

IMPORTANT NOTICE: NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) UNDER RULE 144A OR OTHERWISE TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT: You must read the following before continuing. The following applies to the attached Prospectus, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. If you have gained access to this transmission contrary to any of the following restrictions, you are not authorised and will not be able to purchase any of the securities described herein. You acknowledge that this electronic transmission and the delivery of the attached Prospectus is intended for you only and you agree you will not forward this electronic transmission or the attached Prospectus to any other person. Any forwarding, distribution or reproduction of the Prospectus in whole or in part is unauthorised. Failure to comply with the following directives may result in a violation of the U.S. Securities Act of 1933 (the “**Securities Act**”) or the applicable laws of other jurisdictions.

The Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED IN “OFFSHORE TRANSACTIONS” AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

The Prospectus may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where section 21(1) of the FSMA does not apply and may be distributed in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the “**Order**”), or (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Order (all such persons together being referred to as “**relevant persons**”). In the United Kingdom, the Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

The Prospectus does not constitute an advertisement or an offer of securities in the Russian Federation. It is not intended to be and must not be distributed publicly and/or to, or for the benefit of, persons who are not “Qualified Investors” (in the meaning of the Russian securities laws) in the Russian Federation.

The Prospectus does not constitute an advertisement or an offer of securities in the Grand Duchy of Luxembourg. It is not intended to be and must not be distributed publicly and/or to, or for the benefit of, persons who are not qualified investors (in the meaning of the Luxembourg law of 10 July 2005 on prospectus for securities) in the Grand Duchy of Luxembourg.

The materials relating to the offering pursuant to the Prospectus do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and Goldman Sachs International or VTB Capital plc (collectively, the “**Joint Global Coordinators**”) or any affiliate of the Joint Global Coordinators is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Global Coordinators or such affiliate on behalf of O’KEY GROUP S.A. (“**O’Key**”) in such jurisdiction.

The Prospectus is being sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of O’Key, the Joint Global Coordinators nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



O'KEY GROUP S.A.

(incorporated and registered under the laws of the Grand Duchy of Luxembourg)

OFFERING OF 38,141,031 ORDINARY SHARES IN THE FORM OF GLOBAL DEPOSITARY RECEIPTS

OFFER PRICE: U.S.\$11.00 PER GLOBAL DEPOSITARY RECEIPT

This prospectus (the "**Prospectus**") relates to an offering (the "**Offering**") of 38,141,031 ordinary shares with a nominal value of Euro 0.01 each (the "**Shares**") in the form of global depositary receipts ("**GDRs**"), with one GDR representing an interest in one Share, of which (i) O'KEY GROUP S.A. (the "**Company**"), a limited liability company (*société anonyme*), will issue 15,186,000 new Shares in the form of GDRs; and (ii) Caraden Limited, Barleypark Limited and Brookvalley Limited (the "**Selling Shareholders**") will offer 3,416,850, 8,261,019 and 11,277,162 Ordinary Shares, respectively, in the form of GDRs, respectively.

In addition, the Company has granted Goldman Sachs International and VTB Capital plc (together the "**Managers**"), in connection with the Offering, an option exercisable within 30 days of the announcement of the Offer Price to purchase up to an additional 3,796,500 Shares in the form of 3,796,500 GDRs at the Offer Price, solely to cover over-allotments, if any, in the Offering (the "**Over-Allotment Option**"). For further discussion on the Over-Allotment Option, see "*Subscription and Sale*".

The GDRs are being offered (i) in the United States to certain qualified institutional buyers ("**QIBs**"), as defined in, and in reliance on, Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933 (the "**Securities Act**"), or another exemption from the registration requirements of the Securities Act, and (ii) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**"). See "*Subscription and Sale*".

The Company has applied to the Financial Services Authority (the "**FSA**"), in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**FSMA**"), for the admission of up to 272,082,500 GDRs to the official list maintained by the FSA (the "**Official List**") and to the Regulated Market of the London Stock Exchange plc (the "**LSE**") to admit the GDRs for trading under the symbol "OKEY" on its market for listed securities through its International Order Book (the "**IOB**") (collectively, the "**Admission**"). The Company's application to the FSA covers the listing of up to 41,937,531 GDRs, consisting of 38,141,031 GDRs to be issued in the Offering on or about 5 November 2010 (the "**Closing Date**"), up to 3,796,500 additional GDRs to be issued pursuant to the Over-allotment Option and up to 230,144,969 additional GDRs to be issued from time to time against the deposit of additional shares with The Bank of New York Mellon, London Branch, as depositary (the "**Depositary**"). The IOB is a segment of the Regulated Market of the LSE, which is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. The Company expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about 2 November 2010, and unconditional trading through the IOB will commence on or about 5 November 2010. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the Offering or expected admission to the LSE does not take place, and will be at the sole risk of the parties concerned.**

This Prospectus is a prospectus relating to the Company prepared in accordance with the prospectus rules of the FSA (the "**Prospectus Rules**") made under section 73A of the FSMA and comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the "**Prospectus Directive**"). **The Company's application to the FSA and the LSE is in relation to the GDRs only and the FSA's approval of the Prospectus for the admission of the GDRs to the official list and the LSE's approval to admit the GDRs to trading on its IOB relate only to the GDRs and not the Shares. Prior to the Offering, there has been no public market for the GDRs or the Shares. The Shares are not, and are not expected to be, listed on any stock exchange.**

The Shares and the GDRs offered hereby have not been and will not be admitted to trading on the regulated market of the Luxembourg Stock Exchange or to listing on the Official List of the Luxembourg Stock Exchange. The GDRs will not be offered to residents of the Grand Duchy of Luxembourg ("**Luxembourg**") other than to qualified investors pursuant to the Luxembourg law of 10 July 2005 on prospectuses for securities, as amended. This Prospectus has not been reviewed, approved or disapproved by any regulatory authority in Luxembourg.

INVESTMENT IN THE GDRs INVOLVES A HIGH DEGREE OF RISK. See "RISK FACTORS**" beginning on page 10.** The GDRs are of a specialist nature and should only be purchased and traded by investors who are particularly knowledgeable in investment matters. Potential investors should be prepared to bear the risk of a total loss of their investment.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs and the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act, or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the GDRs, see "*Selling and Transfer Restrictions*".

For important information about this Prospectus, see "*Important Information*".

The Offering may be extended or revoked at any time without cause. In particular, any trading that happens on a conditional basis prior to Admission may be revoked should Admission not occur. The GDRs offered hereby are offered severally by the Managers, subject to receipt and acceptance by them of, and subject to their right to reject, any order in whole or in part. The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "**Rule 144A Master GDR**") registered in the name of Cede & Co., as nominee for The Depositary Trust Company ("**DTC**") in New York. The GDRs being offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a Master Regulation S Global Depositary Receipt (the "**Regulation S Master GDR**") and, together with the Rule 144A Master GDR, the "**Master GDRs**") registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. Delivery of the GDRs will be made through DTC with respect to the Rule 144A GDRs and through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs, in each case on or about the Closing Date.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Goldman Sachs International

VTB Capital

The date of this Prospectus is 2 November 2010

IMPORTANT INFORMATION

By accepting delivery of this Prospectus, you agree to the following. This Prospectus is being furnished by the Company solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company or the Managers that any recipient of this Prospectus should subscribe for or purchase the GDRs. Each potential subscriber or purchaser of the GDRs should determine for itself the relevance of the information contained in this Prospectus, and its subscription or purchase of the GDRs should be based upon such investigation as it deems necessary.

The Company accepts responsibility for the information contained in this Prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts and contains no omissions likely to affect its import.

This Prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to purchase or otherwise acquire the GDRs. In making an investment decision regarding the GDRs, you must rely on your own examination of the Company and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this Prospectus. None of the Company, the Selling Shareholders or the Managers has authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Prospectus is accurate only as at its date. The Company's business, financial condition, results of operations, prospects and the information set forth in this Prospectus may have changed since the date of this Prospectus.

You should not consider any information in this Prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding purchase of the GDRs. None of the Company, the Selling Shareholders or the Managers makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under applicable investment or similar laws.

The Managers are acting exclusively for the Company and the Selling Shareholders and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase, as the case may be, the GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers or any of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of

any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company may withdraw the Offering at any time, and the Company, the Selling Shareholders and the Managers reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

The distribution of this Prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Selling and Transfer Restrictions*” elsewhere in this Prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of the Company, the Selling Shareholders, any Manager or the Depositary accepts any responsibility for any violation by any person, whether or not it is a prospective purchaser of the GDRs, of any of these restrictions. This Prospectus does not constitute, and may not be used in connection with, any offer or solicitation in any such jurisdiction or to any person to whom it is unlawful to make such offer or solicitation. None of the Company, the Selling Shareholders, the Managers or the Depositary is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

The contents of the Company’s website (<http://www.okmarket.ru>) do not form part of this Prospectus.

NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

The GDRs have not been approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the GDRs or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This Offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the GDRs which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See “*Subscription and Sale*” and “*Selling and Transfer Restrictions*”.

This Prospectus is being provided (1) to a limited number of investors in the United States that the Company reasonably believes to be “qualified institutional buyers” as defined in Rule 144A for informational use solely in connection with their consideration of the purchase of the GDRs and (2) to investors outside the United States who are not U.S. persons in connection with offshore transactions complying with Rule 903 or Rule 904 of Regulation S.

To ensure compliance with United States Treasury Department Circular 230 (“**Circular 230**”), prospective investors are hereby notified that: (a) any discussion of United States federal tax issues in this Prospectus is not intended to be relied upon, and cannot be relied upon, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the Internal Revenue Code; (b) such discussion is included herein by the Company in connection with the promotion or marketing (within the meaning of Circular 230) by the Company and the Managers of

the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“**RSA 421-B**”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

In any member state (“**Member State**”) of the European Economic Area (the “**EEA**”) that has implemented the Prospectus Directive, this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This Prospectus has been prepared on the basis that any offer of GDRs in any Member State of the EEA which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of GDRs. Accordingly, any person making or intending to make any offer within the EEA of GDRs which are the subject of the Offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Company or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Company nor the Managers have authorised, nor do they authorise, the making of any offer of GDRs through any financial intermediary, other than offers made by managers which constitute the final placement of GDRs contemplated in this Prospectus.

NOTICE TO UNITED KINGDOM INVESTORS

This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities or other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

The Company has elected the United Kingdom as the Home Member State for purposes of the Prospectus Directive and Transparency Directive.

NOTICE TO RUSSIAN INVESTORS

This Prospectus should not be considered as a public offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the Federal Service for Financial Markets and are not intended for “placement” or “circulation” in the Russian Federation. Any information on the GDRs in this Prospectus is intended for, and addressed to, persons outside of the Russian Federation. The GDRs have not been offered or sold or otherwise transferred and will not be offered or sold or otherwise transferred to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

NOTICE TO INVESTORS IN THE DUBAI INTERNATIONAL FINANCIAL CENTRE

This Prospectus relates to an exempt offer (an “**Exempt Offer**”) in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the “**DFSA**”). This Prospectus is intended for distribution only to Persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set out in it, and has no responsibility for it. The GDRs to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the GDRs offered should conduct their own due diligence on the Shares and the GDRs. If you do not understand the contents of this Prospectus, you should consult an authorised financial adviser. For the avoidance of doubt, neither the Shares nor the GDRs are interests in a “fund” or a “collective investment scheme” within the meaning of either the Collective Investment Law (DIFC Law No. 1 of 2006) or the Collective Investment Rules Module of the Dubai Financial Services Authority Rulebook.

NOTICE TO INVESTORS IN THE UNITED ARAB EMIRATES (EXCLUDING THE DUBAI INTERNATIONAL FINANCIAL CENTRE)

The GDRs have not been, and are not being, publicly offered, sold, promoted or advertised in the United Arab Emirates (“**U.A.E.**”) other than in compliance with the laws of the U.A.E. Prospective investors in the Dubai International Financial Centre should have regard to the specific notice to prospective investors in the Dubai International Financial Centre set out above. The information contained in this Prospectus does not constitute a public offer of securities in the U.A.E. in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 of the U.A.E., as amended) or otherwise and is not intended to be a public offer. This Prospectus has not been approved by or filed with the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or the Dubai Financial Services Authority. If you do not understand the contents of this Prospectus, you should consult an authorised financial adviser. This Prospectus is

provided for the benefit of the recipient only, and should not be delivered to, or relied on by, any other person.

STABILISATION

The Underwriting Agreement (as defined in “*Subscription and Sale*”) grants to the Managers the Over-Allotment Option. In connection with the Offering, Goldman Sachs International (the “**Stabilising Manager**”), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect other stabilising transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. However, the Stabilising Manager is not required to enter into such transactions and such stabilisation transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the GDRs on the LSE and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time, without prior notice. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price (as defined in “*The Offering*”). Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilising transactions conducted in relation to the Offering.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, they will, during any period in which they are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the words “targets”, “estimates”, “believes”, “expects”, “aims”, “intends”, “will”, “may”, “anticipates”, “would”, “could” or “should” or similar expressions or, in each case their negative or other variations or by discussion of strategies, plans, objectives, goals, future events or intentions. These forward-looking statements all include matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the Company’s intentions, beliefs or current expectations concerning, among other things, results of operations, financial condition, liquidity, prospects, growth, strategy and dividend policy and those of the industry in which the Group (as defined below) operates. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Group’s control that could cause the Group’s actual results, performance or achievements to be materially different from future results, performance or

achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Forward-looking statements are not guarantees of future performance. The important factors that could cause the Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include, among others:

- significant competition in the Group's current areas of operation and in connection with its expansion strategy;
- adverse changes in consumer preferences;
- a decline in consumer discretionary income, particularly in St. Petersburg;
- negative changes in the retail market in St. Petersburg;
- risks related to the Group's growth strategy, including the inability to generate or raise sufficient capital or secure necessary resources;
- the Group's reliance on distributors and third party service providers for its logistics requirements, and its development of its own logistics system;
- failure to optimise the Group's information technology systems;
- inability to lease or acquire appropriate real estate on commercially acceptable terms or to protect the Group's real estate property rights, to build and develop new stores;
- challenges to the Group's ownership interests or lease rights in land;
- delays or cancellation of the Group's planned construction of hypermarkets and supermarkets;
- a decline in the value of real estate property owned by the Group;
- the inability to renew leases on reasonable terms;
- the Group's indebtedness or the enforcement of certain provisions of its financing arrangements;
- reduction in supplier discounts, rebates and bonuses;
- increases in prices charged by food producers;
- product liability claims and adverse publicity;
- deterioration of the value of the "O'Key" brand name;
- certain risks in connection with the substantial use of cash in the Group's operations;
- failure to fulfil the terms of or renew licences, permits and other authorisations;
- significant salary increases in Russia;
- the ability of the Group to recruit and retain qualified personnel;
- the influence of the Selling Shareholders on the Group;
- insufficient insurance policies;
- dependence on subsidiaries;
- systems failures and delays;
- a major accident at one of the Group's core properties or facilities;

- inadequacy of the Group’s management information systems and internal control systems;
- currency fluctuations;
- unionisation of the Group’s workforce;
- use of inaccurate information sourced from third parties;
- failure to comply with existing governmental regulations, or increased governmental regulation of the Group’s operations;
- political, social and governmental instability in Russia;
- incomplete, unreliable or inaccurate official data and statistics in Russia, in particular with respect to the real estate market;
- changes in, or enforcement of, laws, regulations, taxation or accounting standards or practices; and
- other factors set out under “*Risk Factors*”.

THIS LIST OF IMPORTANT FACTORS IS NOT EXHAUSTIVE. WHEN RELYING ON FORWARD-LOOKING STATEMENTS, INVESTORS SHOULD CAREFULLY CONSIDER THE FOREGOING FACTORS AND OTHER UNCERTAINTIES AND EVENTS, ESPECIALLY IN LIGHT OF THE POLITICAL, ECONOMIC, SOCIAL AND LEGAL ENVIRONMENT IN WHICH THE GROUP OPERATES. THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF THIS PROSPECTUS. THE COMPANY EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO PUBLISH ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN TO REFLECT ANY CHANGE IN THE COMPANY’S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENTS ARE BASED.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

The Company is organised under the laws of Luxembourg. Most of the Company’s directors and senior managers named in this Prospectus reside outside the United States and the United Kingdom, principally in Russia. All of the Company’s assets and a substantial portion of the assets of its directors and senior managers are located outside the United States and the United Kingdom, principally in Russia. All of the assets of the Selling Shareholders are located outside the United States and the United Kingdom, principally in Russia. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company, the Company’s directors or senior managers or the Selling Shareholders or enforce U.S. or U.K. court judgments obtained against the Company, its directors or senior managers or the Selling Shareholders in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in Russia unless (i) there is an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

The Company is not aware of a treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom or the

United States and the Russian Federation. However, the Company is aware of at least two instances in which Russian courts have recognised and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in case of enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of any court judgment, or completely deprive investors of effective legal recourse for claims related to their investment in the GDRs.

Under the terms of the Deposit Agreement (as defined in “*The Offering*”), any dispute, controversy or cause of action against the Company and/or the Depositary arising out of the GDRs, the Deposit Agreement or any transaction contemplated therein, the Shares or other deposited securities may be referred to and resolved by arbitration in accordance with the Rules of the London Court of International Arbitration, as more fully described in the Deposit Agreement.

The Russian Federation is party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

The Arbitrazh Procedural Code of the Russian Federation (the “**Arbitrazh Procedural Code**”) sets out certain grounds for Russian courts to refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts’ judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or foreign arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Certain Terminology

In this Prospectus, all references to “**O’Key**” and the “**Group**” are to the Company and its consolidated subsidiaries. Control by the Company is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital

and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Currencies

In this Prospectus, all references to:

- “**RUR**”, “**Russian Rouble**” and “**Rouble**” are to the currency of the Russian Federation;
- “**U.S. Dollar**” and “**U.S.\$**” are to the currency of the United States of America; and
- “**EUR**”, “**Euro**” and “**€**” are to the currency of the participating Member States in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community.

Certain Jurisdictions

In this Prospectus, all references to:

- “**Russia**” are to the Russian Federation;
- “**Luxembourg**” are to the Grand Duchy of Luxembourg;
- “**U.K.**” and “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland; and
- “**U.S.**” and “**United States**” are to the United States of America.

References to any Russian “**region**” are to (i) respective political unit types of the Russian Federation and specifically, as the case may be, republic (*respublika*), territory (*krai*), district (*oblast*), federal importance city (*gorod federathogo znacheniya*), autonomous district (*avtonotnaya oblast*) or autonomous county (*avtonomniy okrug*) or (ii) respective regions of the Russian Federation in which the Group operates and specifically, the North-Western, Southern, Central and Siberian regions.

Certain Other Terms

In this Prospectus, all references to:

- “**cross-docking facility**” means a building with receiving docks and shipping (dispatching) docks. Incoming goods enter from one side, are separated and mixed as required, and are distributed from the other side, with little or no storage in between;
- “**cross-docking**” is a practice in logistics of unloading materials, for example, from an incoming truck, and loading these materials directly into outbound trucks, trailers, or rail cars, with little or no storage in between;
- “**constant SKUs**” are those SKUs which are sold at least once during the last quarter;
- “**payback period**” means the time required for the return on the investment to repay the sum of the original investment; and
- “**SKUs**” means a stock keeping unit, or a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise.

Presentation of Certain Financial Information

Financial Statements of the Group

On 16 June 2010, the Company changed its name from “Dorinda Holding S.A.” to “O’KEY GROUP S.A.” Therefore, the financial information as at and for each of the years ended 31 December 2009, 2008 and 2007 were issued under the Company’s former name. This Prospectus includes the Group’s audited consolidated financial statements as at and for the years ended 31 December 2009 (the “**2009 Financial Statements**”), 2008 (the “**2008 Financial Statements**”) and 2007 (the “**2007 Financial Statements**” and, together with the 2009 Financial Statements and the 2008 Financial Statements, the “**Audited Consolidated Financial Statements**”) which have been audited by KPMG Audit S.à r.l (“**KPMG**”) and the unaudited consolidated financial statements as at and for the six months ended 30 June 2010 and 2009 (the “**Unaudited Interim Consolidated Financial Statements**” and, together with the Audited Consolidated Financial Statements, the “**Consolidated Financial Statements**”). The Consolidated Financial Statements included in this Prospectus have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board (IASB), and are presented in Roubles. IFRS differ in certain significant respects from generally accepted accounting principles in the United States (“**U.S. GAAP**”). Prospective investors should consult their own advisers for an understanding of the differences between IFRS and other accounting principles, including U.S. GAAP, and how these differences might affect the financial statements and information herein.

On 1 January 2008, the Group changed its presentation currency from U.S. Dollars to Russian Roubles. Since that date, the financial statements of the Group are prepared in Russian Roubles, which the Company believes is the currency that best reflects the economic substance of the underlying assets and circumstances relevant to the Group.

Pro Forma and Non-IFRS Information

The Company has included in the Prospectus at Annex A certain pro forma financial information as at and for the year ended 31 December 2009 and as at and for the six-month period ended 30 June 2010 (the “**Pro Forma Financial Information**”) to illustrate the effect of certain dispositions on the assets, liabilities and earnings of the Group. For a description of these dispositions (the “**Dispositions**”) see “*Operating and Financial Review—Recent Developments—Transfer of Assets*”, “*Business—Retail Operations—Store Premises—Leased and Owned Property*” and Annex A. The Pro Forma Financial Information is presented for illustrative purposes only and is not indicative of the results of operations or the financial condition of the Company that would have been achieved had the Dispositions and related transactions been completed as of the dates indicated, nor is the Pro Forma Financial Information indicative of the Company’s future results of operations or financial position.

The Company has also included certain measures in this Prospectus that are not measures defined by IFRS. These include EBITDA, EBITDA Margin, net debt, adjusted net debt, EBITDAR, trade working capital, gross margin and net margin. The Company has included these measures because it believes that the presentation of these measures enhances an investor’s understanding of its financial performance. However, these measures should not be used instead of, or considered as alternatives to, its historical financial results based on IFRS.

The Company defines EBITDA as adjusted earnings before interest, tax, depreciation and amortisation, gains or losses from revaluation and disposal of non-current assets and assets held for sale, losses from impairment and write-offs of assets, foreign exchange gains and losses. The Company believes that the presentation of EBITDA enhances an investor’s understanding of its financial performance. The Company’s management intends to use EBITDA to assess the Group’s

operating performance because it believes these are important supplemental measures of such performance. In addition, certain of the Company's loan agreements contain financial covenants that are based on EBITDA. See "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements—EBRD loan*". The Company also believes EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the food retail industry. EBITDA is not a presentation made in accordance with IFRS and the Company's use of the term EBITDA may vary from others in its industry. EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for, financial information as reported under IFRS. For example, EBITDA as defined by the Company does not reflect the impact of revaluation gain/(loss), (loss)/gain from disposal of non-current assets, gain from disposal of assets held for sale, loss from write-off of receivables or impairment of receivables. See the reconciliation of EBITDA to profit/(loss) for the period contained in this Prospectus under the heading, "*Selected Consolidated Financial Information and Operating Data*".

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Presentation of Operating Information

In this Prospectus, the Company presents certain operating information regarding hypermarkets and supermarkets, including selling space, average ticket, like-for-like average ticket, like-for-like traffic and like-for-like revenue. The Company calculates this operating information on the basis of certain assumptions made by it. As a result, this operating information may not be comparable to similar operating information reported by other companies.

The stores that are included in like-for-like comparisons in this Prospectus are those that have operated for at least twelve full months preceding the beginning of the last month of the relevant reporting period. Figures are included in like-for-like calculation starting from the first day of the month following the month of the store opening. The first month of operation is excluded. For example, the like-for-like comparison of retail sales between 2009 and 2008 would include revenue of a store that was opened or acquired on 15 October 2008, and the retail revenue to be compared would be the aggregate retail revenue generated by that store in November and December of 2009 and 2008.

"Average ticket" means the average ticket calculated by dividing the total revenue, including VAT, at all stores during the relevant year by the number of tickets in that year.

"Like-for-like revenue": Like-for-like comparisons of retail revenue between two periods are comparisons of retail revenue (including VAT) generated by the relevant stores. The stores that are included in like-for-like comparisons are those that have operated for at least twelve full months preceding the beginning of the last month of the reporting period. Their sales are included in like-for-like calculation starting from the first day of the month following the relevant month of the store opening. The like-for-like comparison for each store takes into account retail revenue by that store during the same months it was in operation in both the reporting period and the period of comparison. The retail sales of all the relevant stores in the relevant months are then aggregated and compared. Like-for-like revenue is calculated on the basis of traffic and basket amounts of relevant stores in the period under review.

“**Like-for-like average ticket**” and “**like-for-like traffic**” is calculated using the same methodology as like-for-like revenue.

“**Selling space**” is the area inside O’Key stores used to sell products, and excludes areas rented out to third parties.

“**Ticket**” means a receipt issued to a customer for its basket (the amount spent by a customer on a shopping trip).

“**Traffic**” is the number of tickets issued for the period under review.

Market and Industry Data

Market data used in this Prospectus, including, without limitation, under the captions “*Summary*”, “*Russian Food Retail Industry Overview*”, “*Business*” and “*Operating and Financial Review*”, have been extracted from official and industry sources and other sources the Company believes to be reliable. Throughout this Prospectus, there are also set forth certain statistics, including statistics in respect of product sales volumes of third parties and market shares, from industry sources and other sources that the Company believes to be reliable, including: A.C. Nielsen, “Russian Consumers 2010: Windows of Opportunity for O’Key”, 7 June 2010 (“**A.C. Nielsen**”); Infoline, “Top Ten Largest Retailers FMCG in Russia, April 2010 (“**Infoline Top Ten**”), “77 Retailers in Russia”, April 2010 (“**Infoline Retailers**”) and “Macroeconomic Situation of Trade Centres in Russian Regions”, December 2009 (“**Infoline Trade Centres**”), all available at <http://www.advis.ru>; Central Bank of Russia information available at <http://www.cbr.ru> (“**CBR Website**”); Planet Retail, “Grocery Retailing in Russia,” June 2010, available at <http://www.planetretail.ru> (“**Planet Retail**”); Rosstat, “Population of the Russian Federation by Cities, Towns and Districts,” January 2009 (“**Rosstat 2009**”), and “Russia in Numbers”, 2010 (“**Rosstat (2010)**”), both available at <http://www.gks.ru>; Euromonitor, “Country Market Insight”, May 2009 (“**Euromonitor Insight**”) and information available at www.euromonitor.com (“**Euromonitor**”); and RBC Information Systems, “Retail Market in Russia—Analytical Review”, 2010 (“**RBC**”). Where information has been sourced from a third party, this information has been accurately reproduced and so far as the Company is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

The contents of the websites referenced above do not form part of this Prospectus.

CURRENCIES AND EXCHANGE RATES

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Rouble and the U.S. Dollar, based on the official exchange rate quoted by the Central Bank of Russia (“**CBR**”). These rates may differ from the actual rates used in the preparation of the Consolidated Financial Statements and other financial information appearing in this Prospectus.

	RUR per U.S.\$1.00			
	High	Low	Period average ⁽¹⁾	Period end
Year ended 31 December				
2009	36.43	28.67	31.72	30.24
2008	29.38	23.13	24.87	29.38
2007	26.58	24.26	25.55	24.55
2006	28.48	26.18	27.14	26.33
2005	29.00	27.46	28.31	28.78
2010				
January	30.43	29.38	29.84	30.43
February	30.52	29.88	30.16	29.95
March	29.98	29.19	29.56	29.36
April	29.50	28.93	29.19	29.29
May	31.43	29.15	30.43	30.50
June	31.78	30.73	31.17	31.20
July	31.37	30.19	30.68	30.19
August	30.90	29.80	30.35	30.66
September	31.08	30.40	30.84	30.40
October	30.80	29.63	30.32	30.78

Note:

- (1) The weighted average of the exchange rates on each business day for which the CBR quotes the Russian Rouble to U.S. Dollar for the relevant period.

The exchange rate between the Rouble and the U.S. Dollar quoted by the CBR on 30 October 2010 was RUR30.78 per U.S.\$1.00.

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PROSPECTUS SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the EEA, no civil liability will attach to those persons who are responsible for this summary in any such Member State solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the EEA, the claimant may, under the national legislation of that Member State, be required to bear the costs of translating this Prospectus before legal proceedings are initiated.

The following summary information should be read as an introduction to this Prospectus. Any decision by a prospective investor to invest in the Shares or GDRs should be based on consideration of this Prospectus as a whole and not solely on this summarised information.

Overview

O'Key is one of the largest retail chains in Russia. Its primary retail format is the modern Western European hypermarket under the "O'Key" brand, complemented by "O'Key—Express" supermarkets. In 2009, O'Key was:

- the largest Russian hypermarket chain by revenue (excluding multinationals);
- the third largest Russian (excluding multinationals) food retailer in terms of revenue;
- one of the leaders in Russian food retail in terms of revenue per square metre of selling space; and
- rated by *A.C. Nielsen* as the strongest retailer brand in St. Petersburg.

The Company opened its first hypermarket in St. Petersburg in 2002 and has enjoyed continuous growth in this market, which is still its largest in terms of revenue.

As at 30 June 2010, O'Key operated 52 stores in 18 cities across Russia: 32 hypermarkets with an aggregate selling space of approximately 242,500 square metres and 20 supermarkets with an aggregate selling space of approximately 24,000 square metres.

Subject to favourable market conditions, O'Key plans to expand its footprint over the next several years, and believes that there is sufficient market capacity to target a doubling of store openings in 2011 compared to 2010, establish a presence in at least 25 cities in Russia with populations of over 500,000 and maintain a fast pace of new store openings in the next five years.

O'Key's believes that customer satisfaction and loyalty are fundamental to success, and strives to offer a compelling value proposition that includes:

- a wide range of competitively priced, high quality products, including fresh food, own bakery, delicatessen products and non-food items;
- a modern shopping environment with an appealing ambiance without a "warehouse" feel;
- locations near key traffic intersections, within easy access to public transportation and/or within highly populated residential districts;
- availability of convenient third party day-to-day services in its hypermarkets;
- a family-friendly environment with supervised in-store play areas for children; and
- a large number of cash registers to reduce queues.

O'Key experienced rapid growth in 2009, recording a 33% increase in revenue. In the year ended 31 December 2009, O'Key's revenue was RUR67,874.6 million, EBITDA was

RUR5,896.3 million, like-for-like revenue growth rate was 11.6% and its EBITDA margin was 8.7%. O'Key's 2009 revenue per square metre of selling space was RUR321,137 and EBITDA per square metre of selling space was RUR27,897 (one of the highest among Russian publicly-traded retailers). In the six months ended 30 June 2010, O'Key's revenue was RUR38,254.2 million, like-for-like revenue growth rate was 6.9% and EBITDA margin was 8.2%.

Competitive Strengths

O'Key intends to leverage the following key strengths:

- Successful business model and compelling value proposition for customers;
- Demonstrated capabilities in expanding both organically and through store acquisitions;
- Strong customer loyalty and brand recognition in St. Petersburg providing a blueprint for replicating O'Key's customer-focused model in other regions;
- Well-balanced real estate portfolio providing flexibility in store roll-out, property management and financing;
- High efficiency of operations; and
- Highly skilled and experienced professional management with international and local retailing knowledge and expertise.

Business Strategy

O'Key intends to pursue the following strategies to maintain its dynamic development:

- Continue to expand its footprint into Moscow and other Russian regions;
- Realise operating economies of scale to enhance ability to offer attractive prices;
- Continue to develop product assortment to attract more customers;
- Expand its logistics capabilities to ensure the continuous availability of a wide product assortment; and
- Implement innovative IT solutions to strengthen supply chain, inventory and category management, as well as reporting and controls.

