB 2010
Lease of premises				
Other related parties	(647,768)	–	1,179,569	1,334,466
Other services received:				
Other related parties	(24,036)	(31,730)	9,722	11,822
Finance costs:				
Other related parties	(70,169)	(121,128)	–	–
	(741,973)	**(152,858)**	**1,189,291**	**1,346,288**

In 2011 no finance costs from related parties were capitalised in cost of property, plant and equipment (2010: RUB 1,371 thousand).

Outstanding balance for lease of premises as at 31 December 2011 represents net balance of prepayments for rent of hypermarkets for the period until 2017 in the amount of RUB 1,230,054 thousand (2010: RUB 1,334,466 thousand) and current liabilities for rent of hypermarkets in the amount RUB 50,485 thousand (2010: Nil). Long-term part of prepayments is RUB 1,045,171 thousand (2010: RUB 1,230,054 thousand), refer to note 18.

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

	Amount Loaned '000 RUB 2011	Amount Loaned '000 RUB 2010	Outstanding balance '000 RUB 2011	Outstanding balance '000 RUB 2010
Loans received:				
Other related parties	**–**	**–**	**(960,300)**	**(909,022)**

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011 (continued)

32 Subsidiaries

Subsidiary	Country of incorporation	2011 Ownership/voting	2010 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%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'KEY Investments (Cyprus) Ltd	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	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 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 Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	100%	100%
LLC Tagar-City	Russian Federation	100%	100%
JSC Olips D	Russian Federation	100%	100%
LLC Lux Development	Russian Federation	100%	–
LLC Djemir Invest	Russian Federation	100%	–
LLC Kbr-Torg	Russian Federation	100%	–
JCS START Krasnoselsky	Russian Federation	100%	–
LLC Fresh Market	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. LLC Adamant-Diksi is under liquidation now.

During 2011 the Group acquired four subsidiaries: LLC Djemir Invest, LLC Lux Development, LLC Kbr-Torg and JCS START Krasnoselsky for the purpose of obtaining lease rights on the land plots. The acquisition of subsidiaries was classified as acquisition of assets, because acquired entities do not constitute a business.

The Group plans to develop a network of discount stores under the brand name 'DA', for this purpose LLC 'Fresh Market' was established. LLC Fresh Market had no significant activities in 2011.

33 Events Subsequent to the Reporting Date

In January 2012 the Group acquired 100% share in LLC TC Djemir for RUB 160,000 thousand in order to obtain rights of long-term lease of land plot in Chelyabinsk region. The acquisition of subsidiaries is classified as acquisition of assets.

Subsequent to the reporting date the Group has opened three hypermarkets in Ufa, Voronezh and Tumen.

In February 2012 the Group paid to shareholders interim dividends for 2012 in the amount of RUB 833,514 thousand.

Notes

Covering Analysts

Anton Farlenkov
Goldman Sachs
www.gs.com

Maria Kolbina
VTB Capital
www.vtbcapital.com

Natasha Zagvozdina
Renaissance Capital
www.rencap.com

Ivan Nikolaev
Aton
www.aton.ru

Mikhail Terentiev
Otkritie Capital
www.otkritie.com

Svetlana Sukhanova
UBS Limited
www.ubs.com

Oleg Galbur
Raiffeisen Centrobank
www.rcb.at

Vladimir Kuznetsov
Unicredit Bank
www.unicreditgroup.eu

Elena Jouronova
J.P.Morgan
www.jpmorgan.com

Daniel Wakerly
Morgan Stanley
www.morganstanley.com

Brady Martin
Citi Bank
www.citibank.com

Natalia Smirnova
Deutsche Bank
www.db.com

Victor Dima
BAML
www.bankofamerica.com

Alexandra Melnikova
Alfa Bank
www.alfabank.com

Mikhail Krasnoperov
Troika Dialog
www.troika.ru

Designed, produced and written by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk** and
Shared Value Ltd Tel **+44 (0)20 7321 5010 www.sharedvalue.net**

Investor Relations
Maksim Kravtsov
Head of investor relations
No. +7 495 663 66 77, ext. 220
e-mail: ir@okmarket.ru

Public Relations
Artem Gluschenko
Head of public relations
No. +7 495 663 66 77, ext. 338
e-mail: corpcom@okmarket.ru