Risk Factors

- O'Key faces significant competition in its current areas of operation and in connection with its expansion strategy;
- Adverse changes in consumer preferences could materially adversely affect O'Key's revenue and profitability;
- A decline in consumer discretionary income, particularly in St. Petersburg, could materially adversely affect O'Key's revenue and profitability;
- Negative changes in the retail market environment in St. Petersburg could materially adversely affect O'Key's business;
- O'Key may experience difficulty in implementing or may be unable to successfully implement its expansion strategy;
- O'Key may be unable to generate or raise sufficient capital to fund its expansion strategy;

- O'Key could be unable to secure the managerial, financial and operational resources necessary to achieve its growth objectives;
- O'Key currently relies on distributors and third party service providers for its logistics requirements. O'Key is developing its own logistics system to support its expansion strategy and may be unable to sufficiently develop its own logistics capabilities as it expands into the Russian regions outside of St. Petersburg and the density of its stores increases;
- Systems failures, delays and failure to optimise its information technology systems could adversely affect O'Key's business and future growth;
- O'Key has in the past and may in the future expand its business through acquisitions;
- An adverse change in O'Key's ability to lease or acquire appropriate real estate on commercially acceptable terms, protect its real estate property rights, build new hypermarkets and supermarkets on newly acquired sites or develop on newly acquired premises could have a material adverse effect on O'Key's business, financial condition and results of operations;
- Challenges to O'Key's real estate interests or lease rights to real estate properties could have a material adverse effect on O'Key's business, financial condition and results of operations;
- Delays or cancellation of O'Key's planned construction of hypermarkets and supermarkets could have a material adverse effect on O'Key's business, financial condition and operating results;
- The value of real property O'Key owns may decrease;
- O'Key leases some of its stores, and there is no assurance that it will be able to continue to renew these leases or enter into additional leases on acceptable terms;
- O'Key's indebtedness or the enforcement of certain provisions of its financing arrangements could have a material adverse effect on its business;
- Reduction in supplier discounts, rebates and bonuses could affect O'Key's financial condition and operating results;
- Increases in prices charged by food producers may have a material adverse effect on O'Key's profitability if the Company is unable to pass on these increases to customers;
- The sale of food products exposes O'Key to the risk of product liability claims and adverse publicity;
- A deterioration of the value of the "O'Key" brand name due to product recalls, customer complaints, adverse publicity, legal action or other factors could have a material adverse effect on O'Key's business, financial condition and results of operations;
- O'Key is exposed to certain risks in connection with the substantial use of cash in its operations;
- O'Key may fail to fulfil the terms of licences, permits and other authorisations, or fail to renew them on expiration;
- Salary increases in Russia may reduce O'Key's profit margins;
- O'Key's competitive position and future prospects depend on its senior management's experience and expertise and O'Key's ability to recruit and retain qualified personnel;

- O'Key is and following the Offering will be significantly influenced by certain of its current shareholders, who will continue to be the largest shareholders of O'Key's share capital after the Offering, who will benefit from certain governance rights under the Company's articles of association and whose interests could conflict with the interests of other holders of the Shares or GDRs;
- O'Key's insurance policies may be insufficient to cover losses arising as a result of business interruption, damage to its property or third-party liabilities;
- Because of O'Key's holding company structure, it is dependent on its subsidiaries and, under certain circumstances, could either become liable for their obligations or lose control over certain subsidiaries;
- A major accident at one of O'Key's core properties or facilities could result in substantial property loss and inability to recover such loss in a timely fashion or at all;
- O'Key's management information systems and internal control systems may be inadequate to support its future growth;
- The Group's IFRS financial statements are manually prepared on the basis of the financial statements prepared under different accounting standards, primarily Russian Accounting Standards, which may adversely impact the Group's ability to prepare accurate financial statements;
- O'Key's results of operations have been and could be adversely affected by currency fluctuations;
- Unionisation of O'Key's workforce could limit its flexibility in managing its workforce and increase payroll costs and/or lead to labour conflicts;
- Information sourced from third parties has not been verified independently;
- Failure to comply with existing Luxembourg law provisions could result in the imposition of substantial sanctions;
- O'Key's business could be affected if the Selling Shareholders and/or their beneficial owners engage in a competing business in Russia;
- The sale and leaseback financing arrangement of certain of its real estate assets is subject to completion;
- Failure to comply with existing governmental regulations, or increased governmental regulation of O'Key's operations, could result in the closure of certain of O'Key's stores, the imposition of substantial penalties, additional costs or slower growth of revenues;
- Lack of reliable information about the real estate market in Russia makes it difficult to estimate the value of the real estate owned by O'Key;
- O'Key is subject to anti-monopoly laws enforced by the Federal Antimonopoly Service, which may result in certain limitations being imposed on O'Key's activities, the violation of which may result in civil, administrative and even criminal liability;
- It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered;
- Political and governmental instability, including conflicts among federal, regional and local authorities and other political conflicts, could create an uncertain operating environment hindering O'Key's long-term planning ability and could have an adverse effect on O'Key's business, financial condition and results of operations;

- Social instability, particularly that caused by worsening economic conditions and turmoil in the Russian financial markets, could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence;
- Crime and corruption could create a difficult business climate in Russia;
- The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on O'Key's business, as well as investments in Russia more generally;
- Incomplete, unreliable or inaccurate official data and statistics could create uncertainty;
- Emerging markets such as Russia are generally subject to greater risks than more developed markets, and global financial or economic crises or even turmoil in any large emerging market country, could have an adverse effect on O'Key's business;
- Economic instability in Russia could have an adverse effect on O'Key's business;
- Inflation could increase O'Key's costs;
- The physical infrastructure in Russia is in poor condition, which may lead to interruptions in effective financial and economic activity;
- Weaknesses in the Russian banking sector make it more susceptible to market downturns or economic slowdowns;
- Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on O'Key's business;
- Selective or arbitrary government action could harm O'Key's business;
- Lack of independence and inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent O'Key or holders of GDRs from obtaining effective redress in a court proceeding, which could have an adverse effect on O'Key's business or the value of the GDRs;
- Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and O'Key therefore may be subject to a greater than expected tax burden that could materially adversely affect O'Key's business and results of operations;
- The Russian transfer pricing rules are vaguely drafted and are subject to varying interpretations by Russian tax authorities and courts;
- The Russian thin capitalisation rules allow different interpretations which may affect O'Key's business and the value of the GDRs;
- Russian legislation may not adequately protect against expropriation and nationalisation;
- Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law;
- Restrictive currency regulations may adversely affect O'Key's business and financial condition;
- Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile;

- GDR holders may have limited recourse against the Company, members of the Company's board of directors, senior managers and the Selling Shareholders;
- Minority shareholders' rights may not be adequately protected due to undeveloped corporate governance;
- Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Luxembourg law;
- The Shares underlying the GDRs are not listed and may be illiquid;
- Future sales of the Company's Shares or GDRs may affect the market price of the GDRs;
- Further Share or GDR issues made as part of the Company's acquisition strategy may result in further dilution to holders of Company Shares or GDRs;
- The Company may exclude the applicability of pre-emptive rights in share capital increases;
- The Company is subject to potential conflicts of interest relating to the Managers and their Affiliates;
- The Company has engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than could be obtained otherwise;
- U.K. and Luxembourg takeover protection may not be available; and
- The credit of tax withheld upon dividend distributions via the Depository against the Russian profit tax may not be available for Russian resident holders of GDRs.

Summary of the Offering

The GDRs are being offered outside the United States in reliance on Regulation S under the Securities Act and within the United States to QIBs as defined in, and in reliance on, Rule 144A under the Securities Act.

2007 Qualified Audit Opinion

At the end of 2005, the Group was in the process of upgrading its inventory management systems, which did not allow the Group to adequately maintain the accounting records during the upgrade phase. As a result, the auditors had to qualify their opinion on the Company's 2007 Financial Statements with respect to cost of sales, taxation expense and net profit for the year ended 31 December 2006. Except as set forth above, no report issued by the auditors on the Group's Consolidated Financial Statements included in this Prospectus contained an adverse opinion or was modified as to uncertainty, audit scope or accounting principle.

Summary Consolidated Historical Financial and Other Information

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Consolidated Income Statement Data					
Revenue	30,532.6	51,142.7	67,874.6	31,487.9	38,254.2
Cost of goods sold	(24,064.7)	(40,381.6)	(53,106.4)	(24,891.0)	(30,147.0)
Gross profit	6,467.9	10,761.1	14,768.2	6,596.9	8,107.2
General, selling and administrative expenses	(5,097.3)	(7,381.1)	(10,303.7)	(4,984.4)	(5,728.6)
Other operating income and expenses . .	(325.4)	(3,831.7)	(846.3)	(206.0)	(97.2)
Operating profit/(loss)	1,045.2	(451.7)	3,618.2	1,406.5	2,281.4
Finance income	21.7	33.7	37.8	13.0	2.3
Finance costs	(948.9)	(1,036.6)	(1,683.9)	(826.4)	(667.7)
Foreign exchange gains/(losses)	656.5	(1,820.8)	(320.8)	(679.9)	(278.6)
Profit/(loss) before income tax	774.5	(3,275.4)	1,651.3	(86.8)	1,337.4
Income tax benefit/(expense)	(435.0)	343.7	(936.9)	(410.2)	(468.7)
Profit/(loss) for the year (or period) . . .	339.5	(2,931.7)	714.4	(497.0)	868.7

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	(RUR millions)			
Consolidated Balance Sheet Data				
Cash and cash equivalents	1,557.5	1,673.5	1,462.3	487.2
Non-current assets	25,978.3	24,486.8	25,893.3	26,612.0
Current assets	6,213.3	7,463.0	8,053.1	6,524.3
Total assets	32,191.6	31,949.8	33,946.4	33,136.3
Non-current liabilities	7,850.2	4,606.0	9,420.1	8,112.7
Current liabilities	14,393.1	21,054.3	17,390.5	16,954.3
Total liabilities	22,243.3	25,660.3	26,810.6	25,067.0
Total equity	9,948.3	6,289.5	7,135.8	8,069.3
Total equity and liabilities	32,191.6	31,949.8	33,946.4	33,136.3

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Consolidated Cash Flow Data					
Net cash from/(used in) operating activities . . .	2,567.9	4,584.6	2,872.2	(1,459.8)	719.4
Net cash used in investing activities	(5,181.1)	(4,953.9)	(3,289.6)	(2,122.2)	(1,555.4)
Net cash from/(used in) financing activities . . .	2,926.6	446.1	128.3	3,372.6	(157.5)
Net increase/(decrease) in cash and cash equivalents	313.4	76.8	(289.0)	(209.4)	(993.5)
Effect of exchange rate fluctuations on cash and cash equivalents	(73.0)	39.2	77.9	(96.9)	18.4

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
Other Financial Data					
Gross margin (%) ⁽¹⁾	21.2	21.0	21.8	21.0	21.2
EBITDA (in RUR millions) ⁽²⁾	2,200.7	4,548.6	5,896.3	2,261.6	3,153.5
EBITDA margin (%) ⁽³⁾	7.2	8.9	8.7	7.2	8.2
Net margin (%) ⁽⁴⁾	1.1	(5.7)	1.1	(1.6)	2.3
Capital expenditures (in RUR millions) ⁽⁵⁾	4,711.0	4,841.8	3,402.8	1,728.4	1,479.4
Net debt to EBITDA ratio (%) ⁽⁶⁾	5.1	3.0	2.4	n/a	2.2 ⁽⁷⁾
Net debt to EBITDA ratio (%) (excluding shareholder loans) ⁽⁸⁾	3.7	2.4	2.0	n/a	2.0 ⁽⁷⁾
Net debt (in RUR millions) ⁽⁶⁾	11,221.8	13,419.8	14,003.9	17,743.9	15,122.0
Net debt (in RUR millions) (excluding shareholder loans) ⁽⁸⁾	8,075	10,966	11,841	15,233	13,912
Adjusted net debt (in RUR millions) ⁽⁹⁾	12,302.1	15,771.8	19,381.1	20,052.9	18,841.9
Adjusted net debt to EBITDAR ratio (%) ⁽²⁾⁽⁶⁾⁽⁹⁾	5.3	3.3	3.0	n/a	2.9 ⁽⁷⁾
Trade working capital (in RUR millions) ⁽¹⁰⁾	(2,544.8)	(4,000.6)	(3,663.9)	(1,538.2)	(2,297.7)

	As at or for the year ended 31 December			As at or for the six months ended 30 June	
	2007	2008	2009	2009	2010
Operational Data					
Selling Space ⁽¹¹⁾ (thousand square metres)	146.3	190.2	232.6	207.6	266.5
Hypermarkets	140.0	175.3	211.6	187.9	242.5
Supermarkets	6.3	14.8	21	19.7	24
Number of Stores	24	37	46	42	52
Hypermarkets	17	23	28	25	32
Supermarkets	7	14	18	17	20
Average Ticket (in RUR) ⁽¹²⁾	701.85	753.59	717.82	708.1	723.3
Hypermarkets	726.20	808.36	794.80	781.7	800.6
Supermarkets	364.24	397.83	379.33	382.2	402.0

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
Like-for-like Average Ticket (% change) ⁽¹³⁾	3.0	14.7	0.9		1.3
Hypermarkets	3.5	15.1	1.2		1.9
Supermarkets	10.0	17.6	3.0		2.0
Like-for-like Traffic (% change) ⁽¹⁴⁾	(0.2)	15.3	10.6		5.6
Hypermarkets	(1.6)	14.1	9.6		4.1
Supermarkets	36.0	31.9	17.7		12.0
Like-for-like Revenue (% change) ⁽¹⁵⁾	2.8	32.1	11.6		6.9
Hypermarkets	1.8	31.3	10.9		6.1
Supermarkets	49.5	55.2	21.3		14.2

Notes:

- (1) Gross margin consists of gross profit as a percentage of revenue.
- (2) EBITDA is defined as adjusted earnings before interest, tax, depreciation and amortisation, gains or losses from revaluation and disposal of non-current assets and assets held for sale, losses from impairment and write-offs of assets, foreign exchange gains and losses. EBITDAR is defined as EBITDA before rent expenses. See also "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Pro Forma and Non-IFRS Information".

The following table presents a reconciliation of EBITDA to profit for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
EBITDA	2,200.7	4,548.6	5,896.3	2,261.6	3,153.5
Revaluation gain/(loss)	(300.2)	(3,380.9)	(699.3)	(57.3)	—
(Loss)/gain from disposal of non-current assets	10.5	53.3	(37.3)	(22.6)	(57.7)
Gain from disposal of assets held for sale	—	95.2	—	—	—
Loss from write-off of receivables	(9)	(12.2)	(2.1)	—	(9.2)
Impairment of receivables	(22.9)	(158.3)	(43.6)	(5.5)	(68.3)
Depreciation and amortisation	(833.9)	(1,128.4)	(1,361.3)	(647.0)	(736.9)
Impairment losses	—	(469.0)	(134.5)	(122.7)	—
Finance income	21.7	33.7	37.8	13.0	2.3
Finance costs	(948.9)	(1,036.6)	(1,683.9)	(826.4)	(667.7)
Foreign exchange gains/(losses)	656.5	(1,820.8)	(320.8)	(679.9)	(278.6)
Profit before tax	774.5	(3,275.4)	1,651.3	(86.8)	1,337.4
Income tax	(435.0)	343.7	(936.9)	(410.2)	(468.7)
Profit/(loss) for the period	339.5	(2,931.7)	714.4	(497.0)	868.7

- (3) EBITDA margin represents EBITDA as a percentage of revenue.
- (4) Net margin consists of profit for the period as a percentage of revenue for the period.
- (5) Capital expenditures represents the additions to property, plant and equipment as set out in note 8 to the 2007 Financial Statements, note 9 to the 2008 Financial Statements, note 13 to the 2009 Financial Statements and note 12 to the Unaudited Interim Consolidated Financial Statements.
- (6) Net debt is calculated as the sum of short-term and long-term loans (including obligations under finance leases) minus cash and cash equivalents.
- (7) Net debt to EBITDA ratio and Adjusted net debt to EBITDAR ratio for the six months ended 30 June 2010 are calculated using the last twelve months EBITDA and EBITDAR.
- (8) Net debt (excluding shareholder loans) is calculated as the sum of short-term and long-term loans (including obligations under finance leases) minus cash and cash equivalents and excludes loans from entities under common control of the Company's shareholders.
- (9) Adjusted net debt is calculated as the sum of net debt and operating leases expenses multiplied by 8.0x, which is the method customarily used by debt rating agencies.
- (10) Trade working capital is calculated by subtracting inventories and trade receivables (calculated as inventories and trade receivables including VAT receivable and other receivables (bonuses and discounts from suppliers) but excluding pre-paid taxes) from trade payables and advances received.
- (11) Selling space excludes areas leased to third parties.
- (12) Average ticket is calculated by dividing the total revenue from all stores during the relevant year by the number of tickets in that year.
- (13) Like-for-like Average Ticket is calculated as described in "Presentation of Financial and Other Information—Presentation of Operating Information".
- (14) Like-for-like Traffic is calculated as described in "Presentation of Financial and Other Information—Presentation of Operating Information".
- (15) Like-for-like Revenue is calculated as described in "Presentation of Financial and Other Information—Presentation of Operating Information".

RISK FACTORS

Prospective investors should carefully consider the following information about these risks, together with the information contained in this Prospectus, before deciding to buy the GDRs. O'Key's business, prospects, financial condition or results of operations could be materially adversely affected. In that case, there could be an adverse effect on the trading price of the GDRs.

The risks and uncertainties discussed below are those that the Company believes are material, but these risks and uncertainties may not be the only ones that O'Key faces. Additional risks and uncertainties, including those of which the Company's management is not currently aware or deems immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the GDRs.

Risks Relating to O'Key's Business and Industry

Risks relating to competition and demand

O'Key faces significant competition in its current areas of operation and in connection with its expansion strategy.

The retail industry in Russia is competitive, particularly in St. Petersburg and Moscow. O'Key's competitors include international and national hypermarket and supermarket retail chains, discounters, convenience stores and independent grocery stores. The intensity of competition in the Russian retail industry varies from region to region, with St. Petersburg generally considered to be the most competitive market in Russia. The Moscow food retail market is also intensely competitive, with many established and relatively recent foreign and domestic players, and involves high entry and operating costs.

Currently, St. Petersburg is O'Key's largest market in terms of revenue. As part of its expansion strategy, O'Key intends to continue developing its regional presence in markets outside of St. Petersburg, including the Moscow region. As these markets continue to develop, retail chains will compete more intensely on the basis of location, service, price, product quality, product variety and store condition. Current competitors or potential new entrants, including large international retailers, may have greater financial, distribution, purchasing and marketing resources, any of which could give them a competitive advantage. This is particularly true in the Moscow region, where operating costs tend to be higher than in other parts of the country. In addition, Russia's highly fragmented retail market raises the possibility of further industry consolidation, which could lead to O'Key losing part of its market share and/or facing larger, stronger competitors. There can be no assurance that O'Key will be able to compete successfully against current competitors or new entrants. Any loss of market share by O'Key could be permanent. Competitive pressures, including those arising in connection with O'Key's expansion strategy, may have a material adverse effect on O'Key's business, financial condition and results of operations.

Adverse changes in consumer preferences could materially adversely affect O'Key's revenue and profitability.

Consumer demand for O'Key store formats and product assortment is directly affected by changes in consumer preferences. Consumer preferences in the markets in which O'Key operates or intends to operate may cease to favour O'Key store formats and/or the products offered by O'Key, for example, as a result of changes in lifestyle and dietary preferences or as a result of national or regional economic conditions. Similarly, local conditions may cause customer preferences to vary from region to region as O'Key continues to expand into Russian regions outside of St. Petersburg. If O'Key's management is unable to identify and adapt to such changes in consumer preferences quickly, consumer demand may decline, decreasing O'Key's revenue and

profitability, which in turn would have a material adverse effect on O'Key's business, financial condition and results of operations. This is the case both at the national level and at the regional level as O'Key continues to implement its expansion strategy.

A decline in consumer discretionary income, particularly in St. Petersburg, could materially adversely affect O'Key's revenue and profitability.

O'Key's results of operations are sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending. Economic conditions such as employment levels, business conditions, interest rates and energy and fuel costs could reduce consumer spending or change consumer purchasing habits. A general reduction in consumer spending, inability by O'Key to respond to shifting consumer product preferences or a general economic downturn could diminish O'Key's revenues and profitability, which in turn would have a material adverse effect on O'Key's business, financial condition and results of operations.

Negative changes in the retail market environment in St. Petersburg could materially adversely affect O'Key's business.

In 2009, St. Petersburg operations accounted for approximately 64% of O'Key's revenue and in the first half of 2010 for approximately 60%. St. Petersburg is O'Key's biggest market among all other regions where it operates. Any negative changes in this market, including further consolidation among O'Key's competitors, change of consumer preferences, decline in O'Key's brand recognition, adverse regulatory developments or adverse developments in consumer disposable income in St. Petersburg, in particular, could have a material adverse effect on O'Key's business, financial condition and results of operations.

Risks relating to strategy

O'Key may experience difficulty in implementing or be unable to successfully implement its expansion strategy.

The successful implementation of O'Key's expansion strategy depends on its 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 O'Key's existing operations on a profitable basis. O'Key's expansion plans also depend on, among other things, economic conditions, the availability of financing and the absence of adverse changes in the regulatory environment. For example, due to adverse economic conditions in 2009, the Company temporarily postponed the development of new stores on real estate it owns. Acquisition or construction of new stores requires incurrence of significant costs that O'Key may be unable to recover if the new stores do not subsequently generate sufficient revenue and profit. Investment in expansion may also require raising of financing which leads to increased debt burden. There can be no assurance that this expansion will be achieved. Even if O'Key opens new stores as planned, the Group may incur unforeseen costs before its new stores become profitable, or these stores may not operate profitably within acceptable time frames or at all. In addition, the expansion may adversely affect the efficiency of O'Key's operations and quality of O'Key's customer service. In order to achieve its expansion goals, O'Key will need to, among other things, recruit, train and effectively manage and expand its operations and financial controls. If O'Key is unable to manage its expanded business effectively and profitably, its business, financial condition and results of operations could suffer.

O'Key may be unable to generate or raise sufficient capital to fund its expansion strategy.

Implementation of O'Key's expansion strategy and current expansion commitments require significant expenditure. Cash flow from O'Key's operations, borrowings from financial institutions, the expected cash consideration for the Dispositions and/or funding from capital markets may not be sufficient to fund its planned capital expenditures. Funding on favourable terms may also become increasingly difficult to obtain during times of volatility or declines in the international financial markets. In addition, covenants in O'Key's existing financing arrangements may restrict O'Key's ability to raise additional debt funding. If O'Key is not successful in generating or obtaining sufficient cash flow or obtaining sufficient financing to fund its planned expenditures, it may need to curtail or discontinue its expansion, which could have a material adverse effect on O'Key's future development. Furthermore, O'Key has been required in the past to obtain waivers of covenants contained in its financing arrangements upon breach of these covenants. For example, in 2009, the Group breached covenants in its loan agreements with the Savings Bank of the Russian Federation ("**Sberbank**"), among others, as a result of a sharp decrease in the RUR to USD exchange rates, which gave rise to significant foreign exchange losses, and obtained a letter from Sberbank confirming that the bank did not intend to exercise its right to accelerate these loans (which have since been repaid). See "*Risk Factors—Risks Relating to O'Key's Business and Industry—Other risks relating to O'Key's business—O'Key's indebtedness or the enforcement of certain provisions of its financing arrangements could have a material adverse effect on its business*" for other examples of such covenants breaches. Any failure to obtain waivers when required could lead to an acceleration of O'Key's indebtedness, including through cross-default provisions, which would have a material adverse effect on O'Key's business, financial condition and results of operations.

O'Key could be unable to secure the managerial, financial and operational resources necessary to achieve its growth objectives.

O'Key has been expanding its businesses rapidly and has substantial plans to grow further. This growth has increased and will further increase the operating complexity of O'Key's business, and has and will place significant strain on its managerial, financial and operational resources. To ensure operating efficiency during such growth will require, among other things, continued development of financial, operational and management systems, and increased marketing activities, as well as the hiring and training of new personnel (including management personnel). Companies in similar situations have experienced difficulty in hiring employees with specialised skill sets, particularly in competitive specialities. O'Key also will need to maintain close co-ordination among its logistical, technical, accounting, finance, marketing and sales staff. If it is unable to achieve any of these objectives, O'Key's business, financial condition and results of operations could be materially adversely affected.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Company or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

O'Key currently relies on distributors and third party service providers for its logistics requirements. O'Key is developing its own logistics system to support its expansion strategy and may be unable to sufficiently develop its own logistics capabilities as it expands into Russian regions outside of St. Petersburg and the density of its stores increases.

O'Key relies on distributors and third party service transportation and warehousing providers for deliveries of products to O'Key stores. Any deterioration in O'Key's relationships with these distributors or service providers or other changes relating to these parties, including changes in supply and distribution chains, could have a material adverse effect on O'Key's business, financial condition and results of operations. While O'Key intends to grow its network of cross-docking

facilities as a key component of its expansion into Russian regions outside of St. Petersburg, and as the density of its stores increases, there is no assurance that O'Key will be able to implement its logistics strategy to the degree necessary for realisation of its growth plans.

Systems failures, delays and failure to optimise its information technology systems could adversely affect O'Key's business and future growth.

O'Key manages its inventory and logistical operations through a variety of information technology solutions, including intranet, networked personal computers, servers and automated inventory management systems. These operations are heavily dependent on the integrity of the electronic systems supporting them. O'Key's systems and operations may be vulnerable to damage or interruption from human error, data inconsistency, natural disasters, power loss, computer viruses, intentional acts of vandalism, breach of security and similar events. O'Key has contingency plans in place to deal with such events which, however, may not be able to prevent O'Key's systems suffering failures or delays in the future that might cause significant losses to its business. Equipment breakdowns may result in productivity losses and potential inoperability of store trading software for significant periods of time. Significant systems failures and delays could also cause unanticipated disruptions in service, loss of inventory, decreased customer service and customer satisfaction and harm to O'Key's reputation, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

O'Key is in the process of upgrading its IT systems to support its strategic expansion. In particular, O'Key is in the process of implementing an advanced retail management suite. The implementation of this IT system is being conducted in stages and is expected to be completed by the end of 2012. If O'Key fails to successfully implement the optimisation of its information technology systems, it may be unable to realise its expansion plans, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Company or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

O'Key has in the past and may in the future expand its business through acquisitions.

The pursuit of an acquisition strategy entails certain risks, including failing to identify suitable acquisition targets and/or failing to conduct appropriate due diligence on their operations and/or financial condition; overvaluing and paying a consideration greater than the fair market value of acquisition targets; incurring significantly higher than anticipated financing and operating risks and expenses; incurring investment costs before realising any expected benefits from acquisitions; discovering larger or previously undisclosed liabilities or contingent liabilities; failing to assimilate and integrate the operations and personnel of acquired businesses; failing to install and integrate all necessary systems and controls; losing customers; entering markets in which O'Key has no or limited experience and/or where there may be limited access to requisite logistics and distribution facilities and arrangements; and experiencing disruption of ongoing business and a strain on management resources. The materialisation of these risks could have a material adverse effect on O'Key's business, financial condition and results of operations.

Risks relating to real estate and construction

An adverse change in O'Key's ability to lease or acquire appropriate real estate on commercially acceptable terms, protect its real estate property rights, build new hypermarkets and supermarkets on newly acquired sites or develop on newly acquired premises could have a material adverse effect on O'Key's business, financial condition and results of operations.

O'Key's ability to open new hypermarkets and supermarkets is dependent on identifying and leasing and/or purchasing premises or land plots that are suitable for its needs on commercially acceptable terms. The market for property in metropolitan areas in Russia where O'Key is expanding and intends to expand is highly competitive and, in the past, competition for, and therefore the cost of suitable real estate has increased significantly. Although the price of real estate has declined recently, there can be no assurance that it will not increase significantly again in the future.

Even after O'Key procures rights to suitable premises and land plots, O'Key is required to obtain approvals from various regional or municipal authorities in order to secure O'Key's rights to use these properties for hypermarket and supermarket operations, to refit or refurbish those hypermarkets and supermarkets or otherwise undertake construction. Obtaining approvals may require extensive documentation and O'Key may not be able to accurately predict how long it will take to obtain such approvals.

There can be no assurance that O'Key will successfully identify and lease or purchase suitable premises or land plots on commercially acceptable terms or at all, or that it will be able to obtain or maintain necessary approvals, and any failure to do so could have a material adverse effect on O'Key's business, financial condition and results of operations.

Challenges to O'Key's real estate ownership interests or lease rights to real estate properties could have a material adverse effect on O'Key's business, financial condition and results of operations.

As part of its business, O'Key leases interests in land plots, buildings and premises with a view to opening new stores in these locations. Russian land legislation at the federal and regional levels is often complicated, ambiguous and/or contradictory, due to the fact that following the dissolution of the Soviet Union, almost all Russian regions passed their own real estate legislation, and over 100 federal laws, presidential decrees and governmental resolutions were enacted or issued. Although in 2001 a new Russian Land Code as well as a number of other federal laws regulating land use and ownership were enacted, it is not always clear which state bodies are authorised to enter into land leases with respect to particular land plots, and the process of surveying and title registration sometimes takes years to complete. As a result, O'Key's ownership of and/or lease rights to land and buildings may be challenged by government authorities or third parties, and establishing O'Key's ownership of this property may take several years. For example, O'Key enters into short-term land lease contracts with local authorities for construction of its new stores, and they often replace these leases with long-term leases after construction is completed. If O'Key does not commence construction within the period of the short-term lease, it may be unable to extend the lease and will lose the land and, hence, the opportunity to build a new store in the selected location. In the past, O'Key lost two locations, under similar circumstances, which resulted in a *de minimis* loss in the amount of rental payments. Although such loss was not significant for the Group, the loss of opportunity to build new stores in attractive locations could have an adverse effect on O'Key's growth plans.

Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate acts fraudulently or otherwise does not have the right to dispose of such real estate, where a counterparty breaches internal corporate approval requirements, or where a party fails to register the transfer of title in the Unified State

Register of Rights to Real Estate and Transactions therewith (the “**Real Estate Register**”). As a result, defects in transactions with respect to real estate may lead to these transactions’ invalidation, which may affect O’Key’s title or lease rights to this real estate. Furthermore, under Russian law, certain encumbrances over real estate (including leases of less than one year and free of charge use agreements) do not need to be registered in the Real Estate Register in order to validly encumber the property. There is, therefore, a risk that third parties may successfully create or claim existence of encumbrances (of which O’Key had no prior knowledge) over real estate owned or leased by O’Key at any point in time.

Delays or cancellation of O’Key’s planned construction of hypermarkets and supermarkets could have a material adverse effect on O’Key’s business, financial condition and operating results.

Russian construction regulations at the federal and regional levels are often complicated, ambiguous and/or contradictory. Construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are impossible to comply with fully in practice. As a result, O’Key’s planned construction of hypermarkets and supermarkets may be delayed or cancelled. O’Key’s construction projects and store openings may also be delayed or be more costly if utilities services are difficult to obtain. For example, in March 2009, during the construction of a hypermarket in Krasnodar, there was a delay of approximately one and a half months due to the fault of the construction company.

In markets where O’Key currently operates or plans to expand into, there may be a shortage of skilled contractors able to build new stores on time and in compliance with O’Key’s specifications. Contractors may fail to obtain the requisite construction permits in a timely or correct fashion, or meet the quality standards required by O’Key. In particular, as O’Key continues to expand into Russian regions outside of St. Petersburg, it may encounter challenges in finding experienced contractors in these less developed regions. In the past, O’Key has experienced defects in construction, which in certain instances led to litigation with contractors. In addition, delays and defects in construction could result in increased costs. Furthermore, as it accelerates the growth of its operations, O’Key will need to simultaneously monitor a larger number of construction sites, which may have an impact on its control over the quality of construction. In addition, a slow-down or suspension of construction in trading centres due to economic conditions may also impact O’Key’s growth. As a result of any of these factors, O’Key may not be able to maintain the desired pace of growth and meet its expansion targets as planned, which could have a material adverse effect on its business, financial condition and results of operations.

The value of real property O’Key owns may decrease.

The value of real property owned by O’Key may decrease for various reasons, including:

- changes in the competitive environment;
- changes in the attractiveness of real property as an investment asset either in Russia as a whole and/or in certain regional markets in which O’Key’s real estate property is located due to changes in country- or region-specific factors;
- fluctuations in demand for commercial real estate; and
- material adverse changes in global and regional financial markets leading to a deterioration in the economic conditions of the Russian market.

As a result of any unfavourable changes in the real property market, the value of O’Key’s real estate property may decrease, which could have a negative impact on the estate value of its total assets and lead to an operating loss. In 2008, as a result of a deterioration of the real estate market

and other asset markets of the Group, revaluations and impairments on some of its assets, particularly with respect to its real estate, resulting in a significant operating losses for the period.

Under certain facility agreements O'Key is obligated to provide its lenders with annual or semi-annual valuation reports on pledged property prepared by an independent appraiser with an indication of the property's market and liquidation value. In cases where valuation reports prove the decrease in value of the pledged property, O'Key has to pledge additional property in order to increase the value of security up to the amount of aggregate financial liabilities under the facility agreement. Also, under a loan agreement with Sberbank, which was recently repaid in full, O'Key was obligated either to provide additional security or to compensate the lender for the difference between the total amount of outstanding financial liabilities and the reassessed value of the pledged property. In 2009, the value of O'Key's real estate decreased significantly and O'Key had to provide additional security to Sberbank. In addition, the decrease in value of O'Key's real estate property pledged as security of its financial liabilities under the facility agreements may trigger an event of default. As a result, O'Key may be obligated to repay loans prior to their maturity or incur additional costs, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

O'Key leases some of its stores, and there is no assurance that it will be able to continue to renew these leases or enter into additional leases on acceptable terms.

As at 30 June 2010, O'Key leased approximately 21% of its total space. As a result of the Dispositions, O'Key's leased selling space will increase to up to 40%. See "*Operating and Financial Review—Recent Developments—Transfer of Assets*". There can be no assurance that the Company will be able to renew its leases on acceptable terms or at all as they expire. For example, leases of premises in big trade centres may not be available for extension because landlords may decide to change tenants for better commercial arrangements. If rent prices increase significantly, throughout Russia or in a particular region, it may cease to be economical to lease stores and O'Key may have to discontinue operations at some or all of its leased stores. Any inability to renew leases as they expire or acquire new leases in other favourable locations and sites on acceptable terms, termination of the existing leases or revision of the terms of leases to O'Key's detriment could have a material adverse effect on O'Key's business, financial condition and results of operations.

Other risks relating to O'Key's business

O'Key's indebtedness or the enforcement of certain provisions of its financing arrangements could have a material adverse effect on its business.

O'Key owes amounts to employees, suppliers, banks, shareholders, other financial institutions and bondholders, as well as for taxes payable. In order to secure some of these financings, O'Key has pledged real estate and provided guarantees and suretyships.

Among other things, O'Key's indebtedness could potentially (a) limit its ability to obtain additional financing; (b) limit its flexibility in planning for, or reacting to, changes in the markets in which it competes; (c) place it at a competitive disadvantage relative to its competitors with less indebtedness; (d) lead to a partial or complete loss of control over some of its inventory; (e) render it more vulnerable to general adverse economic and market conditions; or (f) require it to dedicate substantially all or a significant portion of its cash flow to service its debt.

O'Key's debt depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which O'Key cannot control. If O'Key's cash flow from operating activities is insufficient to service its debt, O'Key could be forced to take certain actions, including delaying or reducing capital or other expenditures to restructure or refinance O'Key's debt; selling its assets or

operations; or raising of additional equity capital. O'Key might be unable to take any of these actions on favourable terms, in a timely manner or at all. Furthermore, such actions might not be sufficient to allow O'Key to service its debt obligations in full and, in any event, could have a material adverse effect on its business, financial condition and results of operations. O'Key's inability to service its debt through internally generated cash flow or other sources of liquidity would put it in default of its obligations to its creditors, which could result in a material adverse effect on O'Key's business, financial condition and results of operations.

In 2007, O'Key decreased cash inflows to its operating accounts opened with VTB Bank by 20% in comparison with other cash inflows occurred in previous months which resulted in default under two loan agreements entered into with VTB Bank on 19 July 2006 and on 19 September 2006. Furthermore, in the same year, O'Key failed to comply with the covenant on the maintenance of the ratio of EBITDA to consolidated payments under any facility agreements which resulted in default under the loan agreement entered into with OJSC Swedbank ("**Swedbank**") on 26 July 2005. In both cases, O'Key obtained letters from the banks subsequent to year-end, confirming that neither VTB Bank nor Swedbank intends to use its right to accelerate the loans. Following these breaches, the loans were reclassified as current liabilities as at 31 December 2007.

In 2008 and during the first quarter of 2009, as a result of a sharp decrease in the RUR to USD exchange rates, O'Key failed to comply with the negative net assets covenant under one of the Sberbank loans, which resulted in breaches of cross-default covenants under three other loans extended by the same bank. In June 2009, O'Key obtained from Sberbank a letter which stated that the bank did not intend to enforce its right to accelerate the loans. As a result of such breaches, the four loans were reclassified as current liabilities as at 31 December 2009. In August 2010 these loans were repaid.

In 2009, O'Key decreased cash inflows to its operating accounts opened with VTB Bank by 20% in comparison with other cash inflows occurred in previous months which resulted in default under three loan agreements entered into with VTB Bank on 19 July 2006, 19 September 2006 and on 22 August 2008. O'Key obtained from VTB Bank a letter confirming that the bank did not intend to exercise its right to accelerate the loans.

In 2009, O'Key failed to comply with the covenant on the maintenance of the ratio of EBITDA to consolidated payments under any facility agreements which resulted in default under the loan agreement entered into with Swedbank on 26 July 2005. O'Key obtained from Swedbank a letter confirming that the bank did not intend to exercise its right to accelerate the loan.

As a result of covenants breaches occurred in 2008 and 2009, as described above, O'Key failed to comply with an affirmative covenant under the EBRD facility in the amount of U.S.\$200 million. O'Key communicated to EBRD all letters it received from Sberbank, VTB Bank and Swedbank confirming that the banks did not intend to exercise their rights to accelerate the respective loans. In July 2009, O'Key obtained from EBRD a letter stating that the bank did not intend to take any actions.

In addition, bankruptcy or liquidation of certain of O'Key's subsidiaries could trigger adverse consequences under certain loan agreements, which could have a material adverse effect on O'Key's business, financial condition and results of operations. Furthermore, some of O'Key's loan agreements, such as its credit line facilities with Sberbank, provide the relevant bank with a general right to demand the early repayment of the loan where circumstances arise which, in the reasonable opinion of the bank, may prevent the relevant member of the Group from meeting its payment obligations in full or in a timely manner.

Reduction in supplier discounts, rebates and bonuses could affect O'Key's financial condition and operating results.

As per standard international practice in modern retailing, O'Key obtains discounts, rebates and bonuses from suppliers. In the future, O'Key may be unable to negotiate adequate bonuses or receive any forms of compensation from suppliers due to market conditions, downward change in O'Key's competitive position or otherwise. The Federal Law No. 381-FZ "On Basic Principles of State Regulation of Trading Activities in the Russian Federation" dated 28 December 2009 (the "**Federal Retail Law**") limits the extent to which retailers can charge suppliers bonuses on food supplies. In particular, supplier bonuses may not exceed 10% of the price of the purchased products. See "*Russian Regulation of Food Retail, Real Estate and Other Regulatory Matters*". O'Key may not be able to maintain the same level of supplier discounts, rebates and bonuses in the future, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

Increases in prices charged by food producers may have a material adverse effect on O'Key's profitability if the Company is unable to pass on these increases to customers.

In 2008 and 2009, the cost of basic agricultural commodities increased globally, including in Russia. The increase in agricultural commodities continued in the first half of 2010 primarily due to higher inflation in Russia as well as unusually high temperatures in July and August which resulted in poor harvest for certain agricultural products. There can be no assurance that O'Key will be able to successfully contain the growth of its purchasing prices if prices for agricultural commodities rise again in the future. If these prices do rise, O'Key may need to pass all or a portion of these additional costs on to its customers to maintain its gross profit margins. However, it may not be possible for O'Key to significantly increase its retail prices to offset price increases by suppliers, particularly if O'Key's main competitors choose not to implement such price increases. As competition in the Russian food retail market intensifies, unilateral price increases may lead to declines in sales, loss of customer traffic, loss of market share and other adverse consequences, and O'Key may accordingly be significantly constrained in its pricing policy by the actions of competitors.

In addition, federal or regional authorities may impose regulatory constraints on the ability of food retail operators to increase their prices. In October 2007, federal authorities took steps to limit food price inflation by reaching agreements with some 20 leading food producers and food retailers to freeze prices on some food products from 15 October 2007 to 31 January 2008, subsequently extended by the government to 1 May 2008 (though not extended beyond this date). There can be no assurance that federal or regional authorities would not attempt to re-introduce the price freezes or initiate more comprehensive measures limiting the ability of food retailers to increase prices on products they sell or regulating their profit margins. See "*Failure to comply with existing governmental regulations, or increased governmental regulation of O'Key's operations, could result in the closure of certain of O'Key's stores, the imposition of substantial penalties, additional costs or slower growth of revenues*". If any such measures are implemented, they could have a material adverse effect on O'Key's business, financial condition and results of operations.

The sale of food products exposes O'Key to the risk of product liability claims and adverse publicity.

Preparation, packaging, transportation, storage and sale of perishable food products and non-food products entail the inherent risk of product contamination, deterioration or defect, which could potentially lead to product recalls, liability claims and adverse publicity. Food and non-food products may contain contaminants that could, in certain cases, cause illness, injury or death. Even an inadvertent shipment or sale of contaminated, deteriorated or defective products may be grounds for a product liability claim or product recall. The risks of product liability claims or product

recall obligations are particularly relevant in the context of O'Key's sales of freshly prepared food products.

In addition, O'Key sells a range of private label products. Any product liability claim brought against it regarding its private label products, if successful, could have a material adverse effect on O'Key's ability to market its private label products successfully and therefore on its brand, business, financial condition and results of operations. In July 2010, several cases of intestinal infections were recorded in the city of Ufa. According to allegations, the contaminated products had been manufactured by and purchased in O'Key. The infections resulted in epidemiological investigations conducted by the Federal Service of Consumer Protection ("**Rospotrebnadzor**") which did not prove that the cause of infections were products produced and marketed by O'Key. The investigations, however, revealed a number of violations of sanitary-epidemiological rules, such as improper positioning of refrigerators and violations of requirements for food storage and washing of pastry shop equipment, which resulted in an administrative fine in the amount of RUR30,000 and a requirement to remedy the relevant violations.

O'Key does not currently have product liability insurance. Successful product liability claims could therefore have a material adverse effect on O'Key's ability to market its products and on its business, financial condition and results of operations. Even if a product liability claim is not successful, is not fully pursued or is fully covered by insurance, the claim may still give rise to negative publicity that could result in a decrease in O'Key's product sales and have a material adverse effect on its goodwill, brand, business, financial condition and results of operations.

A deterioration of the value of the "O'Key" brand name due to product recalls, customer complaints, adverse publicity, legal action or other factors could have a material adverse effect on O'Key's business, financial condition and results of operations.

As O'Key's success depends to a significant extent upon brand recognition and the goodwill associated with it, the "O'Key" brand name and trademarks are key assets of O'Key's business. Maintaining the reputation of O'Key's brand name and trademarks is critical to O'Key's success. Substantial erosion in the value of O'Key's brand name due to product recalls, customer complaints, health issues, adverse publicity, legal action or other factors could have a material adverse effect on O'Key's business, financial condition and results of operations. O'Key's trademarks and brand name are trademark-protected only on the territory of the Russian Federation. If such trademarks are used outside Russia by any third party, O'Key will not have legal protection in such other jurisdiction. Negative use of O'Key's brand name and trademarks in other jurisdictions, especially countries with large Russian-speaking populations, may affect the Group's reputation and have an adverse effect on O'Key's business, financial condition and results of operations. In the past, one of the Company's shareholders, Mr. Teder, founded a retail business in Ukraine, under the name "O'Key" and registered the "O'Key" trademark under a Ukrainian entity, O'Key Ukraine LLC ("**O'Key Ukraine**"). Entities affiliated with Mr. Korzhev and Mr. Troitckii provided loans to Mr. Teder. Mr. Teder used part of these funds to finance his Ukrainian business. The business of O'Key Ukraine was conducted through entities that were separate from the Group and the Group had no control over this Ukrainian business. Mr. Teder sold O'Key Ukraine to a third party in 2009. According to media reports, in periods during Mr. Teder's beneficial ownership and subsequent to its sale by Mr. Teder, O'Key Ukraine was unable to meet its payment obligations and certain suppliers had claims against it. The Company is not aware of any legal proceedings initiated in connection with such claims. However, media reports, whether accurate or not, about claims against O'Key Ukraine or the existence of any claims against O'Key Ukraine may adversely affect the Group's reputation and harm its business.

Russia generally offers a lower level of intellectual property rights enforcement than countries in Western Europe and North America. O'Key believes it has taken appropriate steps to protect its

trademarks and other intellectual property rights but cannot be certain that such steps will be sufficient or that third parties will not infringe or challenge such rights. From time to time, certain companies have used “O’Key” as a business name. If O’Key is unable to protect its intellectual property rights against infringement, it could have a material adverse effect on its business, financial conditions and results of operations. Delays in registration of trademarks and defects in agreements pursuant to which trademarks were assigned to O’Key may also increase the risk of infringement of O’Key’s intellectual property rights and have a material adverse effect on O’Key’s business, financial condition and results of operations. In addition, there can be no assurance that O’Key’s strategy and its implementation will maintain the value of its brand.

O’Key is exposed to certain risks in connection with the substantial use of cash in its operations.

Due to the nature of the retail business and current state of development of the Russian banking sector, O’Key processes a large volume of cash transactions in the course of its operations. Customers at stores usually pay for their purchases in cash. Therefore, O’Key is exposed to the risk of cash shortages, petty theft and robbery, which, if substantial in the aggregate, could have a material adverse effect on O’Key’s business, financial condition and results of operations.

O’Key may fail to fulfil the terms of licences, permits and other authorisations, or fail to renew them on expiration.

O’Key is required to maintain licences, permits and other authorisations, including licences relating to the sale and warehousing of alcohol and certain construction activities. O’Key is also required to obtain and renew various permits concerning, for example, health and safety, packaging, labelling, environmental standards and distribution standards. O’Key’s licences, permits and other authorisations contain various requirements that must be complied with in order to keep such licences, permits and other authorisations valid. If O’Key fails to meet the terms of any of its licences, permits or other authorisations necessary for operations, these may be suspended or terminated, leading to temporary or potentially permanent closing of stores, suspension of construction activities or other adverse consequences. In addition, O’Key cannot be certain that any given licence, permit or authorisation will be deemed sufficient by the relevant governmental authorities to fully cover current activities conducted in reliance on such licence, permit or authorisation.

Any or all of these factors may adversely affect O’Key’s ability to obtain or renew necessary licences, permits and authorisations. If O’Key is unable to obtain or renew them or is only able to do so on unfavourable terms, this could have a material adverse effect on O’Key’s business, financial condition and results of operations.

Salary increases in Russia may reduce O’Key’s profit margins.

On average, salaries in Russia have historically been significantly lower than salaries in the more economically developed countries of North America and Western Europe, although salaries and O’Key’s personnel costs have increased significantly in recent years (due primarily to both increases in salaries and the expansion of the Group’s workforce). O’Key expects wage costs to increase in the future because of its expansion into the Moscow region, where wages are the highest in Russia. If salaries continue to increase, especially if they increase more rapidly than O’Key’s sales growth, O’Key’s margins could be reduced. Unless O’Key is able to continue to increase the efficiency and productivity of its employees, wage cost increases exceeding sales growth that are not offset by such increases of efficiency could have a material adverse effect on its business, financial condition and results of operations.

O'Key's competitive position and future prospects depend on its senior management's experience and expertise and O'Key's ability to recruit and retain qualified personnel.

O'Key's ability to maintain its competitive position and to implement its business strategy is dependent, to a large extent, on the services of its directors and senior management. The loss of or diminution in the services of one or more of O'Key's senior management team, or its inability to attract, retain and maintain additional senior management personnel could have a material adverse effect on O'Key's business, financial condition and results of operations. O'Key is not insured against damage that may be incurred in case of loss or dismissal of its key specialists or managers.

O'Key's future success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. A failure by O'Key to successfully manage its personnel needs could have a material adverse effect on its business, financial condition and operating results.

O'Key is and following the Offering will be significantly influenced by certain of its current Shareholders, who will continue to be the largest shareholders of O'Key's share capital after the Offering, who will benefit from certain governance rights under the Company's articles of association and whose interests could conflict with the interests of other holders of the Shares or GDRs.

Following the completion of the Offering, Caraden Limited and Brookvalley Limited, two of the Company's current selling shareholders, will own 22.0% and 55.4% of the share capital in the Company, respectively (assuming full exercise of the Over-Allotment Option). As a result, Caraden Limited and Brookvalley Limited, if acting together, will have the ability to determine the outcome of matters submitted to the Company's shareholders for approval, including, but not limited to, the amendments to the articles of association of the Company (the "**Articles of Association**"), changes to the share capital, dividend distribution, corporate reorganisation and certain major transactions.

Caraden Limited, Brookvalley Limited and their beneficial holders, have entered into a Shareholders Agreement, dated 6 October 2010, that will come into effect upon the execution of the Underwriting Agreement, (the "**Shareholders Agreement**"), as described under "*Management and Corporate Governance—Shareholders Agreement*". Under the Shareholders Agreement, Brookvalley Limited and Caraden Limited have agreed to always vote together on certain matters relating to dividends. Caraden Limited and Brookvalley Limited will also continue to be able to exercise significant influence over any decision regarding a change of control of the Company, and as a result of the Company's ownership structure, potential bidders for O'Key's shares may elect not to offer a premium over the market price. In addition, the interests of Caraden Limited and Brookvalley Limited themselves may not be aligned or they could conflict with those of other holders of the Shares or GDRs. The parties to the Shareholders Agreement have also agreed to procure that one director is to be appointed from the list of proposed candidates provided by Caraden Limited, which right is also reflected in the Articles of Association, and such director has veto rights on certain matters. As a result of this veto right, Caraden has the ability to influence certain significant reserved matters which will give it particular influence over the Company's business and governance. Such matters include: (i) the sale or transfer, including pledge, by the Company or any of its subsidiaries of real estate property and/or land plots with a value (individually or in the aggregate) exceeding U.S.\$10 million whether directly or by way of a sale of the shares of the companies that own real estate property or land plots, (ii) the approval of any internal rules and regulations of the Company's board of directors (the "**Board of Directors**") and the committees of the Company, and the Subsidiaries (if such documents contradict the provisions of the U.K. Corporate Governance Code or any other stock exchange regulations); (iii) the approval of any

corporate governance charters of the Company and its subsidiaries (if such documents contradict the provisions of the U.K. Corporate Governance Code or any other stock exchange regulations); and (iv) the approval of dividend policy (including distributions of interim dividends). In addition, the Articles of Association set forth certain reserved matters that must be approved by a qualified majority. The exercise of such rights and/or occurrence of any such conflicts could result in decisions being adopted by the management bodies of the Company that may not always be in the best interest of the Company or its minority shareholders, which could have a material adverse effect on O'Key's business, financial condition, results of operations and the price of GDRs.

O'Key's insurance policies may be insufficient to cover losses arising as a result of business interruption, damage to its property or third-party liabilities.

O'Key maintains property insurance covering all its hypermarkets and supermarkets and third-party liability insurance with respect to construction risks. O'Key's insurance policies may not be sufficient to cover losses arising as a result of a business interruption or damage to O'Key's property. In addition, while O'Key maintains certain third-party liability insurance, there can be no assurance that, if O'Key suffers material losses or incurs a significant liability, O'Key's insurance policies will be sufficient to cover such losses or liability. If O'Key's insurance policies are insufficient to cover such losses or liability, this may materially and adversely affect O'Key's business, financial condition and results of operations.

Because of O'Key's holding company structure, it is dependent on its subsidiaries and, under certain circumstances, could either become liable for their obligations or lose control over certain subsidiaries.

O'Key is a holding company with no direct operations other than performing certain administrative functions for the Group. O'Key's principal assets are the equity interests that it holds in operating subsidiaries. As a result, O'Key is dependent upon dividends and other payments from its subsidiaries to generate the funds necessary to meet financial obligations. O'Key's subsidiaries are legally distinct from O'Key and have no general obligation to pay amounts due with respect to its debt or to make funds available to O'Key for such payment or for any other reason. The inability on the part of O'Key's subsidiaries to pay dividends would impact the amount of funds available to O'Key to pay dividends and service O'Key's debt obligations. The Russian Civil Code (the "**Civil Code**") and the Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended (the "**Joint Stock Companies Law**") generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the "**effective parent**") is capable of determining decisions made by another (the "**effective subsidiary**"). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the effective parent and the effective subsidiary; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent (bankrupt) due to the action or inaction of an effective parent intended to cause or result in insolvency (bankruptcy). By virtue of the provisions in the charters of a number of O'Key's subsidiaries and directions given by O'Key to those subsidiaries, O'Key may be found to be an effective parent of its direct or indirect subsidiaries, in which case O'Key could become liable for their debts. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through

ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing that such action or inaction would result in losses. As at 30 June 2010, the total amount of Rouble- and U.S. Dollar-denominated loans to O'Key was RUR15,609 million, excluding intercompany loans. In addition, O'Key's subsidiaries have other liabilities. This total liability, which is joint and several with the liabilities of the subsidiaries, could have a material adverse effect on O'Key's business, financial condition, results of operations and the trading price of the GDRs.

In addition, O'Key's principal source of revenue is generated by its subsidiaries in Roubles. No assurance may be given that it will succeed in converting such income, or, if able to do so, that it will be able to convert at favourable exchange rates.

A major accident at one of O'Key's core properties or facilities could result in substantial property loss and inability to recover such loss in a timely fashion or at all.

If O'Key experienced a major accident at one or several of its core properties or facilities (for example, a hypermarket or a warehouse in St. Petersburg), O'Key could experience substantial property loss and might not be able to rebuild or restore operations in a timely fashion. O'Key's property insurance may not cover all cases of loss of material property. For example, O'Key will not be able to recover loss in the event of an act of terrorism. Any such accident could have a material adverse effect on O'Key's business, financial condition and results of operations.

O'Key's management information systems and internal control systems may be inadequate to support its future growth.

O'Key's management information systems (including financial reporting) and internal control systems are less developed in certain respects than those of similar businesses in more developed markets or publicly traded companies, and may not provide management with as much or as accurate information or independent checks of information. Although it follows certain basic IFRS principles, the Group prepares management accounts under Russian Accounting Standards ("RAS") (which are then converted to IFRS), which results in less transparency and predictability than the Group's annual or interim financial statements under IFRS. The Group's existing management information systems may not be as effective as those of retail companies in more developed markets, in detecting any negative trends in operations in a timely manner. At the end of 2005, the Group was in the process of upgrading its inventory management systems, which did not allow the Group to adequately maintain the accounting records during the upgrade phase. As a result, the auditors had to qualify their opinion on the Company's 2007 Financial Statements with respect to cost of sales, taxation expense and net profit for the year ended 31 December 2006. Except as set forth above, no report issued by the auditors on the Group's Consolidated Financial Statements included in this Prospectus contained an adverse opinion or was modified as to uncertainty, audit scope or accounting principle.

Due to O'Key's ongoing growth strategy and implementation of corporate governance initiatives, O'Key may encounter difficulties in employing, expanding and enhancing management information systems and internal control systems. If O'Key is unable to maintain adequate management information systems (including financial reporting) and internal control systems, this could have a material adverse effect on O'Key's business, financial condition and results of operations.

Notwithstanding the above, the Company believes that its management information systems (including financial reporting) and internal control systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

The Group's IFRS financial statements are manually prepared on the basis of the financial statements prepared under different accounting standards, primarily RAS, which may adversely impact the Group's ability to prepare accurate financial statements.

The Group does not have a fully electronically integrated information system for the preparation of IFRS financial statements. The Russian operating companies prepare financial statements under RAS for statutory purposes. The preparation of IFRS financial statements is a manual process that is complex and time-consuming, and involves, first, the transformation of the Russian subsidiaries statutory financial statements into IFRS financial statements through accounting adjustments and, second, a consolidation of the Company's and the subsidiaries' financial statements. In addition, the Group does not have sufficient dedicated resources for the preparation of the Group's IFRS financial statements which therefore requires significant attention from senior accounting personnel. Furthermore, the Group does not have the same level of IFRS accounting systems and internal controls that are customary in companies that have a longer history of IFRS reporting, and the preparation of financial statements may require significantly more time than it does for companies with a longer history of IFRS reporting.

Notwithstanding the above, the Company believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

In addition, the Company has taken, and plans to take, steps to further improve its accounting systems and processes. For example, in 2010 two more employees were added to the IFRS department and the intention is to hire one more employee in the short-term. In addition, the Company is in the process of implementing a new software program, Soft Solutions ibs Suite ("**ibs Suite**") to support assortment planning, supplier negotiations, supply chain, advanced price management, trade space planning and store operations. The ibs Suite implementation began in November 2009, the first module was launched in May 2010 and is expected to be completed by the end of 2012. O'Key believes that the ibs Suite will enable the Company's management to make assortment, procurement pricing and inventory management decisions more efficiently and will further facilitate budgeting processes.

O'Key's results of operations have been and could be adversely affected by currency fluctuations.

According to the CBR, the average annual Rouble exchange rates appreciated against the U.S. Dollar by 6.3% in 2007 and 3.1% in 2008. In the second half of 2008, the Rouble exchange rates fell sharply against both the U.S. Dollar and the Euro, partially in response to the global financial crisis and the significant decreases in non-agricultural commodity prices. From mid-2009, the Rouble began to appreciate modestly, and according to the CBR appreciated by 2.2% from June 30, 2009 until December 31, 2009. The Rouble depreciated against the U.S. Dollar by 0.5% in the six months ended 30 June 2010 as compared with the six months ended 30 June 2009, in large part due to the impact of the global financial and economic crisis on the Russian economy. The Russian government has used significant amounts of its international currency reserves to support the Rouble but has stated that it may be unwilling to continue such support in the future. Should the Rouble further depreciate against the U.S. Dollar and should the Russian government halt its support of the Rouble through the sale of its currency reserves, a significant devaluation of the Rouble may result.

As at 30 June 2010, U.S. Dollar-denominated debt constituted 63% of O'Key's indebtedness (with U.S. Dollar debt hedged into Roubles constituting none of O'Key's total indebtedness). In 2008 and 2009, O'Key had significant borrowings denominated in U.S. Dollars and did not use hedging instruments to hedge foreign currency risks. The devaluation of the Rouble in the third quarter of 2008 and during 2009 resulted in significant foreign exchange loss in both 2008 and

2009. If O'Key's U.S. Dollar-denominated debt increases, for example as a result of increase of its import operations, O'Key's exposure to currency fluctuations will be higher and the devaluation of the Rouble will result in a loss, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

O'Key currently sells imported non-food products and intends to further increase its import operations. In addition, O'Key purchases various imported equipment and vehicles. Payment for imported products is predominantly in U.S. Dollars. The cost of O'Key's imported products amounted to approximately 0.73% of its cost of goods sold in 2009. In the event of a further Rouble depreciation, O'Key may be able to partially substitute locally-made products for imports; however, this substitution may negatively affect O'Key's sale growth rate. Consequently, a considerable depreciation of the Rouble against foreign currencies may lead to an increase in expenses in Rouble terms or slow sales growth, and thus adversely affect O'Key's business, financial condition and results of operations.

O'Key may also face additional exposure to movements in foreign currency associated with borrowings denominated in currencies other than the Rouble.

Unionisation of O'Key's workforce could limit its flexibility in managing its workforce and increase payroll costs and/or lead to labour conflicts.

Only a small portion of the Group's employees belong to trade unions. See "*Business—Employees*". If a substantial part of O'Key's workforce were to become members of trade unions, this could limit its flexibility in managing its workforce and lead to a substantial increase in payroll costs and/or labour conflicts, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

Information sourced from third parties has not been verified independently

In preparing the Prospectus, the Company has relied on and referred to information from various third-party sources and certain private companies and institutes, international organisations and governmental agencies, and has relied on the accuracy of this information without independent verification. For example, a significant portion of the information concerning its competitors and the food retail industry has been derived from third parties, independent consultants, the official data of the Russian government agencies and the CBR (see "*Presentation of Financial and Other Information—Market and Industry Data*"). This information and statistics may at times be less complete or reliable than those of some of the more developed market economies of North America and Europe, as well as be produced on a basis that differs from those used in Western countries. Any discussion of matters relating to Russia herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Failure to comply with existing Luxembourg law provisions could result in the imposition of substantial sanctions.

The Company needs to comply with the provisions of the Luxembourg laws on commercial companies, the Luxembourg commercial code and Luxembourg criminal laws. Any failure to comply with existing and future Luxembourg laws, regulations and rules may result in the imposition of sanctions, including civil and criminal penalties against the Company and/or its directors, as well as in extreme circumstances the court-ordered dissolution of the Company upon application by the Luxembourg public prosecutor (*Procureur d'État*). In the past, the Company has not complied with all material provisions of the Luxembourg laws (i.e. late filing of annual statutory and consolidated accounts). The Company has recently taken steps to remedy prior breaches of the Luxembourg legal provisions.

Any decisions, requirements or sanctions taken and imposed by relevant Luxembourg authorities may restrict the Company's ability to conduct or continue its operations or to do so profitably and, as a result, could have a material adverse effect on the trading price of the GDRs and the Company's business, financial condition and results of operations.

O'Key's business could be affected if the Selling Shareholders and/or their beneficial owners engage in a competing business in Russia.

In the event any of the Selling Shareholders or any of persons or entities affiliated with them or Mr. Andrey Semenov, who is expected to become a shareholder of Brookvalley Limited, engages in the food retail business in Russia, this may adversely affect the Group's competitive position and could have an adverse effect on the Group's business, financial position and results of operations. Although on the date of this Prospectus, the Company entered into non-compete agreements with the Selling Shareholders and their beneficial owners, pursuant to which the Selling Shareholders and their beneficial owners will be restricted from managing or acquiring other companies that operate hypermarkets and/or supermarkets, and/or discount stores, and/or neighbourhood stores, and/or similar trade forms in Russia, such "non-compete" obligations may not be enforceable in Russia. Therefore, the Company may not be able to enforce them against the Russian parties to the non-compete agreement, should they engage in a competing business in the food retail sector in Russia.

The sale and leaseback financing arrangement of certain of O'Key's real estate assets is subject to completion.

O'Key has agreed to a sale and leaseback financing arrangement of certain of its real estate assets with Dorinda Estate Limited, an entity controlled by the Selling Shareholders ("**Dorinda Estate**"). In connection with this arrangement, O'Key and Dorinda Estate entered into a sale and purchase agreement on 28 October 2010, pursuant to which O'Key agreed to sell and Dorinda Estate agreed to purchase certain assets; the transaction is expected to be completed by the end of 2010. Some of these disposed assets will be leased back to the Group under long-term lease agreements that were signed on 1 and 8 October 2010 with entities controlled by Dorinda Estate. See "*Operating and Financial Review—Recent Developments—Transfer of Assets*", "*Transactions with Related Parties*" and Annex A: Pro Forma Financial Information. Part of the consideration under this transaction is receivable by O'Key in cash in the amount of RUR1,622 million and part is receivable by it by way of set-off against lease prepayments under the long-term lease agreements (RUR1,408 million). The payment of the cash consideration is expected to be financed by a loan from Sberbank. O'Key, through one of its subsidiaries, has agreed to provide a guarantee for this financing (in respect of which EBRD, one of O'Key's third party lenders, has given its consent on 30 October 2010 under O'Key's existing loan facility). Completion under the sale and purchase agreement is conditional upon receipt of financing by the purchaser from Sberbank. If the condition is not met, the transaction may not be completed on these terms, or at all.

Risks Relating to Russia

Risks relating to O'Key's business and industry

Failure to comply with existing governmental regulations, or increased governmental regulation of O'Key's operations, could result in the closure of certain of O'Key's stores, the imposition of substantial penalties, additional costs or slower growth of revenues.

O'Key's operations and properties are subject to regulation by various government entities and agencies, and O'Key has to comply with various laws, regulations and rules with respect to, among other things, quality standards, health and safety, sanitary rules and consumer protection. This includes obtaining and renewing various permits concerning, for example, health and safety, packaging, labelling, environmental standards and distribution standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of O'Key's operations, the imposition of penalties or the closure of O'Key's stores.

The Federal Retail Law is vaguely worded and contains contradictory provisions, and its enforcement and implementation mechanisms, as well as the government's ability to accurately assess a company's market share, are uncertain. Moreover, several amendments to the Russian legislation with respect to the administrative and criminal liability for violations of the provisions of the Federal Retail Law are currently being considered, and most mechanisms introduced by the Federal Retail Law will need further legislative framing. In particular, one of the amendments to the Federal Retail Law which is expected to be submitted to the State Duma in late 2010 may limit mark-ups on food products to 25% of a supplier or producer price. If amendments imposing additional obligations or liability on food retail chains are adopted, these amendments may be difficult to comply with and may result in adverse consequences for O'Key's operations.

Any failure to comply with existing or new laws, regulations and rules may result in the imposition of sanctions, including civil and administrative penalties applicable to the relevant member of the Group and criminal and administrative penalties applicable to O'Key's managers. Specifically, O'Key may be required to cease certain of its business activities and/or to remedy past infringements. Any decisions, requirements or sanctions taken and imposed by relevant authorities may restrict O'Key's ability to conduct its operations or to do so profitably and, as a result, could have a material adverse effect on the Company's business, financial condition and results of operations.

Lack of reliable information about the real estate market in Russia makes it difficult to estimate the value of the real estate owned by O'Key.

Public information and research concerning the real estate market in Russia is generally not as reliable or comprehensive as similar data on the real estate market in more developed countries. This lack of information makes it difficult to assess the market value of real estate in Russia and requires O'Key to make estimates as to the fair value of its real estate. Due to their subjective nature, these estimates may not accurately reflect the market value of O'Key's real estate.

O'Key is subject to anti-monopoly laws enforced by the FAS, which may result in certain limitations being imposed on O'Key's activities, the violation of which may result in civil, administrative and even criminal liability.

The Federal Law No. 135-FZ "On Protection of Competition" dated 26 July 2006, which came into force on 26 October 2006, (the "**Competition Law**") generally prohibits any concerted action,

agreement or coordination of business activity that results or may result in, *inter alia*, (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) refusal to enter into contracts with buyers (customers) for reasons other than economic or technological reasons; (e) imposing unfavourable contractual terms; (f) fixing disparate prices for the same goods, for reasons other than economic or technological reasons; (g) creation of barriers to entering or exiting a market; and (h) restriction of competition in any other way. There is no established court practice on what concerted actions or coordination of business activity is and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of precedents, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that O'Key can be found in violation of the Competition Law if its market behaviour (vis-a-vis O'Key's customers or suppliers) is viewed as being similar to behaviour of O'Key's competitors and perceived by the FAS as a purported restriction of competition. Such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on O'Key's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

The FAS, which has ample powers to investigate perceived violations of the Competition Law, has been very active over the last several years in policing the marketing, sales and supply strategies of major participants in the Russian food retail industry and has brought charges against certain market participants alleging concerted actions in violation of the Competition Law. In September 2010, the St. Petersburg division of the FAS commenced proceedings in respect of several retail companies, including O'Key, for alleged actions in violation of provisions of the Competition Law resulting in fixing of price and mark-ups on buckwheat. On 23 September 2010 O'Key delivered to the FAS all documents requested by the authority. The FAS is due to consider the case further later this year.

If O'Key's activities are found to be in violation of the Competition Law in any of the cases described above or in any other cases, O'Key could be subject to penalties or ordered to change its business operations in a manner that increases costs or reduces profit margin and revenue, which can adversely affect O'Key's business, financial condition and results of operations.

It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered.

Following the dissolution of the Soviet Union, land reforms commenced in Russia and real estate legislation changed continuously. Over the following years, more than 100 federal laws, presidential decrees and governmental resolutions were enacted or issued. Almost all Russian regions passed their own real estate legislation. In many instances, there was no certainty regarding which municipal, regional or federal government body had the power to sell, lease or otherwise dispose of land. In 2001, the Russian Civil Code was amended, and the new Russian Land Code as well as a number of other federal laws regulating land use and ownership were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. See "*—Challenges to O'Key's real estate interests or lease rights to real estate properties could have a material adverse effect on O'Key's business, financial condition and results*

of operations". These uncertainties could have a material adverse effect on O'Key's business, financial condition and results of operations.

Political risks

Political and governmental instability, including conflicts among federal, regional and local authorities and other political conflicts, could create an uncertain operating environment hindering O'Key's long-term planning ability and could have an adverse effect on O'Key's business, financial condition and results of operations.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. Vladimir Putin, a former President of the Russian Federation who currently is Russia's Prime Minister, generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On 2 December 2007, the State Duma elections were held and, on 2 March 2008, presidential elections were held in Russia. Though the recent structure of political forces in the State Duma did not change substantially, a new President, Dmitry Medvedev, assumed power from President Putin following the inauguration on 7 May 2008. Although a significant degree of continuity has been maintained between the two administrations, due in large part to the appointment of Vladimir Putin as Russia's Prime Minister, President Medvedev may take a different approach to reforms and to the state's foreign and domestic policies in the future. Moreover, shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the government, major policy shifts or lack of consensus between the President of Russia, the government, Russia's parliament and powerful economic groups could lead to political instability which could have a material adverse effect on the value of investments relating to Russia, including the value of the GDRs.

Russia is a federation of various sub-federal political units. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in areas such as licensing. Some of these laws, and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the Russian courts, and such challenges may occur in the future. This lack of consensus hinders O'Key's long-term planning efforts and creates uncertainties in O'Key's operating environment, either of which may prevent O'Key from effectively and efficiently carrying out its business strategy.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. The emergence of any new or escalation of existing tensions in the region could negatively affect the economy of Russia and other countries that are involved. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant

reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity and trading prices of the GDRs and on O'Key's ability to raise debt or equity capital in the international capital markets.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and violence which can halt normal economic activity and disrupt the economies of neighbouring regions. For example, terrorist attacks have been carried out in different parts of Russia, including Moscow. The further intensification of violence, including terrorist attacks, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic and international commerce. These factors could materially adversely affect O'Key's business, financial condition and results of operations.

Social risks

Social instability, particularly that caused by worsening economic conditions and turmoil in the Russian financial markets, could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence.

Failure of the Russian government to adequately address social problems has led in the past, and could lead in the future, to labour and social unrest. Moreover, the worsening economic conditions and turmoil in the financial markets in Russia may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already led to a certain amount of labour and social unrest that may continue or escalate in the future. Such labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including support for re-nationalisation of property, or expropriation of, or restrictions on, foreign involvement in the economy of Russia, as well as increased violence. Any of these consequences could have an adverse effect on confidence in Russia's political and social environment and the value of investments in Russia, restrict O'Key's operations and lead to a loss of revenue, or otherwise have a material adverse effect on O'Key's business, financial condition and results of operations.

Crime and corruption could create a difficult business climate in Russia.

The political and economic changes in Russia in the 1990s have resulted in a decrease in the effectiveness of actions of law enforcement authorities against crime and corruption. The local and international press has reported that significant organised criminal activity has arisen, particularly in large metropolitan centres, and that high levels of corruption exist in Russia, including the bribing of government officials for the purpose of instigating investigations by government agencies. Press reports have also described instances in which government officials engage in selective investigations and prosecutions to further their commercial interests or those of certain individuals. Additionally, some members of the Russian media are alleged regularly to publish disparaging articles in return for payment. The presence of organised or other crime, the demands of corrupt officials or potential future claims that O'Key has been involved in official corruption could result in negative publicity or disrupt O'Key's ability to conduct its business effectively, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on O'Key's business, as well as investments in Russia more generally.

During the presidency of Vladimir Putin and the current presidency of Dmitry Medvedev, the political and economic situation in Russia has generally become more stable and conducive to investment. However, any significant struggle over the direction of future reforms or the reversal of the reform process could lead to a deterioration in Russia's investment climate that might constrain O'Key's ability to obtain financing in the international capital markets, limit O'Key's sales in Russia or otherwise have a material adverse effect on O'Key's business, financial condition and results of operations.

In the recent past, Russian authorities have prosecuted some Russian companies, their senior managers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and/or significant claims for unpaid taxes with respect to companies such as Yukos, Mechel, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider programme of asset redistribution.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.

The official data published by Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more developed economies in North America and Europe. Official statistics may also be produced using methodologies different from those used in more developed countries. Additionally, O'Key relies on and refers to information and statistics from various third-party sources and O'Key's own internal estimates. For example, substantially all the information contained in this Prospectus concerning O'Key's competitors has been derived from publicly available information, including press releases. O'Key believes that these sources and estimates are reliable, but O'Key has not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Russia in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Economic risks relating to Russia

Emerging markets such as Russia are generally subject to greater risks than more developed markets, and global financial or economic crises or even turmoil in any large emerging market country, could have an adverse effect on O'Key's business.

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world, and, generally, investing in emerging markets such as Russia is only suitable for sophisticated investors who fully appreciate that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Global financial or economic crises or even financial turmoil in any large emerging market country tend to adversely affect prices in equity markets of most or all emerging market countries as investors move their money to more stable, developed markets. Beginning in the second half of 2008, the Russian equity markets have been highly volatile, principally due to the impact of the global financial and economic crisis on the Russian economy. Such volatility has caused market regulators to temporarily suspend trading on MICEX and RTS multiple times. MICEX and RTS stock market

indices have experienced significant overall declines since their peaks in May 2008. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as funding sources are withdrawn. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the GDRs.

Economic instability in Russia could have an adverse effect on O'Key's business.

The Russian economy was adversely affected by the recent global financial and economic crisis. A continuation of the economic crisis could have a negative effect on the scale and profitability of O'Key's business. Any of the following risks, which the Russian economy has experienced at various points in the past, may have or have already had a significant adverse effect on the economic climate in Russia and may burden or have already burdened O'Key's operations:

- significant declines in GDP;
- high levels of inflation;
- sudden price declines in the natural resource sector;
- high state debt/GDP ratio;
- instability in the local currency market;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- capital flight;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population;
- a large number of unprofitable enterprises which continue to operate due to deficiency in the existing bankruptcy procedure;
- wide use of barter and non-liquid bills in settlement of commercial transactions;
- prevalent practice of tax evasion; and
- pervasive black-market economy.

The Russian economy has been subject to abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

In December 2008, the international credit rating agency, Standard & Poor's Financial Services, downgraded Russia's foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Russian government may

default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the current financial and economic crisis that began in the second half of 2008. Moody's Investors Service, another international credit rating agency, changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch Ratings Ltd. downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, stating that the lowering of the ratings on Russia reflects risks associated with the sharp reversal in external portfolio and other investment flows, which has increased the cost and difficulty of meeting the country's external financing needs. Should any of the international credit rating agencies issue additional negative credit assessments, a further reduction in foreign investment and an increased cost of borrowing for the Russian government may occur. In late 2008, the Russian government announced plans to institute over U.S.\$200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending.

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the price of crude oil, which decreased by approximately 70% in the second half of 2008, but increased by approximately 40% in the first half of 2009 and a further 8% in the six months ended 30 June 2010. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy.

Inflation could increase O'Key's costs.

The Russian economy has been characterised by high rates of inflation, including an annual inflation rate of 84.4% in 1998. According to the CBR, the annual inflation rate was approximately 9.7% in 2006, 9.0% in 2007, 14.1% in 2008 and 8.8% in 2009. The rate of inflation in Russia was 6.6% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. Certain of O'Key's costs, such as salaries, construction costs and rent and utilities costs, are sensitive to rises in the general price level in Russia. Due to competitive pressures or regulatory constraints, O'Key may not be able to increase its prices sufficiently to preserve margins. As a result, high rates of inflation could increase costs, and there can be no assurance that O'Key will be able to maintain or increase its margins.

The physical infrastructure in Russia is in poor condition, which may lead to interruptions in effective financial and economic activity.

The physical infrastructure in Russia is largely outdated and has not been adequately funded and maintained over the past two decades. Russia's poor physical infrastructure disrupts the transportation of goods and supplies as well as communications and adds costs to doing business in Russia. Particularly affected are the rail and road networks, power-generation and transmission networks, communication systems and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. Power disruptions also occur: in May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for one day, disrupting normal business activity. Other parts of the country face similar problems. Furthermore, in August 2009, an accident occurred at the Sayano-Shushenskaya Hydroelectric Power Plant, the largest hydro power plant in Russia in terms of installed capacity, when water from the Yenisei River flooded the turbine and transformer rooms at the power plant's dam, killing over 70 people and causing billions of Roubles in damage. As a result of the accident, the plant has halted power production, leading to severe power shortages for both residential and industrial consumers.

The federal government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt O'Key's business operations, including, among others, delivery of products to O'Key's convenience stores and hypermarkets and ability to fully comply with product quality standards, each of which could have a material adverse effect on O'Key's business, financial condition and results of operations.

Weaknesses in the Russian banking sector make it more susceptible to market downturns or economic slowdowns.

O'Key holds a substantial majority of its cash and cash equivalents in, and, save for the European Bank for Reconstruction and Development ("EBRD") facility in the amount of U.S.\$200 million (which as at 30 June 2010 was fully drawn), all of its loans are with, state-owned Russian banks and Russian bank subsidiaries of international banks. In particular, O'Key's borrowings from VTB Bank amounted to RUR4.6 billion, as at 30 September 2010. Moreover, O'Key relies on the Russian banking system to complete various day-to-day fund transfers and other actions required to conduct business with customers, suppliers, lenders and other counterparties.

While the impact of the global financial crisis on the Russian banking system has been contained by the actions by the CBR, the risk of further instability remains high. With few exceptions (notably the state owned banks), the Russian banking system suffers from low depositor confidence, high concentration of exposure to certain borrowers and their affiliates, poor credit quality of borrowers and related party transactions. Risk management, corporate governance and transparency and disclosure remain below international best practices. In the recent global financial crisis, Russian banks were faced with a number of problems simultaneously, such as withdrawal of deposits by customers, payment defaults by borrowers, deteriorating asset values and Rouble depreciation. Russian banks faced and continue to face serious mismatches in their liabilities (consisting in large part of foreign debt) and assets (loans to Russian borrowers and investments in Russian assets and securities).

These weaknesses in the Russian banking sector make the sector more susceptible to market downturns or economic slowdowns, including due to defaults by Russian borrowers that may occur during such market downturn or economic slowdown. The bankruptcy or insolvency of one or more large banks could adversely affect O'Key's business. The continuation or worsening of the banking crisis or the bankruptcy or insolvency of the banks in which O'Key holds its funds could prevent O'Key from accessing its funds for several days or affect O'Key's ability to complete banking transactions in Russia, or may result in the loss of O'Key's deposits altogether, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

Legislative and legal risks relating to Russia

Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on O'Key's business.

Risks associated with the Russian legal system include, to varying degrees, the following:

- inconsistencies between: (i) federal laws; (ii) decrees, orders and regulations issued by the President, the government and federal ministers; and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- the relative unavailability of Russian legislation and court decisions in an organised manner that facilitates understanding of such legislation and court decisions;
- the relative inexperience of jurists, judges and courts in interpreting newly adopted legislation and complex commercial arrangements;
- substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Legislation relating to disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in the Russian Federation. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on O'Key's business, financial condition and results of operations. Additionally, the relatively recent enactment of many laws and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws are in doubt, and many new laws remain untested. Any or all of these weaknesses could affect O'Key's ability to enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

Selective or arbitrary government action could harm O'Key's business.

Governmental authorities in Russia have a high degree of discretion and can act selectively or arbitrarily, without hearing or prior notice, and sometimes act in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licences, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used technical defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has

the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, O'Key's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over O'Key. Such governmental actions, if taken or threatened to be taken against O'Key, could have a material adverse effect on O'Key's business, financial condition and results of operations.

Lack of independence and inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent O'Key or holders of GDRs from obtaining effective redress in a court proceeding, which could have an adverse effect on O'Key's business or the value of the GDRs.

The independence of the judicial system and the prosecutor general's office and their immunity from economic and political influences in Russia is less than complete. The court system is often understaffed and under-funded. Judges are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow, and court orders are not always enforced or followed by law enforcement agencies. Additionally, the press has often reported that court claims and governmental prosecutions are sometimes influenced by or used in furtherance of political aims or private interests. O'Key may be subject to such claims and may not be able to receive a fair hearing. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain and could have a material adverse effect on O'Key's business, financial condition and results of operations.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and O'Key therefore may be subject to a greater than expected tax burden that could materially adversely affect O'Key's business and results of operations.

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, profits tax, value added tax, property tax, excise duties, payroll-related taxes and other taxes.

Over the past decade, the Russian Government reformed the tax system, which resulted in some improvement in the tax climate. The cornerstone of this reform was the introduction of the Tax Code of the Russian Federation (the "**Russian Tax Code**"), which included a successive reduction of the general corporate profits tax rate from 35% to 20%. Personal income tax has been reduced substantially for individuals who are tax residents in Russia; the current general tax rate for such individuals is 13%. The general rate of VAT has been reduced to 18%, and certain minor taxes have been abolished.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In some instances, although it may be viewed as contrary to Russian constitutional law, the Russian tax authorities have applied certain amendments in taxation retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times.

Despite the Russian Government's taking steps to reduce the overall tax burden in recent years in line with its objectives, Russia's largely ineffective tax collection system and continuing budgetary funding requirements may increase the likelihood that the Russian Government will

impose arbitrary and/or onerous taxes and penalties in the future, which could have a material adverse effect on O'Key's business, financial condition, results of operations and prospects. Additionally, tax may have been utilised as a tool for significant state intervention in certain key industries.

Generally, tax returns in Russia remain open and subject to tax audit by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, during the eligible three-year period by a higher-level tax authority. In particular, a repeated tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation/liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable.

On 14 July 2005, the Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax audit. Amendments to the Russian Tax Code, effective 1 January 2007, provide for the extension of the three-year statute of limitations if the taxpayer actively counteracted the conduct of a tax audit, which created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined in the Russian Tax Code, the tax authorities may have broad discretion to argue that a taxpayer has "obstructed," "hindered", "actively counteracted" or "created insurmountable obstacles" in respect of a tax audit and to ultimately seek review and possibly apply penalties beyond the three year term and there is no guarantee that the tax authorities will not review compliance of O'Key with applicable tax law and will not apply the penalties beyond the three-year limitation period.

Therefore, tax audits may result in additional costs to O'Key if the relevant authorities conclude that a Russian subsidiary did not satisfy its tax obligations in any given year. They may also impose additional burdens on the Group by diverting the attention of its management resources. The outcome of these audits may result in significant fines, penalties and enforcement measures which may have a material adverse impact on O'Key's business, financial condition and results of operations.

Moreover, financial statements of a Russian group of companies are currently not consolidated for tax purposes. It should be noted, however, that on 18 June 2010 a draft law on a consolidated taxpayer has been introduced for consideration by the State Duma. Its consideration has been postponed several times, therefore it is not clear when it will be adopted and take effect. Under the draft law, a group of companies would be consolidated for tax purposes based on principles similar to those used in countries with more developed tax systems. However, the currently proposed conditions which must be satisfied by a group to be treated as consolidated would hardly be met by the Group. Therefore, each of the Company's Russian subsidiaries pays and will likely continue paying its own Russian taxes and cannot offset its profit or loss against the loss or profit of another subsidiary in the consolidated group.

In addition, payments of inter-company dividends between two Russian entities are generally subject to a withholding tax of 9%, except for certain exemptions introduced by recent amendments to the Tax Code. In particular, dividends received by Russian entities from Russian and foreign subsidiaries are subject to withholding tax at the rate of 0% if several conditions with respect to subsidiaries are simultaneously met. The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on O'Key's operations, including management resources.

Furthermore, Russian tax legislation in effect does not contain a concept of corporate tax residency. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for

2009-2011 has proposed the introduction to the domestic tax law of a concept of tax residency for legal entities. According to the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on the Issuer or foreign companies of the Group. It cannot be ruled out that, as a result of the introduction of these changes to the Russian tax legislation, the Issuer or foreign companies of the Group might be deemed to become Russian tax residents, subject to all applicable Russian taxes and the possible impact on the Group.

Dividends paid by Russian companies to their foreign corporate shareholders (e.g. the Company) are taxable at the rate of 15% subject to double tax treaty relief. There is a risk that the Company may be unable to benefit from the reduced 10% withholding rate on Russian dividends stipulated by the Convention between Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital of 28 June 1993.

Starting from 2006, the Russian Ministry of Finance issued a number of clarifications with respect to the concept of “beneficial ownership” of income applied in international tax treaties. Although the clarifications through the date of the Prospectus have been of limited use, they demonstrate the attempt of the Russian tax authorities to investigate beneficial ownership of income in international financial transactions and holding structures. A draft law is under discussion in the Russian Government that provides for a general approach to treatment of beneficial ownership when applying international tax treaties. The law itself does not provide an additional toolkit for investigation of beneficial ownership in addition to international tax treaties concluded by the Russian Federation and the relevant international regulatory framework; however, it may be considered as additional guidance for local tax inspectorates to address the issue. It cannot be predicted if this law will be enacted or how it will be applied in practice. Considering that some of the holding and financing segments of the Group are located outside Russia, future development and application of the “beneficial ownership” concept to international financial transactions and holding structure of the Group may have a material adverse impact on business, financial condition or results of operations of international segment of the Group.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking the “substance over form” approach. While certain reductions in the rates, such as for profits tax, have been effected, it is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional tax charge raising measures.

There can be no assurance that current taxes will not be increased or additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For further discussion of the risks and uncertainties associated with the enforcement and application of laws in Russia in general and tax legislation and the tax regime in particular, see “—*Selective or arbitrary government action could harm O’Key’s business*”. In addition to O’Key’s tax burden, these risks and uncertainties complicate its tax planning and related business decisions, potentially exposing O’Key to significant fines and penalties and enforcement measures despite O’Key’s best efforts at compliance and could have a material adverse effect on O’Key’s business, financial condition and results of operations.

The Russian transfer pricing rules are vaguely drafted and are subject to varying interpretations by Russian tax authorities and courts.

Russian transfer pricing rules effective since 1999 give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in relation to all controlled transactions, provided that the transaction price differs from the market price by over 20%. Controlled transactions include domestic and international transactions between related entities and certain other types of transactions between independent parties, such as foreign trade, barter transactions or transactions with significant (greater than 20%) price fluctuations within a short period of time. Special transfer pricing rules are applied to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted and are subject to varying interpretations by Russian tax authorities and courts.

Moreover, in the event that the Russian tax authorities make a transfer pricing adjustment, the Russian transfer pricing rules do not provide for a corresponding adjustment to the related counterparty in the transaction that is subject to adjustment. While members of the Group engage in numerous transactions among themselves, O'Key seeks to conduct such transactions based at the market level prices. However, it is not always possible to determine a relevant market price, and the view of Russian tax authorities as to what constitutes an appropriate market price may differ from O'Key's position.

Due to the uncertainties in interpretation of the transfer pricing legislation, the tax authorities may challenge O'Key's prices and make adjustments which could affect O'Key's tax position. If such tax adjustments become effective, O'Key's business, financial condition and results of operations could be materially adversely affected. In addition, O'Key could face significant losses associated with the assessed amount of underpaid prior tax and related interest and potentially penalties.

In 2009, a number of draft amendments to the transfer pricing law have been announced which, if implemented, would considerably toughen the existing law and bring it more in line with international transfer pricing rules. However, it is still unclear if and when these amendments will be enacted and what exact effect these provisions may have. The proposed changes, *inter alia*, may shift the burden of proving market prices from the tax authorities to the taxpayer, cancel the existing permitted deviation threshold, place much greater emphasis on the substance of the parties to the controlled transactions and introduce specific documentation requirements for proving market prices. The proposed transfer pricing rules have been approved by the Russian State Duma in the first reading on 19 February 2010. The law may go into effect on 1 January 2011. Should the amendments under discussion take effect, they may have a considerable impact on the Group's tax position. In particular, the new transfer pricing rules unlike the current ones stipulate that the interest rate level may be subject to transfer pricing review by the tax authorities, which may have material adverse effect on the Group's financial position given that in 2007-2009 the Group issued a number of interest free or low interest intragroup loans.

Imposition of additional tax liabilities under the Russian transfer pricing legislation could have a material adverse effect on O'Key's business, financial condition and results of operations.

The Russian thin capitalisation rules allow different interpretations which may affect O'Key's business and the value of the GDRs.

The current Russian thin capitalisation rules restrict the deductibility of interest charged on "foreign controlled debt". The rules apply to loans (and other debt): (i) to a Russian company from a foreign entity which owns, directly or indirectly, more than 20% of the Russian company's share capital; (ii) from a Russian company, which is an affiliate of a foreign entity, to another Russian company where the foreign entity owns, directly or indirectly, more than 20% of the recipient's

share capital; (iii) guaranteed or otherwise secured by such foreign entity or loans guaranteed or secured by such Russian affiliate of that foreign entity.

The deductibility of interest is restricted to the extent that the controlled debt exceeds net assets by more than three times. Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax. In the event that the taxpayer has negative net assets, the whole amount of interest accrued on the controlled debt will be non-deductible and treated as a dividend.

Russian subsidiaries of the Company may be affected by the thin capitalisation rules if at any time they receive loans from or have loans guaranteed by a foreign shareholder owning directly or indirectly over 20% of the shares in their charter capital or from Russian affiliated companies of such foreign shareholder, or even from any foreign party, where such loan is guaranteed by a Russian entity of the Group, which is affiliated with such foreign shareholder.

Russian legislation may not adequately protect against expropriation and nationalisation.

The Russian government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. In the event that such property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. Expropriation or nationalisation of O'Key's business could have a material adverse effect on its business, results of operations, financial condition and prospects.

Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of such legal entity. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation proceedings are initiated against the Company's Russian subsidiaries, it could have a material adverse effect on the Company's business, financial condition and results of operations.

For example, under Russian corporate law, negative net assets calculated on the basis of RAS as at the end of the second or any subsequent year of a company's existence can serve as a basis for creditors to accelerate their claims and to demand payment of damages, as well as for a court to order the liquidation of the company upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical value of property, plant and equipment reflected on their RAS balance sheets. However, their solvency (defined as their ability to pay debts as they come due) is not otherwise adversely affected by such negative net assets. There are cases when courts have ordered mandatory liquidation of a company based on its negative net assets, though such company had continued to fulfil its obligations and had net assets in excess of the required minimum at the time of liquidation.

From the fourth quarter of 2008 until the end of the first half of 2009, Dorinda JSC and in 2007 O'KEY group LLC had net assets that were less than the minimum share capital required by Russian law. Negative net assets were remedied by Dorinda JSC in the second half of 2009 and by O'KEY group LLC in 2008. Neither Dorinda JSC nor O'KEY group LLC have filed for voluntary liquidation. However, if in future any Russian subsidiary of the Company fails to comply with net assets requirement under Russian law, such subsidiary's creditors may accelerate their claims or

demand early performance of the subsidiary's obligations to them and demand payment of damages, and governmental authorities may seek the involuntary liquidation of such subsidiary of the Company, which will have a material adverse effect on O'Key's business, financial condition and results of operations.

Restrictive currency regulations may adversely affect O'Key's business and financial condition.

Notwithstanding significant recent liberalisation of the Russian currency control regime and the abolishment of certain restrictions from 1 January 2007, the Federal Law No. 173-FZ "On Currency Regulation and Currency Control" of 10 December 2003, as amended (the "**Currency Law**"), and current regulations still contain a number of limitations on foreign currency operations. In particular, Russian companies must notify Russian tax authorities on opening, closing or changes of details of bank accounts denominated in any currency with banks located outside of the Russian Federation. Such a notification must be filed within one month from the date on which such an account was opened or closed or on which the account details were changed. Moreover, certain currency control restrictions were not repealed from 1 January 2007, and these include a general prohibition of foreign currency operations between Russian companies (except for the operations specifically listed in the Currency Law and the operations between the authorised banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings to Russia. Restrictions on O'Key's ability to conduct some of these transactions could increase costs, or prevent O'Key from continuing necessary business operations, or from successfully implementing O'Key's business strategy, which could have a material adverse effect on O'Key's business, financial condition and results of operations. As a result of the current state of the banking sector, considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. Any delay or other difficulty in transferring or remitting funds could limit O'Key's ability to meet payment and debt obligations as they become due, which could result in the acceleration of debt obligations and cross-defaults and, in turn, have a material adverse effect on O'Key's business, financial condition and results of operations.

Risks Relating to the Shares, the GDRs and the Trading Market

Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile.

Before the Offering, there has been no public trading market for the GDRs or for the Company's ordinary shares. Although the GDRs will be admitted to trading on the LSE, an active, liquid trading market may not develop or be sustained after this offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the GDRs does not develop, the price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The trading prices of the GDRs may be subject to wide fluctuations in response to many factors that are unrelated to O'Key or its performance, including:

- variations in O'Key's operating results and those of other retail companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by O'Key or its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within O'Key's business sector or in Russia; and
- extreme price and volume fluctuations on the Russian stock exchanges.

In addition, the market price of the GDRs may decline below the offering price, which will be determined by the results of the book-building exercise being conducted by the Managers.

GDR holders may have limited recourse against the Company, members of the Board of Directors, senior managers and the Selling Shareholders.

The Company is governed by the laws of Luxembourg and is strategically managed in Luxembourg. Most of the Company's Directors and senior managers named in this Prospectus reside outside the United States and the United Kingdom, principally in Russia. All of the Company's assets and a substantial portion of the assets of its Directors and senior managers are located outside the United States and the United Kingdom, principally in Russia. All of the assets of the Selling Shareholders are located outside the United States and the United Kingdom, principally in Russia. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company, the Company's Directors or senior managers or the Selling Shareholders or enforce U.S. or U.K. court judgments obtained against the Company, its Directors or senior managers or the Selling Shareholders in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in Russia unless (i) there is an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the country where the judgment is rendered, and (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

The Company is not aware of a treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom or the United States and the Russian Federation. However, the Company is aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court would be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of any court judgment, or completely deprive investors of effective legal recourse for claims related to their investment in the GDRs.

Under the terms of the Deposit Agreement, any dispute, controversy or cause of action against the Company and/or the Depositary arising out of the GDRs, the Deposit Agreement or any transaction contemplated therein, the Shares or other deposited securities may be referred to and resolved by arbitration in accordance with the Rules of the London Court of International Arbitration, as more fully described in the Deposit Agreement.

The Russian Federation is party to the New York Convention. Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

The Arbitrazh Procedural Code sets out certain grounds for Russian courts to refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or foreign arbitral award in the Russian Federation.

Minority shareholders' rights may not be adequately protected due to undeveloped corporate governance.

The Selling Shareholders will own 84.6% of the Company's shares after the Offering, assuming the full exercise of the Over-Allotment Option, which will limit the ability of holders of Shares and GDRs to influence corporate matters and, hence, the Company may take actions that minority shareholders do not view as beneficial.

Although the Company is incorporated in Luxembourg, because its shares are not listed on the Luxembourg stock exchange, it is not required to and does not comply with the corporate governance regime of Luxembourg for listed companies. In addition, notwithstanding that all operations of the Company are conducted in the Russian Federation, because it is a Luxembourg company it is not subject to and does not comply with the corporate governance standards applicable to Russian companies, except in so far as O'Key's Russian subsidiaries are required to comply with the corporate governance requirements contained in Russian company law. However, the Russian company law fails to provide adequate support for strong corporate governance practices. Corporate governance standards in Russia are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and information disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights.

As of the date of this Prospectus, the Company does not comply with the Combined Code on Corporate Governance of the U.K. Financial Reporting Council (the "**Combined Code**"). With effect from the execution of the Underwriting Agreement, the Company will have established a remuneration committee and audit committee, neither of which complies with the recommended composition of such committees under the Combined Code. However, the Company intends to comply in the near future with relevant recommendations of the Combined Code contained in Annex 1 to Chapter 9 of the listing rules of the FSA and the Model Code, as if it were a company incorporated in the United Kingdom and listed on the LSE's main market for listed securities to the extent appropriate. For a description of the corporate governance practices the Company has adopted, see "*Management and Corporate Governance*".

Voting rights with respect to the ordinary shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Luxembourg law.

GDR holders will have no direct voting rights with respect to the ordinary shares represented by the GDRs. GDR holders will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the Deposit Agreement and relevant requirements of Luxembourg law. See “*Terms and Conditions of the Global Depositary Receipts*”. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. Holders of ordinary shares will receive notice directly from the Company and will be able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company will provide copies of relevant notices and voting materials containing voting instructions to the Depositary (provided that no U.S., English or Luxembourg legal prohibition exists). The Depositary has undertaken, in turn, as soon as practicable after receipt from the Company, to distribute to GDR holders such notices and voting materials. In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the ordinary shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the shares, and the Company will make all reasonable efforts to cause the Depositary to extend voting rights to the GDR holders in a timely manner, but the Company cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Shares underlying GDRs for which the Depositary does not receive timely voting instructions will not be voted.

The Shares underlying the GDRs are not listed and may be illiquid.

Unlike nearly all other GDRs traded on the LSE, the Company’s ordinary shares are neither listed nor traded on any stock exchange, and the Company does not intend to apply for the listing or admission to trading of its ordinary shares on any stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under “*Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement*”, will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those Shares may be discounted as a result of such withdrawal.

Future sales of the Company’s Shares or GDRs may affect the market price of the GDRs.

Following the Offering, new issuances and sales, or the possibility of new issuances and sales, of a substantial number of the Company’s Shares, or GDRs, onto the public markets, or a sale of Shares by any significant holders of Shares could have an adverse effect on the trading prices of the GDRs and/or could affect the Company’s ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may also reduce the percentage ownership of the Company’s existing shareholders. In addition, the Company may issue securities convertible or exchangeable for Shares or GDRs.

Further share or GDR issues made as part of the Company’s acquisition strategy may result in further dilution to holders of its Shares or GDRs.

As part of its acquisition strategy, the Company may issue additional Shares, GDRs or other securities convertible or exchangeable into Shares or GDRs, as consideration in any relevant acquisitions. Any such issues could result in effective dilution to holders of Shares or GDRs and/or adversely affect the market price of the GDRs.

The Company may exclude the applicability of pre-emptive rights in share capital increases.

In the event of an increase in the Company's share capital in exchange for cash contributions, existing holders of Shares shall be entitled to pre-emptive rights pursuant to the Luxembourg Law dated 10 August 1915 on Commercial Companies, as amended (the "**Luxembourg Company Law**"), unless such rights shall, subject to applicable requirements under the Luxembourg Company Law, be excluded or limited by a resolution of the general meeting of shareholders (the "**General Meeting**") adopted pursuant to the majority rules and quorum requirements applicable to amendments to the Articles of Association of the Company.

In particular, and pursuant to the exclusions and limitations described in the preceding paragraph, in the event of an increase in the Company's share capital in exchange for a contribution in cash, the Company may, in order to be exempt from securities registration and/or prospectus publication requirements in one or more jurisdictions, elect to exclude certain existing holders of Shares and/or GDRs, including, but not limited to, U.S. holders, or, in the EEA, holders that do not qualify as Qualified Investors, from participating in such rights offering.

The Company is subject to potential conflicts of interest relating to the Managers and their Affiliates.

The Company is subject to potential conflicts of interest relating to the Managers and their affiliates because, amongst other things, the Company has and may, in the future, enter into transactions for the purchase and sale of securities, loans and other investments, derivative transactions and other transactions (including, without limitation, providing leverage against investments) with certain of the Managers and/or their affiliates.

The Company has engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than could be obtained otherwise.

Conflicts of interest may arise between related parties and the Company, potentially resulting in the conclusion of transactions on terms not determined by market forces. Conflicts of interest that may materially and adversely affect the Company's business, financial condition and results of operations could deter prospective investors from investing in the Company which could adversely impact the Group and/or the market price of the GDRs. See "*Management and Corporate Governance—Conflicts of interest*".

Any related party transactions which are carried out on a non-arm's length basis may expose the Company to business, financial and accounting risks such as increased competition from related parties, transfer pricing adjustments of VAT and profits tax liabilities and potential taxable benefits for the recipients of low-rate interest of intra-group loans, which could have a material adverse effect on O'Key's business, financial condition and results of operations.

U.K. and Luxembourg takeover protection may not be available.

As the Company is not incorporated in England and Wales, the City Code on Takeovers and Mergers will not apply in its entirety to the Company. Similarly, as the GDRs are not admitted to trading on a regulated market in Luxembourg, the Law of 19 May 2006 (the "**Law of 19 May**") transposing Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids into Luxembourg law may not apply in its entirety to the Company. Rather, in relation to matters governed by the City Code and the Law of 19 May, the Company will be subject to the shared jurisdiction of the Panel on Takeovers and Mergers in the United Kingdom ("**Takeover Panel**") and the *Commission de Surveillance du Secteur Financier* in Luxembourg ("**CSSF**"). There is little precedent for this sharing of jurisdiction and the Company expects that in practice, in the event of a takeover bid or another matter arising which is governed by the City Code and the Law

of 19 May, the Takeover Panel and the CSSF would determine at the time how this shared jurisdiction would operate and agree on which authority would be responsible for enforcing individual provisions of the City Code and the Law of 19 May. Holders of the GDRs may not benefit from the full range of anti-takeover protections that would apply if the Company were subject to the sole jurisdiction of the Takeover Panel.

The credit of tax withheld upon dividend distribution via the Depositary against the Russian profit tax may not be available for Russian resident holders of GDRs.

Due to separation of legal ownership and beneficial ownership to the Shares underlying the GDRs, there is a risk that Russian GDR holders may be unable to obtain credit of tax withheld upon dividends distribution via the Depositary. See “*Taxation—Russian Tax Considerations—Taxation of Dividends*”.

THE OFFERING

The Company	O'KEY GROUP S.A. (previously named Dorinda Holding S.A.), a company incorporated and existing under the laws of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B 80533.
The Offering	The Offering consists of an offering by the Company of 15,186,000 GDRs and by the Selling Shareholders of 22,955,031 GDRs, with each GDR representing an interest in one Share. The GDRs are being offered outside the United States and the Russian Federation in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.
Joint Bookrunners	Goldman Sachs International and VTB Capital plc.
Offer Price	U.S.\$11.00 per GDR (the " Offer Price ").
Selling Shareholders	Caraden Limited, Barleypark Limited and Brookvalley Limited. See " <i>Principal Shareholders</i> ".
Share Capital	Immediately prior to the Offering, the Company's issued share capital consisted of 253,100,000 ordinary shares, which are fully paid. The Company's authorised unissued share capital consists of 18,982,500 shares. Immediately following the Offering, the Company's issued share capital will consist of 272,082,500 issued shares (assuming the Over-Allotment Option is exercised in full). See " <i>Principal Shareholders</i> ".
Depository	The Bank of New York Mellon, London Branch.
GDRs	Each GDR will represent one Share on deposit with BNY (Nominees) Limited as custodian (the " Custodian ") on behalf of the Depository. The GDRs will be issued by the Depository pursuant to a deposit agreement between the Company and the Depository to be entered into on or about the Closing Date (the " Deposit Agreement "). The Rule 144A GDRs will be evidenced by the Rule 144A Master GDR, and the Regulation S GDRs will be evidenced by the Regulation S Master GDR. See " <i>Overview of Provisions Relating to the Global Depository Receipts While in Master Form</i> ". Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See " <i>Terms and Conditions of the Global Depository Receipts</i> ".
Over-Allotment Option	The Company has granted to the Managers an Over-Allotment Option to purchase up to 3,796,500 additional GDRs at the Offer Price. The Over-Allotment

Option is exercisable on one or more occasions for the purpose of covering over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions on the Closing Date, or from time to time, up to and including the 30th day following the announcement of the Offer Price upon written notice from the Managers to the Company and to the extent not previously exercised by the Managers may be terminated by the Managers at any time. See “*Subscription and Sale*”.

Closing Date The GDRs are expected to be issued, and payment for them made, on or about 5 November 2010.

Listing Prior to the Offering, there has been no market for the GDRs. Application has been made to (i) the FSA in its capacity as competent authority under the FSMA for the admission of up to 272,082,500 GDRs, consisting of 38,141,031 GDRs to be issued on the Closing Date, up to 3,796,500 GDRs to be issued pursuant to the Over-Allotment Option and up to 230,144,969 GDRs to be issued from time to time against the deposit of Shares (to the extent permitted by law) with the Depositary, to the official list maintained by the FSA, and (ii) the regulated main market of LSE for admission of the GDRs to trading under the symbol “OKEY”. The Company expects that conditional trading through the IOB will commence on a “when and if issued” basis on or about the date hereof.

The Shares are not, and are not expected to be, listed on any stock exchange.

Lock-Up Subject to certain exceptions, the Company and the Selling Shareholders have each undertaken, among other things, not to issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares (including GDRs) or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares, enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to, enter into any transaction described above whether any such transaction described above is to be settled by delivery of

Shares, GDRs or such other securities, in cash or otherwise for a period of 180 days after the date of the Underwriting Agreement, without the prior consent of the Joint Global Coordinators, except pursuant to this Offering and the Over-Allotment Option and certain other exceptions.

Use of Proceeds The Company will receive gross proceeds of approximately U.S.\$167 million (assuming no exercise of the Over-Allotment Option) or U.S.\$209 million (assuming the Over-Allotment Option is exercised in full) from the Offering. Expenses (including underwriting commissions, fees and expenses) incurred in connection with the Offering are expected to be approximately U.S.\$6 million (assuming no exercise of the Over-Allotment Option) or U.S.\$8 million (assuming the Over-Allotment Option is exercised in full). See “*Use of Proceeds*” for a description of how the proceeds will be applied.

Taxation For a discussion of certain Luxembourg, United States and United Kingdom tax consequences of purchasing and holding the GDRs, see “*Taxation*”.

Dividend Policy Holders of the GDRs will be entitled to receive amounts, if any, paid by the Company as dividends, subject to certain provisions. From time to time, the Company may reconsider its dividend policy. See “*Dividend Policy*”, “*Terms and Conditions of the Global Depositary Receipts*” and “*Description of Share Capital and Applicable Luxembourg Legislation*”.

Voting Rights Subject to the Deposit Agreement, holders of GDRs are entitled to one vote per one GDR at shareholders’ meetings. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Description of Share Capital and Applicable Luxembourg Legislation*”.

Transfer Restrictions The GDRs will be subject to certain restrictions as described under “*Selling and Transfer Restrictions—Transfer Restrictions*”.

Settlement and Transfer The GDRs are being offered by the Managers subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

An application has been made to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Rule 144A Master GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. Application has been made to have the Regulation S Master GDR registered in the name of BNY (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and

Clearstream, Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

In order to take delivery of the GDRs, investors must pay for them in same-day funds on or prior to the closing of the Offering and must have an appropriate securities account. See “*Settlement and Delivery*”.

The security identification numbers of the GDRs offered hereby are as follows:

Rule 144A GDR ISIN:	US6708661029
Rule 144A GDR CUSIP:	670866 102
Rule 144A GDR CFI Code:	ESVTFA
Rule 144A SEDOL:	B57MKM5
Regulation S GDR ISIN:	US6708662019
Regulation S GDR Common Code:	055219826
Regulation S GDR CUSIP:	670866 201
Regulation S GDR CFI Code:	ESVTFA
Regulation S SEDOL:	B572PM0
London Stock Exchange GDR trading symbol:	OKEY

USE OF PROCEEDS

The net proceeds that the Company will receive from the Offering, after deducting underwriting commissions, fees and expenses incurred in connection with the Offering, will be approximately U.S.\$161 million (assuming no exercise of the Over-Allotment Option) or U.S.\$201 million (assuming the Over-Allotment Option is exercised in full).

The Company intends to use up to U.S.\$149 million of the net proceeds from the Offering to finance further expansion of its hypermarket and supermarket footprint in Russia over the next several years and the remainder for general corporate purposes. For purposes of optimising its cash management and interest expenses in the near-term, the Company will temporarily use a portion of the net proceeds to reduce its outstanding short-term indebtedness, which would be drawn upon as needed to fund its expansion strategy.

DIVIDEND POLICY

The Company is a Luxembourg holding company and the ability to pay dividends depends on the ability of the subsidiaries in the Group to pay dividends up to the Company, the relevant requirements of Luxembourg law and the relevant provisions of the Articles of Association. The payment of such dividends by the subsidiaries in the Group is contingent upon the sufficiency of their earnings, cash flows, distributable reserves and any contractual restrictions on their ability to pay such dividends. The maximum dividend payable by the Russian subsidiaries in the Group is restricted to the total accumulated retained earnings of the relevant subsidiary according to Russian law and may be subject to Russian withholding tax.

On or before the Closing Date, the Company will adopt a dividend policy, pursuant to which the Company will aim to pay dividends in 2011-2014 in the amount of 25% of the annual consolidated net profit of the Group.

Subject to Luxembourg law, each share in the Company is entitled to participate equally in dividends. Dividends are approved by the annual ordinary general meeting of shareholders out of funds legally available for such purposes. The Board of Directors may also declare interim distributions, to the extent permitted by Luxembourg law and with the positive vote of the Caraden Director.

Luxembourg law requires that 5% of the net profit of each year be allocated to a legal reserve before declaration of dividends. This requirement continues until the reserve is 10% of the issued capital, after which no further allocations are required until the share capital is increased. The legal reserve may also be satisfied by allocation of the required amount at the time of issuance of shares or by a transfer from paid-in surplus. The legal reserve is not available for dividends.

Declared and unpaid distributions held by the Company or its agents for the account of shareholders shall not bear interest. Under Luxembourg law, claims for unpaid distributions will lapse in favour of the Company five years after the date of such distribution has been declared.

The general meeting of shareholders, upon recommendation of the Board of Directors, will determine how the remainder of the annual net profits of the Company will be disposed of, including by way of stock dividend, it being understood that, the remaining net profits of the Company left after payment of dividends shall be used for business development of the Company and its subsidiaries and the development of the retail business of the Group in Russia. Interim dividends may be declared and paid (including by way of staggered payments) by the Board of Directors subject to observing the terms and conditions provided by law either by way of a cash dividend or by way of an in kind dividend.

An interim dividend was declared and paid out to the shareholders of record on 5 August 2010. This interim dividend will only become final at the annual general meeting of shareholders of the Company which will, on the basis of the stand-alone profits of the Company for the financial year, approve distributions of profits equal in amount to such interim dividend declared on 5 August 2010. Until such annual general meeting: (a) the new shares to be issued with respect to the Offering otherwise will not give right to any dividend; and (b) the currently issued shares will not give right to any future dividend, interim or otherwise. As from such annual general meeting, each share will give right to the same dividend distribution.

Holders of the GDRs will be entitled to receive amounts, if any, paid by the Company as dividends, subject to certain provisions. See "*Terms and Conditions of the Global Depositary Receipts*" and "*Description of Share Capital and Applicable Luxembourg Legislation*".

The approval of the dividend policy and payment of interim dividends require a qualified majority of the members of the Board of Directors, including the positive vote of the Caraden Director. See "*Management and Corporate Governance—Board of Directors—General—Procedures and Meetings of the Board of Directors*".

CAPITALISATION

The following information has been extracted from the Company's Unaudited Interim Consolidated Financial Statements as at 30 June 2010 included elsewhere in this Prospectus and sets out the Group's cash and cash equivalents, short-term debt and capitalisation as at 30 June 2010. The information set out below has been prepared to illustrate the effects of the Offering, being (i) the receipt of the net proceeds of the Offering by the Company and (ii) the partial repayment of the Company's short-term debt and capitalisation of the Company had the Offering taken place on 30 June 2010. See "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Short-term Borrowings*". The capitalisation information presented as adjusted has been prepared in accordance with IFRS.

The capitalisation information presented as adjusted has been prepared for illustrative purposes only, and by its nature addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position or results of operations. The capitalisation information presented as adjusted is compiled on the basis set out in the notes below.

The information in this table should be read in conjunction with the section entitled "*Selected Consolidated Financial Information and Operating Data*", "*Operating and Financial Review*" and the Group's Unaudited Interim Consolidated Financial Statements as at 30 June 2010 included elsewhere in this Prospectus.

	As at 30 June 2010 ⁽¹⁾				
	Actual	Assuming no exercise of the Over-Allotment Option		Assuming exercise of the Over-Allotment Option in full	
		Adjustments ⁽²⁾	As adjusted	Adjustments	As adjusted
(in RUR thousand)					
Cash and cash equivalents	487,219	—	487,219	—	487,219
Short-term borrowings, including the current portions of long-term loans and excluding finance lease liabilities and short-term obligations thereunder ⁽³⁾	8,100,867	(4,856,686)	3,244,181	(6,076,444)	2,024,423
Long-term borrowings, excluding the current portions of long-term loans	7,508,322	—	7,508,322	—	7,508,322
Shareholders' Equity					
Share Capital	109,815	5,799	115,614	7,249	117,064
Share premium	—	4,850,887 ⁽⁴⁾	4,850,887	6,069,195	6,069,195
Legal Reserve	111	—	111	—	111
Additional Paid-in Capital	3,676,612	—	3,676,612	—	3,676,612
Hedging Reserve	(40,355)	—	(40,355)	—	(40,355)
Retained Earnings	481,106	—	481,106	—	481,106
Revaluation Reserve	3,735,520	—	3,735,520	—	3,735,520
Translation Reserve	106,505	—	106,505	—	106,505
Total Shareholders' Equity	8,069,314	4,856,686	12,926,000	6,076,444	14,145,758
Total capitalisation ⁽⁵⁾	15,577,636	4,856,686	20,434,322	6,076,444	21,654,080

Notes:

(1) The financial information of the Group has been extracted from the Group's Unaudited Interim Consolidated Financial Statements for the six month period ended 30 June 2010 included elsewhere in this Prospectus.

(2) Net proceeds from the Offering:

	Pro forma impact on Cash and cash equivalents
	(in U.S.\$ millions)
Gross proceeds from the Offering	167 ⁽⁶⁾
Costs and expenses of the Offering	<u>(6)</u>
Net proceeds from the Offering (assuming no exercise of the Over-Allotment Option)	161
	Pro forma impact on Cash and cash equivalents
	(in U.S.\$ millions)
Gross proceeds from the Offering	209 ⁽⁶⁾
Costs and expenses of the Offering	<u>(8)</u>
Net proceeds from the Offering (assuming exercise of the Over-Allotment Option in full)	201

- (3) Debt repayment: the Company will use U.S.\$149 million of the net proceeds of the Offering to partially repay its short-term debt. See “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Short-term Borrowings*”.
- (4) The proportion of expenses of the Offering relating to the secondary shares will be paid by the existing shareholders.
- (5) Calculated as long-term debt plus shareholders’ equity.
- (6) Assuming no exercise of the Over-Allotment Option.

DILUTION

The Company's consolidated net tangible book value as at 30 June 2010 was RUR7,646 million (approximately U.S.\$253 million), resulting in a consolidated net tangible book value (after giving effect to a share split on 6 October 2010) of RUR30.2 (U.S.\$1.0) per share as at that date. On 6 October 2010, the shareholders of the Company decided to split the shares then in issue at a ratio of 1,000 : 1, in a way that the existing 253,100 shares were exchanged for 253,100,000 new shares. Consolidated net tangible book value per share represents the amount of the Company's consolidated net tangible book value as at 30 June 2010, divided by the number of shares outstanding (after giving effect to the share split on 6 October 2010). Net tangible book value represents total assets (excluding intangible assets) less total liabilities.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of GDRs in the Offering and the net tangible book value per Share immediately after the completion of the Offering. After giving effect to the issuance by the Company of 15,186,000 Shares in the form of GDRs in the Offering at an Offer Price of U.S.\$11.00 per GDR and after deducting the estimated fees and expenses of approximately U.S.\$6 million (assuming no exercise of the Over-Allotment Option) of the Offering payable by the Company, the Company's net tangible book value as at 30 June 2010, as adjusted, would be U.S.\$414.0 million, or U.S.\$1.5 per Share. This represents an immediate increase in net tangible book value of U.S.\$0.5 per Share to existing shareholders and an immediate dilution of U.S.\$9.5 per Share to new investors purchasing GDRs in the Offering (based on a ratio of one GDR per Share).

	<u>U.S.\$⁽¹⁾</u>
Offer Price per GDR	11.00
Net tangible book value per Share ⁽²⁾ (after giving effect to the share split on 6 October 2010) ⁽³⁾	1.0
Increase in net tangible book value per Share ⁽²⁾ attributable to existing shareholders ⁽³⁾	0.5
Net tangible book value per Share ⁽²⁾ immediately after the Offering ⁽³⁾	1.5
Dilution per Share ⁽²⁾ to investors in the Offering	9.5

Notes:

- (1) The exchange rate as of 30 June 2010 as published by the Central Bank of Russia for RUR to U.S.\$ was RUR30.2.
- (2) Calculated after giving effect to the share split on 6 October 2010.
- (3) Calculated based upon the Company's net tangible book value as at 30 June 2010.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The selected consolidated financial and other information below sets forth O'Key's historical consolidated financial statements and other operating information as at and for the years ended 31 December 2007, 2008 and 2009 and for the six-month periods ended 30 June 2009 and 2010. The financial information as at and for the years ended 31 December 2007, 2008 and 2009 was derived from O'Key's Audited Consolidated Financial Statements included elsewhere in this Prospectus. The financial information as at 30 June 2010 and for the six-month periods ended 30 June 2009 and 2010 was derived from O'Key's Unaudited Interim Consolidated Financial Statements included elsewhere in the Prospectus. The Unaudited Interim Consolidated Financial Statements have been prepared using the same accounting principles and on the same basis as the Audited Consolidated Financial Statements and, in the opinion of O'Key's management, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results to be expected for the full year.

The Group's financial statements have been prepared in accordance with IFRS. 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. On 1 January 2008, the Group changed its presentation currency from U.S. Dollars to Russian Roubles. Since that date, the financial statements of the Group are prepared in Russian Roubles, which the Company believes is the currency that best reflects the economic substance of the underlying assets and circumstances relevant to the Group. The 2007 Financial Statements presented below are in Russian Roubles.

The financial data set forth below should be read in conjunction with "Operating and Financial Review" and O'Key's Consolidated Financial Statements, including the notes thereto, included elsewhere in this Prospectus.

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Consolidated Income Statement Data					
Revenue	30,532.6	51,142.7	67,874.6	31,487.9	38,254.2
Cost of goods sold	(24,064.7)	(40,381.6)	(53,106.4)	(24,891.0)	(30,147.0)
Gross profit	6,467.9	10,761.1	14,768.2	6,596.9	8,107.2
General, selling and administrative expenses	(5,097.3)	(7,381.1)	(10,303.7)	(4,984.4)	(5,728.6)
Other operating income and expenses	(325.4)	(3,831.7)	(846.3)	(206.0)	(97.2)
Operating profit/(loss)	1,045.2	(451.7)	3,618.2	1,406.5	2,281.4
Finance income	21.7	33.7	37.8	13.0	2.3
Finance costs	(948.9)	(1,036.6)	(1,683.9)	(826.4)	(667.7)
Foreign exchange gains/(losses)	656.5	(1,820.8)	(320.8)	(679.9)	(278.6)
Profit/(loss) before income tax	774.5	(3,275.4)	1,651.3	(86.8)	1,337.4
Income tax benefit/(expense)	(435.0)	343.7	(936.9)	(410.2)	(468.7)
Profit/(loss) for the year (or period)	339.5	(2,931.7)	714.4	(497.0)	868.7

	As at 31 December			As at
	2007	2008	2009	30 June
	(RUR millions)			2010
Consolidated Balance Sheet Data				
Cash and cash equivalents	1,557.5	1,673.5	1,462.3	487.2
Non-current assets	25,978.3	24,486.8	25,893.3	26,612.0
Current assets	6,213.3	7,463.0	8,053.1	6,524.3
Total assets	32,191.6	31,949.8	33,946.4	33,136.3
Non-current liabilities	7,850.2	4,606.0	9,420.1	8,112.7
Current liabilities	14,393.1	21,054.3	17,390.5	16,954.3
Total liabilities	22,243.3	25,660.3	26,810.6	25,067.0
Total equity	9,948.3	6,289.5	7,135.8	8,069.3
Total equity and liabilities	32,191.6	31,949.8	33,946.4	33,136.3

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Consolidated Cash Flow Data					
Net cash used in operating activities	2,567.9	4,584.6	2,872.2	(1,459.8)	719.4
Net cash used in investing activities	(5,181.1)	(4,953.9)	(3,289.6)	(2,122.2)	(1,555.4)
Net cash used in financing activities	2,926.6	446.1	128.3	3,372.6	(157.5)
Net increase/(decrease) in cash and cash equivalents	313.4	76.8	(289.0)	(209.4)	(993.5)
Effect of exchange rate fluctuations on cash and cash equivalents	(73.0)	39.2	77.9	(96.9)	18.4

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Other Financial Data					
Gross margin(%) ⁽¹⁾	21.2	21.0	21.8	21.0	21.2
EBITDA (in RUR millions) ⁽²⁾	2,200.7	4,548.6	5,896.3	2,261.6	3,153.5
EBITDA margin(%) ⁽³⁾	7.2	8.9	8.7	7.2	8.2
Net margin(%) ⁽⁴⁾	1.1	(5.7)	1.1	(1.6)	2.3
Capital expenditures (in RUR millions) ⁽⁵⁾	4,711.0	4,841.8	3,402.8	1,728.4	1,479.4
Net debt to EBITDA ratio (%) ⁽⁶⁾	5.1	3.0	2.4	n/a	2.2 ⁽⁷⁾
Net debt to EBITDA ratio (%) (excluding shareholder loans) ⁽⁸⁾	3.7	2.4	2.0	n/a	2.0 ⁽⁷⁾
Net debt (in RUR millions) ⁽⁶⁾	11,221.8	13,419.8	14,003.9	17,743.9	15,122.0
Net debt (in RUR millions) (excluding shareholder loans) ⁽⁸⁾	8,075	10,966	11,841	15,233	13,912
Adjusted net debt (in RUR millions) ⁽⁹⁾	12,302.1	15,771.8	19,381.1	20,052.9	18,841.9
Adjusted net debt to EBITDAR ratio (%) ⁽²⁾⁽⁶⁾⁽⁹⁾	5.3	3.3	3.0	n/a	2.9 ⁽⁷⁾
Trade working capital (in RUR millions) ⁽¹⁰⁾	(2,544.8)	(4,000.6)	(3,663.9)	(1,538.2)	(2,297.7)

	As at or for the year ended 31 December			As at or for the six months ended 30 June	
	2007	2008	2009	2009	2010
Operational Data					
Selling Space ⁽¹¹⁾ (thousand square metres)	146.3	190.2	232.6	207.6	266.5
Hypermarkets	140.0	175.3	211.6	187.9	242.5
Supermarkets	6.3	14.8	21	19.7	24
Number of Stores	24	37	46	42	52
Hypermarkets	17	23	28	25	32
Supermarkets	7	14	18	17	20
Average Ticket (in RUR) ⁽¹²⁾	701.85	753.59	717.82	708.1	723.3
Hypermarkets	726.20	808.36	794.80	781.7	800.6
Supermarkets	364.24	397.83	379.33	382.2	402.0

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2010	
Like-for-like Average Ticket (% change) ⁽¹³⁾	3.0	14.7	0.9	1.3	
Hypermarkets	3.5	15.1	1.2	1.9	
Supermarkets	10.0	17.6	3.0	2.0	
Like-for-like Traffic (% change) ⁽¹⁴⁾	(0.2)	15.3	10.6	5.6	
Hypermarkets	(1.6)	14.1	9.6	4.1	
Supermarkets	36.0	31.9	17.7	12.0	
Like-for-like Revenue (% change) ⁽¹⁵⁾	2.8	32.1	11.6	6.9	
Hypermarkets	1.8	31.3	10.9	6.1	
Supermarkets	49.5	55.2	21.3	14.2	

Notes:

- (1) Gross margin consists of gross profit as a percentage of revenue.
- (2) EBITDA is defined as adjusted earnings before interest, tax, depreciation and amortisation, gains or losses from revaluation and disposal of non-current assets and assets held for sale, losses from impairment and write-offs of assets, foreign exchange gains and losses. EBITDAR is defined as EBITDA before rent expenses. See also "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Pro Forma and Non-IFRS Information".

The following table presents a reconciliation of EBITDA to profit for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
EBITDA	2,200.7	4,548.6	5,896.3	2,261.6	3,153.5
Revaluation gain/(loss)	(300.2)	(3,380.9)	(699.3)	(57.3)	—
(Loss)/gain from disposal of non-current assets	10.5	53.3	(37.3)	(22.6)	(57.7)
Gain from disposal of assets held for sale	—	95.2	—	—	—
Loss from write-off of receivables	(9)	(12.2)	(2.1)	—	(9.2)
Impairment of receivables	(22.9)	(158.3)	(43.6)	(5.5)	(68.3)
Depreciation and amortisation	(833.9)	(1,128.4)	(1,361.3)	(647.0)	(736.9)
Impairment losses	—	(469.0)	(134.5)	(122.7)	—
Finance income	21.7	33.7	37.8	13.0	2.3
Finance costs	(948.9)	(1,036.6)	(1,683.9)	(826.4)	(667.7)
Foreign exchange gains/(losses)	656.5	(1,820.8)	(320.8)	(679.9)	(278.6)
Profit before tax	774.5	(3,275.4)	1,651.3	(86.8)	1,337.4
Income tax	(435.0)	343.7	(936.9)	(410.2)	(468.7)
Profit/(loss) for the period	339.5	(2,931.7)	714.4	(497.0)	868.7

- (3) EBITDA margin represents EBITDA as a percentage of revenue.
- (4) Net margin consists of profit for the period as a percentage of revenue for the period.
- (5) Capital expenditures represents the additions to property, plant and equipment as set out in note 8 to the 2007 Financial Statements, note 9 to the 2008 Financial Statements, note 13 to the 2009 Financial Statements and note 12 to the Unaudited Interim Consolidated Financial Statements.
- (6) Net debt is calculated as the sum of short-term and long-term loans (including obligations under finance leases) minus cash and cash equivalents.
- (7) Net debt to EBITDA ratio and Adjusted net debt to EBITDAR ratio for the six months ended 30 June 2010 are calculated using the last twelve months EBITDA and EBITDAR.
- (8) Net debt (excluding shareholder loans) is calculated as the sum of short-term and long-term loans (including obligations under finance leases) minus cash and cash equivalents and excludes loans from entities under common control of the Company's shareholders.
- (9) Adjusted net debt is calculated as the sum of net debt and operating leases expenses multiplied by 8.0x, which is the method customarily used by debt rating agencies.
- (10) Trade working capital is calculated by subtracting inventories and trade receivables (calculated as inventories and trade receivables including VAT receivable and other receivables (bonuses and discounts from suppliers) but excluding pre-paid taxes) from trade payables and advances received.
- (11) Selling space excludes areas leased to third parties.
- (12) Average ticket is calculated by dividing the total revenue from all stores during the relevant year by the number of tickets in that year.
- (13) Like-for-like Average Ticket is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".
- (14) Like-for-like Traffic is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".
- (15) Like-for-like Revenue is calculated as described in "*Presentation of Financial and Other Information—Presentation of Operating Information*".

OPERATING AND FINANCIAL REVIEW

Investors should read the following discussion of the Group's financial condition and results of operations together with the Consolidated Financial Statements and the notes thereto. The Consolidated Financial Statements have been prepared in accordance with IFRS. The following discussion of the Group's financial condition and results of operations is based upon the historical unaudited consolidated financial statements of the Group as at 30 June 2010 and 2009, and for the six month periods then ended and the historical audited consolidated financial statements of the Group as at 31 December 2009, 2008 and 2007, and for the years then ended, which have been derived from the Consolidated Financial Statements appearing elsewhere herein. On 1 January 2008, the Group changed its presentation currency from U.S. Dollars to Russian Roubles. Since that date, the financial statements of the Group are prepared in Russian Roubles, which the Company believes is the currency that best reflects the economic substance of the underlying assets and circumstances relevant to the Group.

At the end of 2005, the Group was in the process of upgrading its inventory management systems, which did not allow the Group to adequately maintain the accounting records during the upgrade phase. As a result, the auditors had to qualify their opinion on the Company's 2007 Financial Statements with respect to cost of sales, taxation expense and net profit for the year ended 31 December 2006. Except as set forth above, no report issued by the auditors on the Group's Consolidated Financial Statements contained in this Prospectus contained an adverse opinion or was modified as to uncertainty, audit scope or accounting principle.

The information contained in the discussion set forth below and elsewhere in this Prospectus includes forward-looking statements that involve risk and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this Prospectus.

Overview

O'Key is one of the largest retail chains in Russia. Its primary retail format is the modern Western European hypermarket, which is complemented by supermarkets. In 2009, O'Key was:

- the largest Russian hypermarket chain by revenue (excluding multinationals);
- the third largest Russian (excluding multinationals) food retailer in terms of revenue;
- one of the leaders in Russian food retail in terms of revenue per square metre of selling space; and
- rated by A.C. Nielsen as the strongest retailer brand in St. Petersburg.

O'Key operates its "O'Key" hypermarkets and "O'Key—Express" supermarkets across many cities in Russia. The Company opened its first hypermarket in St. Petersburg in 2002 and has enjoyed continuous growth in this market, the most competitive modern format food retail market in Russia. (Source: Planet Retail) Currently, St. Petersburg is O'Key's largest market in terms of revenue.

O'Key intends to continue to leverage the success of its retail model in St. Petersburg in executing its expansion strategy in order to capitalise on the growth opportunities offered by the under-penetrated and rapidly growing hypermarket sector in Russia. Since 2005, O'Key has been developing its presence outside of St. Petersburg, focusing primarily on large cities in Russia with populations of over 500,000 (including the Moscow region). As at 30 June 2010, O'Key operated 52 stores in 18 cities across the North-Western, Southern, Central and Siberian regions of the Russian Federation: 32 hypermarkets with an aggregate selling space of approximately 242,500 square

metres and 20 supermarkets with an aggregate selling space of approximately 24,000 square metres. Also as of 30 June 2010, O'Key's hypermarkets had an average selling space of approximately 7,600 square metres and offered approximately 35,000 "constant" SKUs and up to 64,000 SKUs in the largest hypermarkets. O'Key's supermarkets are mostly located in residential districts, offer a larger proportion of food to non-food products and have a layout similar to O'Key's hypermarkets but on a smaller scale. As of 30 June 2010, O'Key's supermarkets had an average selling space of approximately 1,200 square metres and offered approximately 9,000 "constant" SKUs and up to 27,000 SKUs in the largest supermarkets.

Subject to favourable market conditions, O'Key plans to expand its chain of hypermarkets and supermarkets over the next several years, and believes that there is sufficient market capacity to target the doubling of the number of store openings in 2011 compared to 2010, to establish a presence in at least 25 cities in Russia with populations of over 500,000 and to maintain a fast pace of new store openings in the next five years.

O'Key's retail model reflects the Company's belief that customer satisfaction and loyalty are the foundations of the Company's success. O'Key believes that it offers its consumers a compelling value proposition that includes:

- a wide range of competitively priced, high quality products, with an emphasis on fresh food, its own bakery and delicatessen products and also a wide selection of non-food products;
- a modern shopping environment with an appealing ambiance without a "warehouse" feel;
- hypermarkets located near key traffic intersections and with easy access to public transportation, and supermarkets located within highly populated residential districts;
- availability of convenient third party day-to-day services in its hypermarkets, such as pharmacies, dry-cleaners, food courts, ATMs and bank services;
- a family-friendly environment with supervised in-store play areas for children; and
- a large number of cash registers to reduce queues.

The Company believes that its business model of operating modern hypermarkets complemented by supermarkets enables it to reach a broader customer base by providing retail formats and offerings that fit local characteristics.

O'Key's financial performance in 2009 and the first half of 2010 has been strong and resilient to the recent financial crisis. O'Key experienced rapid growth in 2009, recording a 33% increase in revenue, and also launched its first store in the Moscow region. In the year ended 31 December 2009, O'Key's revenue was RUR67,874.6 million and EBITDA was RUR5,896.3 million. O'Key's 2009 revenue per square metre of selling space was RUR321,137 and EBITDA per square metre of selling space was RUR27,897 (one of the highest among Russian publicly-traded retailers). O'Key's 2009 like-for-like revenue growth rate was 11.6% and its EBITDA margin was 8.7%. In the six months ended 30 June 2010, O'Key's revenue was RUR38,254.2 million, like-for-like revenue growth rate was 6.9% and EBITDA margin was 8.2%.

Significant Factors Affecting the Group's Results of Operations

The Company believes that the main factors that have affected the Group's results of operations during the period under review and that can be expected to affect its results of operations in the future are:

- (a) Russian macroeconomic conditions and trends;
- (b) expansion of O'Key's chain of hypermarkets and supermarkets;

- (c) private label and imported products;
- (d) wage costs;
- (e) significant increases in rent and utilities expenses;
- (f) currency exchange fluctuations; and
- (g) seasonality.

Russian Macroeconomic Conditions and Trends

Since all of the Group's stores are located in Russia and the Company currently has no plans to expand outside Russia, the Group's operations are substantially affected and the Company expects that they will continue to be affected by Russian macroeconomic conditions. Operations in Russia involve risks that typically do not exist in other markets (see "*Risk Factors—Risks Relating to Russia*"). In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty.

Since 1998 and until the second quarter of 2008, the Russian economy enjoyed a sustained period of growth, largely driven by high commodity prices, particularly for oil and gas. In 2007 and in 2008, the country's real GDP growth was 8.1% and 5.6%, respectively, and the Rouble appreciated against the U.S. Dollar, in part due to record high oil prices. During these two years inflation and the unemployment rate remained stable at approximately 12 to 13% and 6%, respectively. Consequently, disposable income in Russia increased in 2007. According to *Rosstat (2010)*, average real disposable income and household expenditures (in constant prices) in Russia increased by approximately 12.1% and 10.9%, respectively, per year between 1 January 2007 and 31 December 2007. Although disposable income and household expenditures decreased in the third and fourth quarters of 2008, for the first half year of 2008, the economy continued to exhibit strong fundamentals—the country's real GDP continued to grow, the Rouble continued to appreciate against the U.S. Dollar and consumer income continued to rise.

The Company believes that GDP growth and significant increases in real disposable income and household expenditures in 2006, 2007 and the first two quarters of 2008 had a positive impact on the Group's average ticket in the years ended 31 December 2007 and 2008, which increased in O'Key's stores from RUR702 in 2007 to RUR754 in 2008 and on the Group's revenues.

The Russian economy has weakened since the third quarter of 2008 due primarily to the global financial crisis. In the last quarter of 2008, Russia experienced a decline in real GDP of 2.7% relative to the prior quarter, followed by further declines in the first half of 2009 (a decline of 9.4% in the first quarter of 2009 compared to the first quarter of 2008 and a decline of 10.8% in the second quarter of 2009 compared to the second quarter of 2008), a significant depreciation of the Rouble against the Euro and the U.S. Dollar, partly due to the sharp drop in worldwide oil prices and a decrease in investments in Rouble assets. However, in the first and the second quarter of 2010, the Russian economy experienced a growth in real GDP of 2.9% and 5.2%, respectively.

The global economic crisis has also led to a slowdown in growth, rising unemployment and a decline in disposable income and household expenditures in Russia, which resulted in a decline in Russia's otherwise dynamically growing consumer goods retail market. (*Source: A.C. Nielsen*) While the Russian economy began to weaken in the third quarter of 2008, the Group's results were primarily affected by these factors in the year ended 31 December 2009. The growth in real disposable income in 2008 in Russia was only 2.9% compared to 12.1% in 2007. Real disposable income in 2009 was 1.9% lower than in 2008. See "*Risk Factors—Risks Relating to Russia—Economic Risks Relating to Russia—Economic instability in Russia could have an adverse effect on O'Key's business*".

The economic crisis also affected O'Key's expansion programme in 2009 resulting in fewer store openings than planned. The Group reduced its capital expenditures and reconsidered its plans for development of new stores on owned properties.

In addition, although over recent years there has been a shift in consumer preference in Russia away from traditional food retail formats, such as open markets and small grocers, towards the modern food retail formats that O'Key operates, due to the financial crisis, there was a decrease in the share of major and medium-sized retail companies, including retail chains, in the retail market turnover in 2009, amounting to 0.7%, while the share of open markets increased by 0.3% and the share of individual entrepreneurs increased by 0.9%, as compared to 2008. (Source: *Infoline Trade Centres*)

The crisis has impacted shoppers' confidence negatively and appears to have made shoppers more promotion-sensitive and prone to "shop around" for the best offer.

Despite the financial crisis, O'Key demonstrated strong financial performance in 2009 and the first half of 2010. O'Key experienced rapid growth in 2009, recording a 33% increase in revenue mainly due to the opening of new stores in the regions (including launching its first hypermarket in the Moscow region). The increase in revenue was due to strong growth in traffic. Overall increase in traffic was due to the increase in the number of O'Key stores (9 new stores compared to the prior period) and 10.6% growth in like-for-like traffic. The Company believes that the increase in like-for-like traffic was driven by changes in consumer preferences as existing customers started to shop more frequently and by new customers with lower disposable income who began shopping at O'Key stores, as they were attracted by its competitively-priced necessities.

The recent economic crisis has also led to a sharp decline in the value and impairment of commercial real estate property in Russia, which has affected the value of real estate property owned by O'Key. O'Key revalues its real estate property annually for each reporting date. The revaluation of O'Key's property, plant and equipment as at 31 December 2008 and 2009 resulted in a loss of approximately RUR2.6 billion and RUR618 million, respectively.

Expansion of O'Key's Chain of Hypermarkets and Supermarkets

During the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, O'Key continued to expand its chain of hypermarkets and supermarkets. The number of stores operated by O'Key increased from 24 as at 31 December 2007, to 37 as at 31 December 2008, to 46 as at 31 December 2009 and to 52 as at 30 June 2010.

The following table sets out the number of O'Key hypermarkets and supermarkets as well as the selling space of O'Key stores for the periods under review.

	As at 31 December			As at 30 June	
	2007	2008	2009	2009	2010
Number of hypermarkets	17	23	28	25	32
Number of supermarkets	7	14	18	17	20
Selling space of hypermarkets (thousands of square metres) ⁽¹⁾	140.0	175.3	211.6	187.9	242.5
Selling space of supermarkets (thousands of square metres) ⁽¹⁾	6.3	14.8	21.0	19.7	24.0

Note:

(1) Selling space excludes areas rented out to third parties.

The increase in the size of O'Key's chain of stores was the principal reason for the increase in revenue during the periods under discussion. The increased scale of the Group's operations also

improved the Group's purchasing power and helped to improve gross margins, in large part by increasing the amount of rebates and bonuses O'Key was able to obtain from suppliers. The Company believes that greater purchasing power resulting from increased shop density in particular localities will allow O'Key to obtain better purchasing terms from suppliers, which the Company expects will enable it to continue offering its customers a competitively-priced product assortment, which will result in increased traffic in its stores.

O'Key's store expansion strategy has also affected the Group's results of operations in each period under review by increasing selling, general and administrative expenses, in particular expenses related to the period prior to the opening of a store. O'Key's store roll-out strategy also affected capital expenditure as compared to the relevant prior period. In addition, principally due to the recent economic crisis which significantly reduced the availability of affordable financing in Russia and has led to more favourable property leasing prices, the Company decided to open more stores on leased premises, in particular in 2009 and 2010. This resulted in an increase in the Group's operating expenses.

Generally, O'Key's new hypermarkets and supermarkets become profitable in less than 15 months from opening. Hypermarkets usually demonstrate the strongest growth in traffic between three and five years after opening. Supermarkets generally reach traffic maturity more quickly than hypermarkets. Opening new stores in the regions negatively affects O'Key's average ticket because disposable income is lower in regions outside St. Petersburg (excluding Moscow). However, the Company anticipates that the effect of customers' lower disposable incomes on its average ticket should be offset by higher customer traffic in these regions, where competition is less intense than in St. Petersburg.

Subject to favourable market conditions, O'Key plans to expand its chain of hypermarkets and supermarkets over the next few years and believes that there is sufficient market capacity for it to target a doubling of the number of store openings in 2011 compared to 2010, to establish a presence in at least 25 cities in Russia with populations of over 500,000 and to maintain a fast pace of new store openings in the next five years. The Company expects that its expansion strategy will require significant capital expenditures, and increase its general, selling and administrative expenses, in particular due to expenses incurred by a store in the period prior to its opening. See "*Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditures*".

Private Label and Imported Products

The Company believes that private label and imported goods, while currently accounting for a small percentage of revenues, are important components of its competitively-priced product assortment and permit the Company to include quality products in its range at attractive prices. O'Key plans to further increase the share of imported non-food products in its sales, especially clothes and footwear, which the Company believes will better address its customers' needs, both in terms of assortment and in terms of pricing, and thus will support traffic in O'Key stores. The Company believes that average gross margins on private label products are generally higher than on comparable branded products as O'Key has greater control over the prices it charges for private label products than branded products, whose prices typically have a supplier-controlled component. As at 30 June 2010, O'Key's private label products accounted for 124 of its food SKUs and 3,259 of its non-food SKUs.

O'Key intends to further develop its logistics system for the imported goods, including imported private label products. With the growth of import operations, O'Key's logistics costs will increase. In addition, O'Key believes that movements in the Rouble/U.S. Dollar exchange rate may impact its financial condition, as the share of imported non-food products in its product assortment increases, since contracts with suppliers of imported products are usually denominated in U.S.

Dollars. The Company expects to hedge any risks related to increased exposure to the movements in the Rouble/U.S. Dollar exchange rate.

Wage Costs

The following table sets out the selling space and average number of employees for the periods under review as well as the percentage change compared to the previous year (or period, as applicable).

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
Selling space (thousand square meters)	146.3	190.2	232.6	207.6	266.5
Average number of employees ⁽¹⁾	6,125	8,542	11,831	11,229	12,966
Average number of employees per thousand square metres of selling space	41.9	44.9	50.9	54.1	48.7
Change(%)	—	7	13	—	(10)

Note:

- (1) The average number of employees for a month is calculated by summing up the number of employees in each calendar day of the month, including holidays and weekends, and dividing the resulting amount by the number of calendar days in the month.

O'Key expects wage costs and in particular employee salaries to be the most significant component of its general, selling and administrative expenses in the future due to its expansion strategy. O'Key increased the number of employees per square metre of selling space to support its expansion and resulting increase in sales in 2008 and the first half of 2009. The Company was also able to respond to the financial crisis by optimising staff count in stores during the first half of 2010, and continues to monitor store requirements on an ongoing basis and adjust workforce allocation accordingly. In addition, when opening new stores, O'Key hires new personnel before the opening and incurs full salary costs before the store reaches its planned sales targets. Moreover, since salaries in the Moscow region are generally higher than in the other regions where O'Key plans to open its stores, O'Key expects to incur greater costs in connection with its expansion in the Moscow region, which the Company believes will be offset by expected higher revenues from its Moscow stores. The hiring of seasonal temporary employees in the second half of the year also has an effect on wage costs, which is offset by higher revenue in the second half of the year. See “—Seasonality”.

O'Key expects that the growth rate of the average annual salaries will increase when the Russian economy demonstrates stable recovery.

Significant Increases in Rent and Utilities Expenses

Historically, O'Key has operated its stores on properties it owns. As at 30 June 2010, O'Key owned approximately 79% of its total space. However, largely due to its expansion programme, O'Key started leasing stores in 2007 to enable it to expand quickly with a relatively smaller amount of capital compared to the capital needed for construction of new stores on its owned real estate. As a result of the recent financial and economic crisis, which has significantly reduced the availability of affordable financing in Russia and has led to more favourable lease terms, the Company further increased the number of its stores opened in leased premises to take advantage of reduced rents.

As at 30 June 2010, O'Key leased approximately 21% of its total space. O'Key's expenses from operating leases increased by approximately 118% and 129% in the years ended 31 December 2008 and 2009, respectively, in comparison with the prior year and by 61.1% in the

six months ended 30 June 2010 compared to the six months ended 30 June 2009. Such increase was caused primarily by (i) the increase of leased space and (ii) the devaluation of the Rouble against the U.S. Dollar, which resulted in increases in rental payments since rental payments under a number of O'Key's store leases are linked to the Rouble-U.S. Dollar exchange rate. With respect to the year ended 31 December 2009, the Company was able to take advantage of the decrease in rental prices for its new stores and renegotiated several leases, achieving more favourable lease terms. However, this decrease did not have a significant effect on O'Key's results of operations because it was off-set by an increase in total space of leased premises and increases in utility prices.

Following the completion of the Dispositions, the Group will lease back the hypermarkets to be distributed to Dorinda Estate, an entity controlled by the Selling Shareholders (see "*Recent Developments—Transfer of Assets*"), which together with its planned expansion strategy, including expansion in the Moscow region where rental rates are generally higher than in other regions, will result in higher operating expenses in the second half of 2010.

O'Key's expenses on communication and utilities increased by approximately 20% and 19% in the years ended 31 December 2008 and 2009, respectively, in comparison with the prior year and by 29.7% in the six months ended 30 June 2010 compared to the six months ended 30 June 2009. Such increase was caused primarily by (i) the increase in the number of stores and (ii) increases in tariffs set by utility providers, driven in large part by the rise in state-regulated electricity tariffs. The Group expects further increases in electricity tariffs as the Russian government continues deregulation of the power market.

Currency Exchange Fluctuations

From 2007 through the second quarter of 2008, the Rouble appreciated against the U.S. Dollar, as shown in the table below. In 2009, due to the global economic crisis and the sharp decrease in oil prices in the second half of 2008, the Rouble depreciated against the U.S. Dollar, as shown in the table below. In the six months ended 30 June 2010 the nominal exchange rate of the Rouble against the U.S. Dollar decreased by 9.7% as compared to the six months ended 30 June 2009. The following table sets out the Average Exchange Rate for the periods under review.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
Average Exchange Rate (RUR per U.S.\$1.00)	25.55	24.87	31.72	33.27	30.05

Source: CBR Website

During 2008 and 2009 O'Key had significant borrowings denominated in U.S. Dollars. The devaluation of the Rouble in the second half of 2008 and during 2009 resulted in foreign exchange loss of approximately RUR1.8 billion in 2008 and RUR321 million in 2009. In 2009 and 2008 the Group did not use hedging instruments to hedge foreign exchange risks. In July 2010, the Group sought to reduce its exposure to foreign exchange risk associated with certain of its borrowings denominated in currencies other than the Rouble and entered into a currency hedging arrangement with respect to the EBRD U.S.\$200 million loan. See "*Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements*".

O'Key expects to have increased exposure to currency exchange fluctuations in connection with the planned increase of its import operations, given that import contracts are predominantly denominated in foreign currencies. O'Key expects to hedge any risks related to increased exposure to the movements in the Rouble/U.S. Dollar exchange rate.

In addition, as of the date of this Prospectus, rental payments under nine of O'Key's 19 store leases are linked to the Rouble-U.S. Dollar exchange rate. Where possible, O'Key is renegotiating such leases with its landlords.

Seasonality

O'Key experiences seasonal fluctuations in its operations, such as an increase in sales during December, prior to the New Year holiday season, and prior to the March and May holidays and a decrease in sales in August, September and February, which follow the summer and winter holiday seasons, respectively. The hiring of seasonal temporary employees in the second half of the year also has an effect on personnel costs. The sale of seasonal products, such as school-related non-food products in August, New Year decorations and gifts in December, or household appliances for summer houses from April to September, affects O'Key's interim results. In 2009, approximately 46% of revenue was attributed to the first half of the year and 54% to the second partly due to increased sales of non-food products, including clothes.

Recent Developments

The following recent developments should be taken into account when assessing O'Key's results of operations.

Transfer of Assets

In the second half of 2010, O'Key initiated a series of transactions as part of a disposition of certain of its assets to an entity controlled by the Selling Shareholders. The purpose of the Dispositions was to conform the Group's assets portfolio to its business strategy. The disposed assets include (i) five real estate assets representing two multifunctional trade centres under construction and three hypermarkets (two in St. Petersburg and one in Murmansk), (ii) three vacant land plots and (iii) certain other subsidiaries of the Company that do not own any real estate or other significant assets, but have loans payable to the Group. The disposed hypermarkets will be leased back to the Group under long-term lease agreements that were signed on 1 and 8 October 2010 with entities controlled by the Selling Shareholders. See "*Risk Factors—Risks Relating to O'Key's Business and Industry—Risks relating to real estate and construction—O'Key leases some of its stores, and there is no assurance that it will be able to continue to renew these leases or enter into additional leases on acceptable terms*".

The Dispositions will take place in two stages and are expected to be completed by the end of 2010. The first stage, which was completed in September 2010, involved the transfer of the assets to Russian subsidiaries of the Group, which are controlled by the Cyprus entities within the Group (the "**Cyprus Entities**") not involved in the Group's retail business. As part of the second stage, on 28 October 2010, O'Key entered into a sale and purchase agreement with Dorinda Estate, an entity controlled by the Selling Shareholders, pursuant to which O'Key agreed to sell and Dorinda Estate agreed to purchase, the entire issued share capital of the Cyprus Entities.

As at 30 June 2010, the total value of the distributed assets amounted to RUR5,664 million. As a result of the Dispositions described above, the Group expects to receive consideration in the amount of RUR3,030 million, including VAT of RUR341 million. See "*Risk Factors—Risks Relating to O'Key's Business and Industry—Other risks relating to O'Key's business—The sale and leaseback financing arrangement of certain of its real estate assets is subject to completion*". Part of the consideration is expected to be received by 31 December 2010, in cash in the amount of RUR1,622 million, and the remaining part in the amount of RUR1,408 million is expected to be in the form of rental prepayment under the long-term lease agreements described above. The Group intends to use the proceeds from the disposal of these assets for the repayment of its short-term borrowings in the amount of RUR1,622 million. The effect of this disposal net of tax is planned to

be recorded in equity as a distribution to owners, as the transaction represents a distribution of assets to entities under common control.

The payment of the cash consideration in the amount of RUR1,622 million is expected to be financed by a loan from Sberbank to entities controlled by the Selling Shareholders. O'Key has agreed to provide a guarantee for this financing (in respect of which EBRD has given consent on 30 October 2010 which is required under the finance agreements relating to the EBRD facility in the amount of U.S.\$200 million).

In connection with the Dispositions, the Group repaid long-term loans to Sberbank in the total amount of RUR2,608 million in order to release the pledges over the hypermarkets and land plots disposed under the agreements described above.

As a result of the transactions described above, the Group's operating expenses will increase by the amount of rental costs and decrease by the amount of depreciation of the disposed assets, loss from revaluation (increase by the amount of revaluation gains) and administrative expenses.

For further details of the impact of the Dispositions on the financial position of the Group, see Annex A: Pro Forma Financial Information.

Loan agreement with CJSC UniCredit Bank

In October 2010, O'KEY LLC entered into a loan agreement with UniCredit Bank in the amount of RUR1,500 million with maturity in October 2015 and an interest rate of 8.5% per annum. The loan is secured by a guarantee and a pledge of real property provided by Dorinda JSC. Under the loan agreement, UniCredit Bank is entitled to accelerate an early repayment of the loan in case of, *inter alia*, (a) conclusion by a borrower of a transaction or a number of transactions with the value exceeding 25% of the balance value of the borrower's assets, (b) direct or indirect termination of participation of the Company in the borrower's business upon which the right to determine the course of the borrower's business will pass to third parties, (c) occurrence of a default under the borrower's or guarantor's respective obligations and (d) spending of receivables under the loan agreement for certain restricted purposes. As at the date of this Prospectus, the loan was fully drawn.

Current trading and prospects

Since 30 June 2010, O'Key has continued to perform in line with management's expectations. As of the date of this Prospectus, O'Key operated 53 stores, consisting of 33 hypermarkets and 20 supermarkets, with selling space of approximately 273,500 square metres. Assuming the Russian economic recovery continues, management currently has positive expectations regarding the Group's trading prospects for the next twelve months. As of the date of this Prospectus, O'Key has spent RUR1.1 billion since 30 June 2010 from its allocated capital expenditure budget, primarily on acquisition of real estate and construction costs.

Results of Operations

The following table sets out selected financial statements as of and for the years ended 31 December 2007, 2008 and 2009 derived from O'Key's Audited Consolidated Financial Statements (included elsewhere in this Prospectus) and selected financial statements for the

six-month periods ended 30 June 2009 and 2010 derived from O'Key's Unaudited Interim Consolidated Financial Statements (included elsewhere in this Prospectus).

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Revenue	30,532.6	51,142.7	67,874.6	31,487.9	38,254.2
Cost of goods sold	(24,064.7)	(40,381.6)	(53,106.4)	(24,891.0)	(30,147.0)
Gross profit	6,467.9	10,761.1	14,768.2	6,596.9	8,107.2
General, selling and administrative expenses . .	(5,097.3)	(7,381.1)	(10,303.7)	(4,984.4)	(5,728.6)
Other operating income and expenses	(325.4)	(3,831.7)	(846.3)	(206.0)	(97.2)
Operating profit/(loss)	1,045.2	(451.7)	3,618.2	1,406.5	2,281.4
Finance income	21.7	33.7	37.8	13.0	2.3
Finance costs	(948.9)	(1,036.6)	(1,683.9)	(826.4)	(667.7)
Foreign exchange gains/(losses)	656.5	(1,820.8)	(320.8)	(679.9)	(278.6)
Profit/(loss) before income tax	774.5	(3,275.4)	1,651.3	(86.8)	1,337.4
Income tax benefit/(expense)	(435.0)	343.7	(936.9)	(410.2)	(468.7)
Profit/(loss) for the year (or period)	339.5	(2,931.7)	714.4	(497.0)	868.7

Explanation of Key Income Statement Items

Revenue

O'Key derives revenue from sales of trading stock (i.e. merchandise), sales of own-produced catering products (such as bakery, salads and cooked meals produced in its stores), rental income from third party operators at hypermarkets and one trading centre owned by O'Key and revenue from advertising services rendered to suppliers.

Cost of Goods Sold and Gross Profit

Cost of goods sold includes: costs of trading stock sold (less inventory shrinkage and provision for obsolete stock) less any rebates and bonuses from suppliers, logistic costs, packaging and labelling costs.

Gross profit is equal to revenue less cost of goods sold.

General, Selling and Administrative Expenses

O'Key's general, selling and administrative expenses in the periods under review consisted primarily of expenses related to personnel costs, which include wages and salaries, contributions to state pension funds, employee benefits and other costs; depreciation and amortisation; advertising and marketing; operating leases; repairs and maintenance costs; communication and utilities; materials and supplies; security expenses; insurance and bank commissions; legal and professional expenses; operating taxes; and other costs (such as transportation costs, travel and hospitality costs).

Other Operating Income and Expenses

Other operating income and expenses includes: expenses related to disposal of non-current assets; disposal of assets held for sale; write-offs of receivables; impairment of receivables; revaluation of investment property; revaluation of property, plant and equipment; impairment of non-current assets; and sundry income and expenses.

Operating Profit/(Loss)

Operating profit is equal to gross profit less general, selling and administrative expenses and other operating income and expenses.

Finance Income

Finance income comprises interest income on issued loans and bank deposits.

Finance Costs

Finance costs comprise interest expense on borrowings.

Foreign Exchange Gains/(Losses)

Foreign exchange gains or losses in the periods under review related primarily to U.S. Dollar-denominated loans as well as foreign currency denominated bank accounts and a small number of suppliers paid in U.S. Dollars. Primarily, exchange rate differences are caused by U.S. Dollar/Rouble exchange rate fluctuations and their impact on the value of the U.S. Dollar denominated portion of O'Key's borrowings when expressed in Roubles.

Profit/(Loss) Before Income Tax

Profit before income tax is equal to the sum of operating profit and any interest income or foreign exchange gains less finance costs and any foreign exchange losses.

Income Tax Benefit/(Expense)

O'Key's principal tax liability is income tax. The Group pays income taxes in accordance with the laws of the Russian Federation. With effect from 1 January 2009, the Group's applicable tax rate is the income tax rate for Russian companies of 20%, which was reduced from 24%.

Profit/(Loss) for the Period

Profit for the period is equal to profit or loss before income tax less income tax benefit or expense.

Six Months Ended 30 June 2010 Compared with the Six Months Ended 30 June 2009

Revenue

The following table sets out certain key operating performance indicators relevant to retail revenue in the six-month periods ended 30 June 2009 and 2010 and the percentage change in

these key operating performance indicators between these two periods. See “*Presentation of Financial and Other Information*” for information on the method of calculation of these indicators.

	As at or for the six months ended 30 June		Percentage change (%)
	2009	2010	
Selling Space (thousand square metres)	207.6	266.5	28.4
Hypermarkets	187.9	242.5	29.1
Supermarkets	19.7	24	21.8
Number of Stores	42	52	23.8
Hypermarkets	25	32	28.0
Supermarkets	17	20	17.6
Average Ticket (RUR)	708.1	723.3	2.2
Hypermarkets	781.7	800.6	2.4
Supermarkets	382.2	402	5.2

The following table sets forth the percentage growth in like-for-like indicators in the six-month periods ended 30 June 2009 and 2010.

	Growth between six-months ended 30 June 2009 and 2010 (in %)
Like-for-like Average Ticket	1.3
Hypermarkets	1.9
Supermarkets	2.0
Like-for-like Traffic	5.6
Hypermarkets	4.1
Supermarkets	12.0
Like-for-like Revenue	6.9
Hypermarkets	6.1
Supermarkets	14.2

O’Key’s revenue increased by RUR6,766.3 million, or 21.5%, to RUR38,254.2 million in the six months ended 30 June 2010 from RUR31,487.9 million in the six months ended 30 June 2009. The increase was primarily due to an increase in the number of stores by 23.8% in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009, resulting in an increase in selling space by 28.4% for the six months ended 30 June 2010 as compared to the six months ended 30 June 2009.

O’Key’s like-for-like revenue increased by 6.9% in the six months ended 30 June 2010 in comparison with the six months ended 30 June 2009, primarily due to growth in like-for-like traffic by 5.6% and growth in like-for-like average ticket by 1.3% in the six months ended 30 June 2010 in comparison with the six months ended 30 June 2009.

The 42 stores used in O’Key’s like-for-like analysis for the six-month periods ended 30 June 2010 and 2009 only include stores that were opened before 1 June 2009 and were not subsequently closed, expanded or downsized.

Cost of Goods Sold and Gross Profit

The following table sets out revenue, cost of goods sold, gross profit and gross margin in the six-month periods ended 30 June 2009 and 2010, as well as the percentage change in revenue, cost of goods sold and gross profit.

	Six months ended 30 June		Percentage change (%)
	2009 (RUR millions, except percentages)	2010 (RUR millions, except percentages)	
Revenue	31,487.9	38,254.2	21.5
Cost of goods sold (less supplier bonus)	(24,891.0)	(30,147.0)	21.1
Gross profit	6,596.9	8,107.2	22.9
Gross margin⁽¹⁾	21.0%	21.2%	—

Note:

(1) Gross margin is calculated as gross profit divided by revenue, expressed as a percentage.

O'Key's cost of goods sold increased by RUR5,256 million, or 21.1%, in the six months ended 30 June 2010 compared to the six months ended 30 June 2009. The increase in cost of goods sold resulted from an increase in sales of trading stock driven by new store openings and like-for-like revenue.

The following table sets out further details of O'Key's cost of goods sold in the six-month periods ended 30 June 2009 and 2010, the percentage of revenue that each of the components of O'Key's cost of goods sold represented in these two periods and the percentage of change in each of the components of O'Key's cost of goods sold between these two periods.

	Six Months ended 30 June 2009 (RUR millions)	Percentage of revenue (%)	Six months ended 30 June 2010 (RUR millions)	Percentage of revenue (%)	Percentage change
Cost of trading stock sold (less supplier bonuses)	(24,350.8)	(77.3)	(29,503.5)	(77.1)	21.2
Inventory shrinkage	(372.3)	(1.2)	(430.3)	(1.1)	15.6
Logistic costs	(22.4)	(0.1)	(24.1)	(0.1)	7.6
Packing and labelling costs	(145.5)	(0.5)	(189.1)	(0.5)	30.0
Total cost of goods sold	(24,891.0)	(79.0)	(30,147.0)	(78.8)	21.1

As a percentage of revenue, the cost of goods sold decreased by 0.2 percentage points as a result of better terms with suppliers and more efficient inventory management.

The Group's gross profit increased by RUR1,510.3 million, or 22.9%, in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009.

The slight increase in O'Key's gross margin for the six months ended 30 June 2010 as compared to gross margin for the six months ended 30 June 2009 reflects the Group's improved purchasing power that accompanied the increased scale of operations, enabling O'Key to negotiate larger rebates and promotional bonuses from suppliers, and more efficient inventory management.

General, Selling and Administrative Expenses

O'Key's general, selling and administrative expenses increased by RUR744.2 million, or 14.9%, to RUR5,728.6 million in the six months ended 30 June 2010 from RUR4,984.4 million in the six months ended 30 June 2009.

The following table sets out further details of O'Key's general, selling and administrative expenses in the six-month periods ended 30 June 2009 and 2010, the percentage of revenue that each of the components of O'Key's general, selling and administrative expenses represented in these two periods and the percentage change in each of the components of O'Key's general, selling and administrative expenses between these two periods.

	Six months ended 30 June 2009	Percentage of revenue	Six months ended 30 June 2010	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Personnel costs	(2,701.7)	(8.6)	(2,786.9)	(7.3)	3.2
Depreciation and amortisation . . .	(646.9)	(2.1)	(736.9)	(1.9)	13.9
Advertising and marketing	(138.9)	(0.4)	(192.3)	(0.5)	38.4
Operating leases	(288.6)	(0.9)	(465.0)	(1.2)	61.1
Repairs and maintenance costs . .	(95.5)	(0.3)	(113.2)	(0.3)	18.5
Communication and utilities	(416.0)	(1.3)	(539.6)	(1.4)	29.7
Materials and supplies	(86.9)	(0.3)	(119.1)	(0.3)	37.0
Security expenses	(190.9)	(0.6)	(230.6)	(0.6)	20.8
Insurance and bank commission .	(120.9)	(0.4)	(147.9)	(0.4)	22.3
Legal and professional expenses .	(44.2)	(0.1)	(80.0)	(0.2)	81.1
Operating taxes	(177.3)	(0.6)	(202.7)	(0.5)	14.3
Other costs	(76.6)	(0.2)	(114.4)	(0.3)	49.3
Total general, selling and administrative expenses	<u>(4,984.4)</u>	<u>(15.8)</u>	<u>(5,728.6)</u>	<u>(15.0)</u>	<u>14.9</u>

The increase in O'Key's general, selling and administrative expenses in the six months ended 30 June 2010 compared with the six months ended 30 June 2009 was principally due to increases in the size of O'Key's operations.

As a percentage of revenue, general, selling and administrative expenses decreased by 0.8 percentage points. This decrease was primarily due to optimisation of workforce use in O'Key's mature stores, in part by not replacing employees who had left their positions.

Personnel Costs

The table below sets out details of personnel costs in the six-month periods ended 30 June 2009 and 2010.

	Period ended 30 June 2009	Percentage of total personnel costs	Period ended 30 June 2010	Percentage of total personnel costs
	(RUR millions)	(%)	(RUR millions)	(%)
Wages and salaries	(1,602.5)	59.3	(1,781.1)	63.9
Contributions to state pension fund . . .	(484.8)	17.9	(519.9)	18.7
Employee benefits	(603.8)	22.3	(471.2)	16.9
Other	(10.5)	0.4	(14.7)	0.5
Total personnel costs	<u>(2,701.7)</u>	<u>100.0</u>	<u>(2,786.9)</u>	<u>100.0</u>

O'Key's personnel costs increased by RUR85.2 million, or 3.2% in the six months ended 30 June 2010 in comparison with the six months ended 30 June 2009, primarily as a result of an increase in headcount due to the opening of 10 new stores, partially offset by a decrease in the average headcount in existing stores, which was adjusted in response to the economic crisis.

Operating Leases

Expenses on operating leases increased by 61.1% in the six months ended 30 June 2010 in comparison with the six months ended 30 June 2009, primarily due to an increase in the number of leased stores (eight new leased stores) and leased space.

Communication and Utilities

Expenses on communication and utilities increased by 29.7% in the six months ended 30 June 2010 in comparison with the six months ended 30 June 2009, primarily as a result of an increase in tariffs set by utility service providers and higher energy consumption per square metre of selling space.

The other general, selling and administrative expenses increased in the six months ended 30 June 2010 as compared to the same period in 2009, primarily as a result of opening of new stores.

Transactions with related parties

In the six months ended 30 June 2010, LLC AC Rus-Auto, an entity affiliated with Brookvalley Limited, provided car repair and maintenance services of RUR91 thousand to O'Key.

In the six months ended 30 June 2010 and the six months ended 30 June 2009, Dorinda JSC and O'KEY LLC paid approximately RUR12.2 million and RUR10.0 million to the Union Group of companies, entities affiliated with Caraden Limited in connection with a lease of office premises.

Other Operating Income and Expenses

O'Key's net other operating expenses decreased by RUR108.8 million, or 52.8%, to RUR97.2 million in the six months ended 30 June 2010 from RUR206.0 million in the six months ended 30 June 2009, primarily due to the continued recovery in the Russian real estate market which started at the end of 2009. Revaluations of property, plant and equipment are not required in interim periods.

The following table sets out further details of O'Key's other operating income and expenses in the six-month periods ended 30 June 2009 and 2010, the percentage of revenue that each of the components of O'Key's other operating income and expenses represented in these two periods and the percentage change in each of the components of O'Key's other operating income and expenses between these two periods.

	Six months ended 30 June 2009	Percentage of revenue	Six months ended 30 June 2010	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Loss from disposal of non-current assets	(22.6)	(0.1)	(57.7)	(0.2)	155.2
Loss from write-off of receivables	0.0	0.0	(9.3)	0.0	0.0
Impairment of receivables	(5.5)	0.0	(68.3)	(0.2)	1,146.8
Loss from revaluation of investment property	(57.3)	(0.2)	0.0	0.0	—
Loss from impairment of non-current assets	(122.7)	(0.4)	0.0	0.0	—
Sundry income and expenses	2.1	0.0	38.1	0.1	1,714.3
Total other operating income and expenses	(206.0)	(0.7)	(97.2)	(0.3)	(52.8)

As a percentage of revenue, other operating income and expenses decreased by 0.4 percentage points. This decrease was primarily due to the absence of revaluation losses and impairment of non-current assets in the six months ended 30 June 2010 as a result of overall economic improvement.

Operating Profit/(Loss)

O'Key's operating profit increased by RUR874.9 million, to RUR2,281.4 million in the six months ended 30 June 2010 from RUR1,406.5 million in the six months ended 30 June 2009. The positive change was due to improved operating efficiency and stabilisation of the value of the Group's real estate as a result of the recovery of the Russian real estate market.

Finance Income

Finance income decreased by RUR10.7 million, to RUR2.3 million in the six months ended 30 June 2010 from RUR13.0 million in the six months ended 30 June 2009. This decrease was principally due to the decrease in bank deposit interest rates from between approximately 8% and 10% per annum in the first half of 2009 to between approximately 3.5% and 4% per annum in the first half of 2010.

Finance Costs

O'Key's finance costs decreased by RUR158.7 million, from RUR826.4 million in the six months ended 30 June 2009 to RUR667.7 million in the six months ended 30 June 2010. This decrease in finance costs was principally due to a decrease in credit interest rates as a result of replacing certain loans with high interest rates with loans with lower interest rates (with short-term interest rates decreasing from between 14% and 15% in the first half of 2009 to between 8% and 9% in the first half of 2010).

The following table sets out O'Key's finance costs for the six-month periods ended 30 June 2009 and 2010.

	Six months ended 30 June	
	2009	2010
	(RUR millions)	
Interest costs on loans and borrowings	(824.0)	(667.7)
Finance leasing costs	(2.4)	0.0
Total finance costs	<u>(826.4)</u>	<u>(667.7)</u>

For further details on O'Key's indebtedness, see "*Liquidity and Capital Resources—Indebtedness*".

In the six months ended 30 June 2009 and the six months ended 30 June 2010 the Company incurred interest expenses in the amount of RUR(130) million and RUR(80) million, respectively, in connection with loans from related parties. See "*Indebtedness—Description of Material Loans—Loans from the Selling Shareholders*".

Foreign Exchange Gains/(Losses)

During 2009 and the first half of 2010 the Group had significant borrowings denominated in U.S. Dollars. A foreign exchange loss for the six months ended 30 June 2009 amounted to RUR(679.9) million, compared to a loss of RUR(278.6) million for the six months ended 30 June 2010. The foreign exchange loss decreased in the six months ended 30 June 2010 as compared to the six months ended 30 June 2009 as a result of the revaluation of the Rouble against the U.S.

Dollar. In 2009 and the first half of 2010 the Group did not use hedging instruments to hedge foreign exchange risks. In July 2010 the Group sought to reduce its exposure to the foreign exchange risk associated with its foreign-currency denominated borrowings and entered into a currency hedging arrangement with respect to the U.S.\$200 million loan from the EBRD (which as at 30 June 2010 was fully drawn). See “—Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements”.

Profit/(Loss) Before Income Tax

For the reasons discussed above, profit before income tax increased by RUR1,424.2 million, from RUR(86.8) million in the six months ended 30 June 2009 to RUR1,337.4 million in the six months ended 30 June 2010.

Income Tax Benefit/(Expense)

The following table sets out O’Key’s income tax expense in the six-month periods ended 30 June 2009 and 2010.

	<u>Six months ended June 30,</u>	
	<u>2009</u>	<u>2010</u>
	(RUR millions)	
Current tax benefit/(expense)	(328.4)	(335.4)
Deferred tax benefit/(expense)	<u>(81.8)</u>	<u>(133.3)</u>
Total income tax benefit/(expense)	<u>(410.2)</u>	<u>(468.7)</u>

O’Key’s total income tax expense increased by RUR58.5 million, to RUR(468.7) million in the six months ended 30 June 2010 from RUR(410.2) million in the six months ended 30 June 2009, primarily due to an increase in profit from retail operations. The effective income tax rate (calculated as income tax expense divided by profit before income tax) amounted to 35% in the six months ended 30 June 2010. The excess over the nominal tax rate of 20% was primarily attributable to inventory shrinkage expenses and other non-deductible expenses.

Profit/(Loss) for the Period

For the reasons discussed above, O’Key’s net financial result for the period changed by RUR1,365.7 million, from RUR(497.0) million in the six months ended 30 June 2009 to RUR868.7 million in the six months ended 30 June 2010.

Year Ended 31 December 2009 Compared with the Year Ended 31 December 2008

Revenue

The following table sets out certain key operating performance indicators relevant to retail revenue in the years ended 31 December 2008 and 2009 and the percentage change in these key

operating performance indicators between these two years. See “*Presentation of Financial and Other Information*” for information on the method of calculation of these indicators.

	As at or for the year ended 31 December		Percentage change (%)
	2008	2009	
Selling Space (thousand square metres)	190.2	232.6	22.3
Hypermarkets	175.3	211.6	20.7
Supermarkets	14.8	21.0	41.9
Number of Stores	37	46	19.6
Hypermarkets	23	28	21.7
Supermarkets	14	18	28.6
Average Ticket (RUR)	753.59	717.82	(4.7)
Hypermarkets	808.36	794.80	(1.6)
Supermarkets	397.83	379.33	(4.6)

The following table sets forth the percentage growth in like-for-like indicators in the year ended 31 December 2008 and 2009.

	Growth between year ended 31 December 2008 and 2009 (in %)
Like-for-like Average Ticket	0.9
Hypermarkets	1.2
Supermarkets	3.0
Like-for-like Traffic	10.6
Hypermarkets	9.6
Supermarkets	17.7
Like-for-like Revenue	11.6
Hypermarkets	10.9
Supermarkets	21.3

The Group’s revenue increased by RUR16,731.9 million, or 32.7%, to RUR67,874.6 million in the year ended 31 December 2009 from RUR51,142.7 million in the year ended 31 December 2008. The increase was primarily due to an increase in the number of stores by 19.6% in the year ended 31 December 2009 as compared to the year ended 31 December 2008, resulting in an increase in the selling space of 22.3% in the year ended 31 December 2009 as compared to the year ended 31 December 2008.

O’Key’s like-for-like revenue increased by 11.6% in 2009 in comparison with 2008 due to growth in like-for-like traffic by 10.6% and growth in like-for-like average ticket by 0.9% in 2009 in comparison with 2008.

O’Key believes that the increase in like-for-like average ticket and like-for-like traffic is attributable primarily to changes in consumer habits. Consumers have become more promotion sensitive and are more likely to “shop around” for the best offer. The Company believes that although the recent economic crisis has negatively affected disposable income, the Company’s ability to attract and retain new customers due to its competitive pricing policy, improved product mix and positive shopping experience has resulted in increased traffic in O’Key’s stores, and consequently an increase in revenue.

The 34 stores used in O’Key’s like-for-like analysis for 2008 and 2009 only include stores that were opened before 1 December 2008 and were not subsequently closed, expanded or downsized.

Cost of Goods Sold and Gross Profit

The following table sets out revenue, cost of goods sold, gross profit and gross margin in the years ended 31 December 2008 and 2009, as well as the percentage change in revenue, cost of goods sold and gross profit between these two periods.

	Year ended 31 December		Percentage change (%)
	2008	2009	
	(RUR millions, except percentages)		
Revenue	51,142.7	67,874.6	32.7
Cost of goods sold (less supplier bonuses)	(40,381.6)	(53,106.4)	31.5
Gross profit	10,761.1	14,768.2	37.2
Gross margin⁽¹⁾	21.0%	21.8%	—

Note:

(1) Gross margin is calculated as gross profit divided by revenue, expressed as a percentage.

O'Key's cost of goods sold increased by RUR12.7 billion, or 31.5%, in 2009 compared to 2008. The increase in O'Key's cost of goods sold was primarily due to an increase in sales of trading stock as a result of growth in sales volumes driven by new store openings and greater like-for-like revenue.

The following table sets out further details of O'Key's cost of goods sold in the years ended 31 December 2008 and 2009, the percentage of revenue that each of the components of O'Key's cost of goods sold represented in these two years and the percentage change in each of the components of O'Key's cost of goods sold between these two years.

	Year ended 31 December 2008	Percentage of revenue	Year ended 31 December 2009	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Cost of trading stock sold (less supplier bonuses)	(39,554.3)	(77.3)	(52,089.7)	(76.7)	31.7
Inventory shrinkage	(447.6)	(0.9)	(661.3)	(1.0)	47.8
Logistic costs	(96.1)	(0.2)	(51.7)	(0.1)	(46.2)
Packing and labelling costs	(283.6)	(0.6)	(303.7)	(0.5)	7.1
Total cost of goods sold	(40,381.6)	(79.0)	(53,106.4)	(78.2)	31.5

The Group's gross profit increased by RUR4 billion, or 37.2%, in 2009 compared to 2008.

The slight increase in O'Key's gross margin was principally the result of the positive effect of an increase in resales and promotional bonuses received from suppliers as a percentage of total revenue. These benefits resulted from the improved purchasing power that accompanied the increased scale of operations and increased shop density in certain areas.

General, Selling and Administrative Expenses

The Group's general, selling and administrative expenses increased by RUR2,922.6 million, or 39.6%, to RUR10,303.7 million in the year ended 31 December 2009 from RUR7,381.1 million in the year ended 31 December 2008.

The following table sets out further details of the Group's general, selling and administrative expenses in the years ended 31 December 2008 and 2009, the percentage of revenue that each of the components of O'Key's general, selling and administrative expenses represented in these two

periods and the percentage change in each of the components of O'Key's general, selling and administrative expenses between these two periods.

	Year ended 31 December 2008	Percentage of revenue	Year ended 31 December 2009	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Personnel costs	(3,644.1)	(7.1)	(5,229.5)	(7.7)	43.5
Depreciation and amortisation . . .	(1,128.3)	(2.2)	(1,361.3)	(2.0)	20.6
Advertising and marketing	(281.5)	(0.6)	(363.4)	(0.5)	29.1
Operating leases	(294.0)	(0.6)	(672.2)	(1.0)	128.6
Repairs and maintenance costs . .	(184.2)	(0.4)	(239.4)	(0.4)	30.0
Communication and utilities	(750.5)	(1.5)	(891.5)	(1.3)	18.8
Materials and supplies	(54.8)	(0.1)	(179.1)	(0.3)	227.0
Security expenses	(314.8)	(0.6)	(428.5)	(0.6)	36.1
Insurance and bank commission .	(181.8)	(0.4)	(255.8)	(0.4)	40.7
Legal and professional expenses .	(87.5)	(0.2)	(133.4)	(0.2)	52.5
Operating taxes	(317.6)	(0.6)	(391.5)	(0.6)	23.3
Other costs	(141.8)	(0.3)	(158.0)	(0.2)	11.4
Total general, selling and administrative expenses	<u>(7,381.1)</u>	<u>(14.4)</u>	<u>(10,303.7)</u>	<u>(15.2)</u>	<u>39.6</u>

The increase in O'Key's general, selling and administrative expenses in 2009 in comparison with 2008 is principally attributable to increases in personnel costs, mainly as a result of the opening of new stores, and operating leases, mainly as a result of the opening of more leased stores.

As a percentage of revenue, general, selling and administrative expenses increased by 0.8 percentage points.

Personnel Costs

The table below sets out details of personnel costs in the years ended 31 December 2008 and 2009.

	Year ended 31 December 2008	Percentage of total personnel costs	Year ended 31 December 2009	Percentage of total personnel costs
	(RUR millions)	(%)	(RUR millions)	(%)
Wages and salaries	(2,105.9)	57.9	(3,304.9)	63.2
Contributions to state pension fund . . .	(613.4)	16.8	(869.1)	16.6
Employee benefits	(872.4)	23.9	(1,004.1)	19.2
Other	(52.4)	1.4	(51.4)	1.0
Total personnel costs	<u>(3,644.1)</u>	<u>100</u>	<u>(5,229.5)</u>	<u>100</u>

O'Key's personnel costs increased by 43.5% in 2009 in comparison with 2008 primarily due to increases in wages and wage-related tax payments as a result of the increase in the number of O'Key employees due to the expansion of its operations and also as a result of an increase in average salary partly attributable to inflation in Russia generally. In the same period, personnel costs as a percentage of revenue increased by 0.6 percentage points as a result of an increase in the average number of employees per thousand square metres of selling space by 13%. In addition, salaries and bonuses were paid to O'Key's management in the amount of RUR230.7 million in 2009.

Operating Leases

Expenses on operating leases increased by 128.6% in 2009 as compared to 2008 primarily due to an increase in the number of stores opened on leased premises. In addition, rental payment under a number of O'Key store leases was linked to the Rouble-U.S. Dollar exchange rate. As a result of the devaluation of the Rouble relating to the U.S. Dollar early in 2009, rental payments under such leases increased in Rouble terms.

Communication and Utilities

Expenses on communication and utilities increased by 18.8% in 2009 as compared to 2008 as a result of (i) opening of new stores and increased selling space and (ii) increases in tariffs set by utilities providers, in part driven by inflation and the regulatory liberalisation of the Russian power sector by the government.

The other general, selling and administrative expenses increased in 2009 as compared to 2008, primarily as a result of opening of new stores.

Transactions with related parties

In 2008, LLC AC Rus-Auto and LLC Vostok-Auto, entities affiliated with Brookvalley Limited, provided car repair and maintenance services of RUR345 thousand to O'Key. In 2009, Dorinda JSC and O'KEY LLC paid approximately RUR23.1 million to the Union Group of companies affiliated with Caraden Limited in connection with a lease of office space in St. Petersburg.

In addition, in 2008 Axus Financial Ltd. engaged Trevorex Holding Ltd, an entity affiliated with Caraden Limited, for an acquisition of a land plot under an agency agreement for consulting fees of RUR40 million.

Other Operating Income and Expenses

For the year ended 31 December 2009, the Group's other operating income and expenses amounted to RUR(846.3) million compared to RUR(3,831.7) million in the year ended 31 December 2008. At the end of 2009, the pace of the downturn in the Russian real estate market began to abate and the loss from revaluation of O'Key's assets in 2009 decreased, as compared to such loss in 2008, resulting in a significant decrease in other operating expenses in 2009 as compared to 2008.

The following table sets out further details of O'Key's other operating income and expenses in the years ended 31 December 2008 and 2009, the percentage of revenue that each of the components of O'Key's other operating income and expenses represented in these two periods and

the percentage change in each of the components of O'Key's other operating income and expenses between these two periods.

	Year ended 31 December 2008	Percentage of revenue	Year ended 31 December 2009	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Gain/(loss) from disposal of non-current assets	53.3	0.10	(37.3)	(0.05)	—
Gain from disposal of assets held for sale	95.2	0.19	—	—	—
Loss from write-off of receivables	(12.2)	(0.02)	(2.1)	(0.003)	(82.8)
Impairment of receivables	(158.3)	(0.31)	(43.6)	(0.06)	(72.5)
Gain/(loss) from revaluation of investment property	(789.2)	(1.54)	(81.2)	(0.12)	(89.7)
Loss from revaluation of property, plant and equipment	(2,591.7)	(5.07)	(618.1)	(0.91)	(76.2)
Loss from impairment of non-current assets	(469.0)	(0.92)	(134.4)	(0.20)	(71.3)
Sundry income and expenses	40.2	0.08	70.4	(0.1)	75.1
Total other operating income and expenses	<u>(3,831.7)</u>	<u>(7.49)</u>	<u>(846.3)</u>	<u>(1.25)</u>	<u>(77.9)</u>

As a percentage of revenue, other operating income and expenses decreased by 6.24 percentage points in the year ended 31 December 2008 compared to the year ended 31 December 2009. This decrease was primarily due to a smaller reduction in value of the Group's real estate property in 2009 as compared to 2008 (RUR699 million in 2009 compared to RUR3,381 million in 2008).

Operating Profit/(Loss)

In the year ended 31 December 2008, the Group had operating loss of RUR(451.7) million, which increased to an operating profit of RUR3,618.2 million in the year ended 31 December 2009. This change was principally due to an increase in the Group's gross profit margin and a decrease in other operating expenses (due to the decrease in losses related to revaluations and impairments discussed above).

Finance Income

O'Key's finance income increased by RUR4.1 million, from RUR33.7 million in the year ended 31 December 2008 to RUR37.8 million in the year ended 31 December 2009. This increase in O'Key's finance income in 2009 compared to 2008 was due primarily to an increase in bank deposit interest rates from between 3% and 4% per annum in 2008 to between 8% and 9% per annum in the first half of 2009.

Finance Costs

O'Key's finance costs increased by RUR647.3 million, from RUR1,036.6 million in the year ended 31 December 2008 to RUR1,683.9 million in the year ended 31 December 2009.

The following table sets out O'Key's finance costs for the years ended 31 December 2008 and 2009.

	Year ended 31 December	
	2008	2009
	(RUR millions)	
Interest costs on loans and borrowings	(1,011.7)	(1,680.9)
Finance leasing costs	(4.0)	(3.0)
Other costs	(20.8)	—
Total finance costs	<u>(1,036.6)</u>	<u>(1,683.9)</u>

The increase in finance costs in 2009 in comparison with 2008 was primarily due to seasonal fluctuations in short-term borrowings in the first half of 2009, as well as increased interest rates on loans in the same period due to the global financial crisis. For further details on O'Key's indebtedness, see "*Liquidity and Capital Resources—Indebtedness*".

During 2009, the Group capitalised interests in the value of fixed assets and investment property. The amount of capitalised interest comprised RUR233 million which was lower than in 2008 by 18.3%. In 2009, the capitalisation rate was 7.3% as compared to 8.9% in 2008.

In 2008 and 2009, the Company incurred interest expenses in the amount of RUR(223) million and RUR(207) million, respectively, in connection with loans from related parties. See "*Liquidity and Capital Resources—Indebtedness—Description of Material Loans—Loans from the Selling Shareholders*".

Foreign Exchange Gains/(Losses)

During 2008 and 2009 the Group had significant borrowings denominated in U.S. Dollars. The devaluation of the Russian Rouble resulted in a foreign exchange loss for the year ended 31 December 2008 amounting to RUR(1,820.8) million, compared to a loss of RUR(320.8) million for the year ended 31 December 2009. In 2009 and 2008 the Group did not use hedging instruments to hedge foreign exchange risks.

Profit/(Loss) Before Income Tax

For the reasons discussed above, profit before income tax changed by RUR4,926.7 million, from a loss of RUR(3,275.4) million in the year ended 31 December 2008 to a profit of RUR1,651.3 million in the year ended 31 December 2009.

Income Tax Benefit/(Expense)

O'Key's Russian operating companies were subject to income taxes under the laws of the Russian Federation at a rate of 20% for 2009 and 24% for 2008. The following table sets out O'Key's income tax expense in the years ended 31 December 2008 and 2009.

	Year ended 31 December	
	2008	2009
	(RUR millions)	
Current tax benefit/(expense)	(796.1)	(909.8)
Deferred tax benefit/(expense)	1,139.8	(27.1)
Total income tax benefit/(expense)	<u>343.7</u>	<u>(936.9)</u>

In 2009, O'Key's total income tax changed by RUR1,280.6 million. Current tax increased by RUR113.7 million or by 14.3% due to increase in profit from retail operations. Deferred tax changed

by RUR1,166.9 million due to the fact that in 2008 the Group suffered significant losses from revaluation of land and buildings, which resulted in positive deferred tax movement. This situation improved in 2009, resulting in a deferred tax expense.

In the years ended 31 December 2008 and 2009, the Group's applicable tax rate was the income tax of 24% and 20%, respectively. In 2009 the Group's effective tax rate (calculated as income tax expense divided by profit before income tax) was 56.8% and in 2008 this calculation would not be applicable. In 2009, the effective tax rate was further affected by non-recurrent items such as the write-off of deferred tax assets and adjustments to current income tax for previous periods. For further information, see Note 12 to the 2009 Financial Statements. In general, the excess over the nominal tax rate is attributable to inventory shrinkage expenses and other non-deductible expenses.

Profit/(Loss) for the Year

For the reasons discussed above, O'Key's profit for the year increased by RUR3,646.1 million from RUR(2,931.7) million in the year ended 31 December 2008 to RUR714.4 million in the year ended 31 December 2009.

Year Ended 31 December 2008 Compared with the Year Ended 31 December 2007

Revenue

The following table sets out certain key operating performance indicators relevant to retail revenue in the years ended 31 December 2007 and 2008, and the percentage change in these key operating performance indicators between these two periods. See "*Presentation of Financial and Other Information*" for information on the method of calculation of these indicators.

	As at or for the year ended 31 December		Percentage change (%)
	2007	2008	
Selling Space (thousand square metres)	146.3	190.2	30.0
Hypermarkets	140.0	175.3	25.2
Supermarkets	6.3	14.8	135.2
Number of Stores	24	37	54.2
Hypermarkets	17	23	35.3
Supermarkets	7	14	100.0
Average Ticket(1)	701.85	753.59	7.4
Hypermarkets	726.20	808.36	11.3
Supermarkets	364.24	397.83	9.2

The following table sets forth the percentage growth in like-for-like indicators in the year ended 31 December 2007 and 2008.

	Growth between year ended 31 December 2007 and 2008 (in %)
Like-for-like Average Ticket	14.7
Hypermarkets	15.1
Supermarkets	17.6
Like-for-like Traffic	15.3
Hypermarkets	14.1
Supermarkets	31.9
Like-for-like Revenue	32.1
Hypermarkets	31.3
Supermarkets	55.2

O'Key's revenue increased by RUR20,610.1 million, or 67.5%, from RUR30,532.6 million in the year ended 31 December 2007 to RUR51,142.7 million in the year ended 31 December 2008. The increase in revenue was primarily due to an increase in the number of stores by 54.2% in the year ended December 31, 2008 as compared to the year ended December 31, 2007, resulting in the increase of the selling space by 30% in the year ended December 31, 2008 as compared to the year ended December 31, 2007.

O'Key's like-for-like average ticket increased by 14.7% in 2008 in comparison with 2007 as a result of an increase in the number of products purchased per ticket and price inflation. During the same period, like-for-like traffic increased by approximately 15.3%. O'Key believes this increase reflected customers' growing disposable income and loyalty to O'Key's brand due to successful implementation of the Group's customer-oriented business model.

The 20 stores used in O'Key's like-for-like analysis for 2007 and 2008 only include stores that were opened before 1 December 2007 and were not subsequently closed, expanded or downsized.

Cost of Goods Sold and Gross Profit

The following table sets out revenue, cost of goods sold, gross profit and gross margin in the years ended 31 December 2007 and 2008, as well as the percentage change in revenue, cost of goods sold and gross profit between these two periods.

	Year ended 31 December		Percentage change
	2007	2008	
	(RUR millions, except percentages)		(%)
Revenue	30,532.6	51,142.7	67.5
Cost of goods sold	(24,064.7)	(40,381.6)	67.8
Gross profit	6,467.9	10,761.1	66.4
Gross margin⁽¹⁾	21.2%	21.0%	—

Note:

(1) Gross margin is calculated as gross profit divided by revenue, expressed as a percentage.

The following table sets out further details of O'Key's cost of goods sold in the years ended 31 December 2007 and 2008, the percentage of revenue that each of the components of O'Key's

cost of goods sold represented in these two years and the percentage change in each of the components of O'Key's cost of goods sold between these two years.

	Year ended 31 December 2007	Percentage of revenue	Year ended 31 December 2008	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Cost of trading stock sold (less supplier bonuses)	(23,611.4)	(77.3)	(39,554.3)	(77.3)	67.5
Inventory shrinkage	(353.9)	(1.2)	(447.6)	(0.9)	26.5
Logistic costs	(25.6)	(0.1)	(96.1)	(0.2)	275.4
Packing and labelling costs	(73.8)	(0.2)	(283.6)	(0.6)	284.3
Total cost of goods sold	<u>(24,064.7)</u>	<u>(78.8)</u>	<u>(40,381.6)</u>	<u>(79.0)</u>	67.8

O'Key's cost of goods sold increased by RUR16.3 billion, or 67.8%, to RUR40.4 billion in the year ended December 31, 2008 from RUR24 billion in the year ended December 31, 2007. The increase in O'Key's cost of goods sold resulted from an increase in sale volume of trading stock, as a result of an increase in selling space and traffic.

The slight decrease in gross margin was due to market conditions and pricing of products.

General, Selling and Administrative Expenses

O'Key's general, selling and administrative expenses increased by RUR2,283.8 million, or 44.8%, in the year ended 31 December 2008 compared to the year ended 31 December 2007.

The following table sets out further details of O'Key's general, selling and administrative expenses in the years ended 31 December 2007 and 2008, the percentage of revenue that each of the components of O'Key's general, selling and administrative expenses represented in these two years, and the percentage change in each of the components of O'Key's general, selling and administrative expenses between these two years.

	Year ended 31 December 2007	Percentage of revenue	Year ended 31 December 2008	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Personnel costs	(2,303.5)	(7.5)	(3,644.1)	(7.1)	58.2
Depreciation and amortisation . . .	(833.9)	(2.7)	(1,128.4)	(2.2)	35.3
Advertising and marketing	(198.6)	(0.7)	(281.5)	(0.5)	41.7
Operating leases	(135.0)	(0.4)	(294.0)	(0.6)	117.8
Repairs and maintenance costs . .	(123.6)	(0.4)	(184.2)	(0.4)	49.0
Communication and utilities	(625.3)	(2.0)	(750.6)	(1.5)	20.0
Materials and supplies	(87.9)	(0.3)	(54.8)	(0.1)	(37.7)
Security expenses	(231.4)	(0.8)	(314.8)	(0.6)	36.0
Insurance and bank commission .	(93.6)	(0.3)	(181.8)	(0.3)	94.2
Legal and professional expenses .	(81.4)	(0.3)	(87.5)	(0.2)	7.5
Operating taxes	(293.1)	(1.0)	(317.6)	(0.6)	8.4
Other costs	(90.0)	(0.3)	(141.8)	(0.3)	57.6
Total general, selling and administrative expenses	<u>(5,097.3)</u>	<u>(16.7)</u>	<u>(7,381.1)</u>	<u>(14.4)</u>	44.8

The increase in O'Key's general, selling and administrative expenses in 2008 compared to 2007 is principally attributable to increases in personnel costs, mainly as a result of the opening of new stores and operating leases (primarily a result of the opening of more leased stores). As a

percentage of revenue, general, selling and administrative expenses decreased by 2.3 percentage points.

Personnel Costs

The table below sets out details of personnel costs in the years ended 31 December 2007 and 2008.

	Year ended 31 December 2007	Percentage of total personnel costs	Year ended 31 December 2008	Percentage of total personnel costs
	(RUR millions)	(%)	(RUR millions)	(%)
Wages and salaries	(1,196.3)	51.9	(2,105.9)	57.9
Contributions to state pension fund . . .	(624.5)	27.1	(613.4)	16.8
Employee benefits	(466.9)	20.3	(872.4)	23.9
Other	(15.8)	0.7	(52.4)	1.4
Total personnel costs	(2,303.5)	100.0	(3,644.1)	100.0

O'Key's personnel costs increased by 58.2% in 2008 in comparison with 2007, primarily due to increases in wages and wage-related tax payments as a result of the increase in the number of O'Key employees due to the expansion of its operations, and also as a result of an increase in average salary partly attributable to inflation in Russia generally. In the same period, personnel costs as a percentage of revenue decreased by 0.4 percentage points as a result of steps taken by the Company's management to optimise the workforce.

Operating Leases

Expenses on operating leases increased by 117.8% in 2008 as compared to 2007 primarily due to an increase in the number of stores opened on leased premises. In addition, rental payment under a number of O'Key store leases is linked to the Rouble-U.S. Dollar exchange rate. As a result of the devaluation of the Rouble relating to the U.S. Dollar in late 2008, rental payments under such leases increased in Rouble terms.

Communication and Utilities

Expenses on communication and utilities increased by 20% in 2008 as compared to 2007 as a result of large increases in tariffs set by utilities providers due to deregulation of the power market.

The other general, selling and administrative expenses increased in 2008 as compared to 2007 primarily as a result of the opening of new stores.

Other Operating Income and Expenses

O'Key's other operating and income expenses increased by RUR3,506.3 million, from RUR(325.4) million in the year ended 31 December 2007 to RUR(3,831.7) million in the year ended 31 December 2008.

The following table sets out further details of O'Key's other operating and income expenses in the years ended 31 December 2007 and 2008, the percentage of revenue that each of the components of O'Key's other operating and income expenses represented in these two years, and

the percentage change in each of the components of O'Key's other operating income and expenses between these two years.

	Year ended 31 December 2007	Percentage of revenue	Year ended 31 December 2008	Percentage of revenue	Percentage change
	(RUR millions)	(%)	(RUR millions)	(%)	
Gain from sale of fixed assets . . .	10.5	0.03	53.3	0.10	407.6
Profit from disposal of assets held for sale	—	—	95.2	0.19	—
Loss from write-off of receivables .	(9.0)	(0.03)	(12.2)	(0.02)	35.6
Impairment of receivables	(22.9)	(0.08)	(158.3)	(0.31)	591.3
Gain/(loss) from revaluation of investment property	466.4	1.53	(789.2)	(1.54)	—
Loss from revaluation of property, plant and equipment	(766.6)	(2.51)	(2,591.7)	(5.07)	238.1
Loss from impairment of non-current assets	—	—	(469.0)	(0.92)	—
Sundry income and expenses . . .	(3.8)	(0.01)	40.2	0.08	—
Total other operating expenses .	(325.4)	(1.07)	(3,831.7)	(7.49)	1,077.5

As a percentage of revenue, other operating and income expenses increased by 6.4 percentage points in the year ended 31 December 2007 from the year ended 31 December 2008. This increase in other operating expenses as a percentage of revenue was principally a result of a loss incurred following the revaluation of real estate property, which resulted from the deterioration of the Russian real estate market in the last quarter of 2008.

Operating Profit/(Loss)

Operating profit changed by RUR1,496.9 million, from RUR1,045.2 million in the year ended 31 December 2007 to operating loss of RUR(451.7) million in the year ended 31 December 2008. This change in the Company's operating profit was principally due to the loss from the revaluation of the Group's real estate property and other revaluations and impairments (as described above).

Finance Income

Finance income increased by RUR12 million, or 55.3%, from RUR21.7 million in the year ended 31 December 2007 to RUR33.7 million in the year ended 31 December 2008. This increase was primarily due to an increase in cash deposits due to cash received from a larger number of stores in 2008 compared to 2007 and increases in interest rates applicable to cash deposits at the end of 2008.

Finance Costs

O'Key's finance costs increased by RUR87.7 million, or 9.2%, from RUR948.9 million in the year ended 31 December 2007 to RUR1,036.6 million in the year ended 31 December 2008.

In 2007 and 2008, the Company incurred interest expenses in the amount of RUR(232) million and RUR(223) million, respectively, in connection with loans from related parties. See "*Liquidity and Capital Resources—Indebtedness—Description of Material Loans—Loans from the Selling Shareholders*"

The following table sets out O'Key's finance costs for the years ended 31 December 2007 and 2008.

	Year ended 31 December	
	2007	2008
	(RUR millions)	
Interest accrued on loans and borrowings	(908.2)	(1,011.7)
Finance leasing costs	(16.5)	(4.1)
Other finance costs	(24.2)	(20.8)
Total finance costs	<u>(948.9)</u>	<u>(1,036.6)</u>

The increase in finance costs in 2008 in comparison with 2007 was primarily due to growth of O'Key's borrowings. For further details on O'Key's indebtedness, see "*Liquidity and Capital Resources—Indebtedness*".

Foreign Exchange Gains/(Losses)

During 2008, the Group had significant borrowings denominated in U.S. Dollars. The substantial devaluation of the Russian Rouble during the last quarter of 2008 resulted in foreign exchange losses for the year amounting to RUR(1,820.8) million, down from an income of RUR656.5 million. In 2009, the Group had not used hedging instruments to hedge foreign exchange risk.

Profit/(Loss) Before Income Tax

For the reasons discussed above, profit before income tax decreased by RUR4,049.9 million from RUR774.5 million in the year ended 31 December 2007 to RUR(3,275.4) million in the year ended 31 December 2008.

Income Tax Benefit/(Expense)

O'Key's Russian operating companies were subject to income taxes under the laws of the Russian Federation at a rate of 24% during the years ended December 31, 2007 and 2008. The following table sets out O'Key's income tax expense in the years ended 31 December 2007 and 2008.

	Year ended 31 December	
	2007	2008
	(RUR millions)	
Current tax benefit/(expense)	(410.7)	(796.1)
Deferred tax benefit/(expense)	(24.3)	1,139.8
Total income tax benefit/(expense)	<u>(435.0)</u>	<u>343.7</u>

In 2008, O'Key's total income tax decreased by RUR778.7 million. Current tax increased by RUR385.4 million primarily due to an increase in profit from retail operations. Deferred tax decreased by RUR1,164.1 million due to the fact that in 2008, the Group suffered significant losses from revaluation of land and buildings, which resulted in positive deferred tax movement.

In the years ended 31 December 2007 and 2008, the Group's applicable tax rate was the income tax of 24%. In 2007 the Group's effective tax rate (calculated as income tax divided by profit before income tax) was 56.2% and in 2008, this rate was not applicable. See Note 26 to the 2008 Financial Statements. In general, any excess over the nominal tax rate is attributable to inventory shrinkage expenses and other non-deductible expenses.

Profit/(Loss) for the Year

For the reasons discussed above, O'Key's profit for the year changed by RUR3,271.2 million, from RUR339.5 million in the year ended 31 December 2007 to loss of RUR(2,931.7) million in the year ended 31 December 2008.

Liquidity and Capital Resources

In addition to financing O'Key's existing operations, the Company's liquidity needs arise principally from the need to finance the acquisition of land plots for new hypermarkets and supermarkets, the acquisition or construction of new stores, the purchase of machinery and equipment necessary to support O'Key's expanding operations and the ongoing optimisation of its IT systems. During the period under review, O'Key met a part of its liquidity needs with net cash generated from operations and through short- and long-term bank borrowings and, to a lesser extent, through finance leases. The Company expects that net cash generated from operations, equity issuances, short- and long-term loans, bond issuances and leasing will be important sources of cash in the future.

O'Key plans to use the net proceeds of the Offering to partially repay its short-term debt in order to maximise its cash management and interest expense in the near-term.

Recently Incurred Indebtedness

In addition to the proposed issuance of equity, O'Key actively looks for opportunities to refinance its long-term and short-term bank borrowings and to obtain access to additional borrowing facilities to meet its liquidity needs. To this end, since 30 June 2010, O'Key has entered into the following loan agreements:

- In August 2010, O'KEY LLC entered into a RUR1 billion loan agreement with TransCreditbank bearing an interest rate varying from 7.5% to 9% per annum for the term of one year.
- In September 2010, O'KEY LLC entered into a RUR1.5 billion loan agreement with VTB Bank bearing an interest rate of 8% per annum for a term of two years.

See "*—Indebtedness—Description of Material Loan Agreements*" for principal terms of these loan agreements.

During this period, O'Key has also repaid certain amounts of debt. On 30 July and 10 August 2010, the Group repaid in full long-term loans from Sberbank in the total amount of RUR2,608 million. This repayment took place before the final maturity of the loans for the purposes of releasing pledges over the real estate assets that will be sold to Dorinda Estate, an entity controlled by the Selling Shareholders by the end of 2010 (see "*—Recent Developments—Transfer of Assets*"). The Group intends to use the proceeds from the Dispositions to prepay short-term borrowings in the amount of RUR1,622 million. The Group also repaid other secured bank loans in the total amount of RUR500 million.

Cash Flows and working capital

The following table sets out summary cash flow information for the years ended 31 December 2007, 2008 and 2009, and the six-month periods ended 30 June 2009 and 2010:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Net cash used in operating activities	2,567.9	4,584.6	2,872.2	(1,459.8)	719.4
Net cash used in investing activities	(5,181.1)	(4,953.9)	(3,289.6)	(2,122.2)	(1,555.5)
Net cash used in financing activities	2,926.6	446.1	128.3	3,372.6	(157.5)
Net increase/(decrease) in cash and cash equivalents	313.4	76.8	(289.0)	(209.4)	(993.5)
Effect of exchange rate fluctuations on cash and cash equivalents	(73.0)	39.2	77.9	(96.9)	18.4

Cash Generated from Operations

Six months ended 30 June 2010 compared to the six months ended 30 June 2009

Net cash from operating activities changed by RUR2,179.2 million from RUR(1,459.8) million in the six months ended 30 June 2009 compared to RUR719.4 million in the six months ended 30 June 2010. The increase in cash flow from operating activities was primarily due to increase in the Group's profitability and changes in working capital. In turn, changes in working capital were due to a decrease in inventory stocks and an increase in accounts payable in comparable periods.

Year ended 31 December 2009 compared to the year ended 31 December 2008

Net cash from operating activities decreased by RUR1,712.4 million, or 37.4%, from RUR4,584.6 million in the year ended 31 December 2008 to RUR2,872.2 million in the year ended 31 December 2009. This decrease was driven primarily by lower contribution of trade and other payables turnover to the Company's operating cash flow than in the previous year, as suppliers sought to monitor their own cash management policies more closely in response to the financial crisis.

Year ended 31 December 2008 compared to the year ended 31 December 2007

Net cash from operating activities increased by RUR2,016.7 million, or 78.5%, from RUR2,567.9 million in the year ended 31 December 2007 to RUR4,584.6 million in the year ended 31 December 2008. This increase was primarily the result of improved profitability (for example, from optimisation of store personnel), which resulted in increased cash flow from operating activities before changes in working capital.

Cash Flows from Investing Activities

Six months ended 30 June 2010 compared to the six months ended 30 June 2009

Cash used in investing activities was principally used for purchases of property, plant and equipment. The net cash used in investing activities decreased by RUR566.7 million from RUR(2.1) billion in the six months ended 30 June 2009 to RUR(1.6) billion in the six months ended 30 June 2010. This decline was primarily due to a larger proportion of leased store openings than newly constructed store openings in the first half of 2010 compared to the first half of 2009.

Year ended 31 December 2009 compared to the year ended 31 December 2008

Cash used in investing activities was principally used for purchases of property, plant and equipment. Such purchases accounted for RUR(4.7) billion of net cash used in investing activities in the year ended 31 December 2008 and for RUR(3.2) billion of net cash used in investing activities in the year ended 31 December 2009. The net cash used in investing activities declined from RUR(4,953.9) million in 2008 to RUR(3,289.6) million in 2009. Such decline was primarily due to the opening of new leased stores and the reduction of O'Key's investment programme due to the economic crisis.

Year ended 31 December 2008 compared to the year ended 31 December 2007

Cash used in investing activities was principally used for purchases of property, plant and equipment, purchase of lease rights and acquisition of Ramstore stores in the year ended 31 December 2008. In 2007, purchases of property, plant and equipment and purchase of lease rights accounted for RUR(5.3) billion of net cash used in investing activities. In 2008, purchases of property, plant and equipment (RUR4,599.2 million), purchase of lease rights (RUR54.7 million) and acquisition of Ramstore stores (RUR588.9 million) accounted for RUR(5.2) billion of net cash used in investing activities. The net cash used in investing activities decreased in 2008 by 4.4% as compared to 2007. The decrease was due to a large number of openings of new leased stores in 2008 which required less investment and reduction of the investment budget at the beginning of the financial crisis.

Cash Flows from Financing Activities

Six months ended 30 June 2010

Net cash used in financing activities in the six months ended 30 June 2010 was equal to RUR(157.5) million. This principally reflected financing of the Group's operations and expansion programme by cash from operating activities.

Year ended 31 December 2009

Net cash from financing activities in the year ended 31 December 2009 was equal to RUR128.3 million. This principally reflected the receipt of proceeds from borrowings in the amount of RUR17.17 billion, partially offset by the repayment of existing borrowings in the amount of RUR17.13 billion. O'Key also received RUR121.8 million from the issuance of shares following a share capital increase in August of 2009 and used RUR34.2 million to repay obligations under finance leases. See "*Description of Share Capital and Applicable Luxembourg Legislation*".

Year ended 31 December 2008

Net cash from financing activities in the year ended 31 December 2008 was equal to RUR446.1 million. This principally reflected the receipt of proceeds from borrowings in the amount of RUR11.4 billion, partially offset by the repayment of existing borrowings in the amount of RUR(10.9) billion. O'Key also used RUR51.9 million to repay obligations under finance leases.

Year ended 31 December 2007

Net cash from financing activities in the year ended 31 December 2007 was equal to RUR2,926.6 million. This principally reflected the receipt of proceeds from borrowings in the amount of RUR11.6 billion, partially offset by the repayment of existing borrowings in the amount of RUR8.6 billion. O'Key also used RUR70.1 million to repay obligations under finance leases.

Working Capital

O'Key's primary sources of liquidity are cash provided from operating activities and debt financing. As of 30 June 2010, O'Key's working capital, defined as current assets (excluding cash and cash equivalents and short-term investments) minus current liabilities (excluding short-term loans and short-term obligations under finance leases), was negative RUR2,804 million. O'Key believes that the measures of working capital in the food retail industry are customarily negative and that maintaining a negative working capital position is desirable.

Capital Expenditures

O'Key made capital expenditures, which consist of all additions to property, plant and equipment, of approximately RUR4.7 billion, RUR4.8 billion, RUR3.4 billion and RUR1.5 billion in the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. O'Key funded its capital expenditures in the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 in part from cash from operations and in part from funds raised through bank borrowings.

O'Key's capital expenditures during the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 have principally resulted from the expansion of its operations, purchase of land plots and the increase in the number of stores, including construction of new hypermarkets. The following table summarises the Company's capital expenditures in the years ended 31 December 2007, 2008 and 2009 and in the six-month periods ended 30 June 2009 and 2010.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	(RUR millions)				
Land	686.6	1,059.4	92.0	92.0	—
Buildings	1,552.9	1,556.2	1,525.7	892.1	176.5
Machinery and equipment	708.5	546.7	568.2	178.4	481.9
Other assets	441.6	255.0	246.1	140.2	232.0
Construction in progress	1,321.4	1,223.0	524.7	283.4	254.6
Equipment under finance leases	—	201.5	446.1	142.3	334.4
Total capital expenditures	4,711.0	4,841.8	3,402.8	1,728.4	1,479.4

Capital expenditures represent the additions to property, plant and equipment as set out in note 8 to the 2007 Financial Statements, note 9 to the 2008 Financial Statements, note 13 to the 2009 Financial Statements and note 12 to the Unaudited Interim Consolidated Financial Statements for the six months ended 30 June 2010.

In 2010, O'Key plans to make capital expenditures of approximately RUR4,500 million, of which approximately RUR1,479.4 million was spent by 30 June 2010. The amount spent on capital expenditures in 2011 will be dependent on market conditions, cash flow from operations and available financing at the time of the proposed expenditures. The Company currently expects to fund these capital expenditures from the net proceeds from the Offering, operating cash flows and borrowings.

In the medium term, O'Key intends to expand its chain of hypermarkets and supermarkets, acquire land plots for new stores, and purchase machinery and equipment necessary to support its expanding operations. To successfully pursue this strategy, O'Key will require high levels of capital expenditures. There can be no assurances that O'Key will have sufficient cash flows to successfully execute this strategy.

The Group expects to finance its capital expenditure, as well as its debt service needs, through a combination of its operating cash flows and borrowings.

The Group's ability to obtain adequate financing to satisfy its investment and debt service requirements may be limited by its financial condition and results of operations and the liquidity of the international and domestic financial markets as well as its ability to access these markets. Any failure by O'Key to achieve timely rollover, extension or refinancing of its short-term and long-term debt may result in its inability to meet its obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable and may delay its capital expenditure programme and long-term investments plan.

In view of the Group's current creditworthiness and the current availability of funds and taking into consideration the financial resources available to the Group, including its internally generated funds, and the presently available banking facilities, O'Key believes that it has sufficient liquidity to meet its ongoing needs for 2010.

Indebtedness

The following table sets out O'Key's total debt as at the dates indicated. As at 31 December 2007, 2008 and 2009 and as of 30 June 2010, 52.3%, 28.7%, 30.2% and 37.3%, respectively, of the Company's debt was denominated in Roubles, with the remainder denominated in U.S. Dollars.

	As at 31 December			As at
	2007	2008	2009	30 June 2010
	(RUR millions)			
Non-current liabilities				
Secured bank loans	5,035.2	2,704.3	7,677.6	6,873.3
Unsecured bank loans from related parties	714.5	1,621.2	1,348.9	634.2
Unsecured loans from third parties	—	—	—	0.8
Total non-current liabilities	5,749.7	4,325.5	9,026.5	7,508.3
Current liabilities				
Secured bank loans	4,564.5	7,821.8	5,622.9	7,521.0
Unsecured loans from related parties	2,432.5	832.6	813.9	576.0
Unsecured bank facilities	32.5	2,113.3	—	—
Unsecured loans from third parties	—	—	2.9	3.9
Total current liabilities	7,029.5	10,767.8	6,439.7	8,100.9

Out of O'Key's total debt, as at 31 December 2007, 2008 and 2009 and as of 30 June 2010, 84.1%, 95.5%, 98.5% and 93.8% of the debt had fixed interest rates and 15.9%, 4.5%, 1.5% and 6.2% of the debt had floating interest rates, respectively.

O'Key considers the ratio of net debt (including obligations under finance leases) to EBITDA as the principal statistic for evaluating the impact of the total size of its borrowings on its operations. As at 31 December 2007, 2008 and 2009 and 30 June 2010, O'Key's net debt to EBITDA ratio was 5.1, 3.0, 2.4 and 2.2, respectively. Net debt to EBITDA represents a non-IFRS measure and may not be comparable to similarly titled measures disclosed by other companies, and investors should not use this non-IFRS measure as a substitute for figures provided in the Company's Consolidated Financial Statements. See "Selected Consolidated Financial Information and Operating Data" for a discussion of O'Key's calculation of EBITDA.

Short-Term Borrowings

During the periods under review, O'Key entered into a number of short-term, Rouble-denominated credit facilities. As at 30 June 2010, O'Key was a party to such agreements with Sberbank, VTB Bank, Credit Europa Bank, TransCreditbank, URALSIB and Bank Saint Petersburg. As at 30 June 2010, the total amount outstanding under the Company's short-term borrowings (excluding short-term obligations under finance leases) was RUR8,100.9 million. All short-term borrowings are secured by intra-group suretyships.

Long-Term Borrowings

During the periods under review, O'Key entered into a number of long-term, Rouble-denominated and USD-denominated credit facilities. As at 30 June 2010, O'Key's long-term indebtedness consisted of loan agreements with Sberbank, Swedbank, CJSC UniCredit Bank ("**UniCredit Bank**"), VTB Bank and EBRD. As at 30 June 2010, the total amount outstanding under O'Key's long-term borrowings (excluding long-term obligations under finance leases) was RUR7,508.3 million.

Description of Material Loan Agreements

Set out below is a description of O'Key's most significant borrowings as at 30 June 2010:

EBRD loan

In June 2008, Dorinda JSC entered into a loan agreement with EBRD pursuant to which EBRD has agreed to lend U.S.\$200 million in three tranches with maturity in July 2015 and an interest rate of 3.15% per annum plus the Interbank rate. The purpose of the loan was to finance regional expansion through the acquisition/lease of land plots, equipment, construction/refurbishment, setting-up and/or acquisition/lease of new supermarkets or hypermarkets operated under the O'Key trade name, as well as to refinance existing financial debt for an amount of up to U.S.\$86 million. As at 30 June 2010, the total amount outstanding under the EBRD loan was U.S.\$200 million. Dorinda JSC secured the loan by several pledges of hypermarkets and land plots it owns as well as by a pledge of lease rights under the land lease agreements. Under the agreement, Dorinda JSC agreed to pay commitment fees of between 0.25% and 0.50% with respect to each of the three tranches. Additionally, under the agreement, the Company must maintain, on a consolidated basis, (i) a Debt Service Coverage Ratio of not less than 1.3:1.0 calculated for the preceding twelve months, and (ii) a ratio of Financial Debt to EBITDA of not more than 4.0:1.0 for 2009 and 3.8:1.0 thereafter. The Company also agreed (i) not to enter into any operating leases of more than U.S.\$15,000,000 in any financial year, excluded extensions and renewals of existing leases (ii) not to sell, transfer, lease or otherwise dispose of all or a substantial part of its key assets of the Group with an aggregate value exceeding 10% of the Group's core assets and (iii) not declare and/or pay any dividend and/or make any distribution on its share capital, unless the Company's financial debt to EBITDA ratio is not greater than 4.0:1.0, and unless the aggregate amount of any such dividend does not exceed 25% of the Company's consolidated net profits for the immediately preceding financial year as shown in the Company's (consolidated) Financial Statements for such financial year prepared in accordance with IFRS.

On 30 October 2010, the loan agreement was amended by the deed of amendment pursuant to which the Company agreed not to enter into any agreement or arrangement to guarantee or, in any way or under any condition, to become obligated for all or any part of any financial or other obligation of another person; provided that (always subject to the Debt Service Coverage Ratio, Financial Debt to EBITDA Ratio and Security Coverage Ratio requirements under the agreement) the Company and its subsidiaries may enter into, or incur, such guarantee agreements or

obligations only as security for the obligations of Mr. Dmitry Korzhev, Mr. Dmitrii Troitckii and Mr. Boris Volchek or of other entities controlled by them and up to an aggregate amount not exceeding U.S.\$80,000,000 in any financial year (on the Company's consolidated basis).

In July 2010, the loan was hedged against potential Rouble devaluation risks. The interest rate including the cost of hedging is 9.45% per annum. The swap agreement is for 5 years. Notional amount per swap agreement is U.S.\$200 million and is equal to the principal amount of outstanding loan from EBRD as at 30 June 2010.

The Company, O'KEY LLC and Dorinda JSC entered into a Deed of Guarantee, Subordination, Share Retention and Project Support as a condition precedent to disbursements under the EBRD loan, under which each provided a guarantee of (i) performance of all obligations and payment of all sums due under the loan agreement; and (ii) each agreed that certain intra-Group obligations would be subordinated in respect of the EBRD loan. The Company also undertook to at all times retain (i) 100% of the share capital and voting rights of Dorinda JSC and (ii) 100% of the participatory interests and voting rights in O'KEY LLC.

Loan agreement with UniCredit Bank

In June 2008, Dorinda JSC entered into a loan agreement with UniCredit Bank in the amount of U.S.\$29 million with maturity in June 2013 and an interest rate of 12-month LIBOR plus 3.9% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately U.S.\$24 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee.

In September 2008, Dorinda JSC entered into an additional loan agreement with UniCredit Bank in the amount of U.S.\$8 million with maturity in September 2013 and an interest rate of 12-month LIBOR plus 5% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately U.S.\$7 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee.

Under UniCredit Bank loan agreements, UniCredit Bank is entitled to accelerate an early repayment of the loans in case of, *inter alia*, the conclusion by a borrower of a transaction or a number of transactions with the value exceeding 25% of the balance value of the borrower's assets.

Loan agreements with Sberbank

Dorinda JSC

In March 2006, Dorinda JSC entered into a non-revolving credit line agreement with Sberbank in the amount of U.S.\$19,680,000 with maturity in August 2010 and an interest rate of 8% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately U.S.\$14.3 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee. In August 2010, the debt under this agreement was fully repaid.

In June 2006, Dorinda JSC entered into a non-revolving credit line agreement with Sberbank in the amount of U.S.\$30 million with maturity in August 2010 and an interest rate of 9.10% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately U.S.\$12 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee. In August 2010, the debt under this agreement was fully repaid.

In June 2007, Dorinda JSC entered into a loan agreement with Sberbank in the amount of RUR761.5 million with maturity in August 2010 and an interest rate of 12.75% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately RUR427.9 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee. In August 2010, the debt under this agreement was fully repaid.

In November 2007, Dorinda JSC entered into a non-revolving credit line agreement with Sberbank in the amount of RUR1,502,650,000 with maturity in August 2010 and an interest rate of 13.25% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately RUR1,393.5 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee. In August 2010, the debt under this agreement was fully repaid.

In 2009, Dorinda JSC failed to comply with the negative net assets covenant under one of the Sberbank loans, which resulted in cross default of the other three Sberbank loans described above. In order to avoid an event of default, Dorinda JSC obtained from Sberbank a letter stating that Sberbank did not intend to exercise its right to accelerate the repayment of the loans.

LLC O'Key

In June 2010, O'KEY LLC entered into a general agreement for a revolving credit line agreement with Sberbank in the amount of RUR1,800 million with an interest rate of 7.75% per annum.

On the basis of the above framework agreement, O'KEY LLC entered into two revolving credit line agreements. The first, dated 3 June 2010, is in the amount of RUR500 million with maturity in November 2010 and an interest rate of 7.75% per annum. As at 30 June 2010, the total amount outstanding under this agreement was RUR500 million. The second, dated 28 June 2010, is in the amount of RUR1,300 million with maturity in December 2010 and an interest rate of 7.75% per annum. As at 31 July 2010, the total amount outstanding under this agreement was RUR1,300 million. Both agreements are secured by a guarantee provided by Dorinda JSC and entitle the bank to unilaterally increase and decrease the interest rates.

Loan agreements with VTB Bank

Dorinda JSC

In July 2006, Dorinda JSC entered into a loan agreement with VTB Bank in the amount of U.S.\$22.5 million with maturity in May 2012 and an interest rate of 10% per annum. In August 2009, the parties agreed to change the currency of the loan. As at 30 June 2010, the total amount outstanding under this agreement was approximately RUR268.3 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee.

In September 2006, Dorinda JSC entered into a loan agreement with VTB Bank in the amount of U.S.\$57 million with maturity in August 2011 and an interest rate of 10% per annum to refinance its indebtedness to CJSC SEB Russkiy Leasing and expenses in connection with construction of hypermarkets. In August 2009, the parties agreed to change the currency of the loan. As at 30 June 2010, the total amount outstanding under this agreement was approximately RUR497.7 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee.

In August 2008, Dorinda JSC entered into a loan agreement with VTB Bank in the amount of U.S.\$25 million with maturity in August 2011 and a variable interest rate of 10% per annum. In January 2009, the parties agreed to change the currency of the loan. As at 30 June 2010, the total amount outstanding under this agreement was approximately RUR393.7 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee.

Under the three agreements described above, VTB Bank is entitled to unilaterally change the interest rates and to declare early repayment in case of, *inter alia*, (a) decrease of revenue by more than 20% in the reporting period as compared to the revenue results in the previous reporting period, (b) occurrence of losses in the reporting period and (c) decrease of monthly cash inflow to operating accounts opened with the bank by more than 20% as compared to the cash inflow in any of the previous months.

In 2009, Dorinda JSC decreased cash inflows to its operating accounts opened with VTB Bank by 20% in comparison with other cash inflows which occurred in previous months, which resulted in default under the three loan agreements described above. In July 2009, VTB Bank confirmed to Dorinda JSC that it would not exercise its right to accelerate the loans.

LLC O'Key

In March 2010, O'KEY LLC entered into two credit line agreements with VTB Bank in the amount of RUR1,000 million under each with maturity in March 2012 and an interest rate of 8.50% and 7.90% per annum, respectively. As at 30 June 2010, the total amount outstanding under these agreements was approximately RUR636.5 million and RUR600.8 million, respectively. The agreements are secured by the guarantees provided by Dorinda JSC and entitle the bank to unilaterally change the interest rates.

In September 2010, O'KEY LLC entered into a credit line agreement with VTB Bank in the amount of RUR1,500 million with maturity in August 2012 and an interest rate of 8% per annum. As at 30 September 2010, the total amount outstanding under the loan agreement was RUR1,500 million. The agreement is secured by a guarantee provided by Dorinda JSC and entitles the bank to unilaterally change the interest rate.

Loan agreements with Swedbank

In July 2005, Dorinda JSC entered into a loan agreement with Swedbank in the amount of U.S.\$18 million with maturity in July 2012 and an interest rate of three-month LIBOR plus 5% per annum. Under the loan agreement Dorinda JSC agreed, *inter alia*, to (a) refrain, without written notification of the lender, from disposing of, assigning, transferring or pledging to third parties any property where its market value exceeds U.S.\$20,000,000; (b) maintain EBITDA to consolidated payments of the borrower and O'KEY LLC as guarantor under a facility agreements ratio not lower than 1.1; and (c) maintain a Debt Service Coverage Ratio at a level not lower than 1.2. In December 2009, the covenant on EBITDA to consolidated payments of the borrower and O'KEY LLC under the facility agreements ratio was amended so that starting from 3 December 2009, the borrower had to maintain the Group's debt to EBITDA ration at a level not higher than 4. As at 30 June 2010, the total amount outstanding under this agreement was approximately U.S.\$10.2 million. Dorinda JSC granted security over certain real estate and O'KEY LLC provided a guarantee.

In the first half of 2009, Dorinda JSC failed to comply with a covenant on the maintenance of the ratio of EBITDA to consolidated payments of the borrower and O'KEY LLC as guarantor under the facility agreements. This resulted in default under the loan agreement. In July 2009, Swedbank confirmed to Dorinda JSC that it would not exercise its right to accelerate the loan.

In July 2007, Dorinda JSC entered into a loan agreement with Swedbank in the amount of U.S.\$10.5 million with maturity in July 2014 and an interest rate of six-month LIBOR plus 5% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately U.S.\$7.2 million. Dorinda JSC granted subsequent security over certain real estate and O'KEY LLC provided a guarantee.

Credit line agreement with TransCreditbank

In November 2009, O'KEY LLC entered into a credit line agreement with TransCreditbank in the amount of RUR1 billion with maturity in November 2010 and an interest rate of 8.2% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately RUR500 million. The agreement is secured by a guarantee provided by Dorinda JSC.

In August 2010, O'KEY LLC entered into a credit line agreement with TransCreditbank in the amount of RUR1 billion with maturity in August 2011 and an interest rate varying from 7.5% to 9%

per annum. As at 30 September 2010, the total amount outstanding under this agreement was approximately RUR1,000 million. The agreement is secured by a guarantee provided by Dorinda JSC.

Under the two loan agreements described above, the borrower shall not, without prior written consent of the bank, *inter alia*: (a) dispose of (including to sell) or rent out assets which consolidated net value (for three months) exceeds 10% of its book value and (b) encumber (pledge or otherwise) assets (excluding in favour of the bank) which consolidated net value exceeds 10% of its book value and/or grant any other security (including a guarantee) in favour of third parties for its obligations or obligations of third parties the liability under which exceeds 10% of the borrower's book value. Furthermore, under the agreements, TransCreditbank is entitled to declare early repayment of the loans if, *inter alia*: (a) the borrower fails to comply with the above described restrictive covenants, (b) the financial conditions of the borrower or the guarantor has significantly deteriorated, including, occurrence of negative net assets of the borrower or decrease of revenue of the borrower by more than 40% in comparison with the previous reporting period.

Loan agreement with OJSC Saint Petersburg Bank ("SPB")

In March 2010, O'KEY LLC entered into a loan agreement with SPB in the amount of RUR1 billion with maturity in November 2010 and an interest rate of 8.20% per annum. As at 30 June 2010, there was no outstanding debt under this agreement. The agreement is secured by a guarantee provided by Dorinda JSC.

Loan agreement with CJSC Credit Europe Bank ("CEB")

In June 2010, O'KEY LLC entered into a loan agreement with CEB in the amount of RUR600 million with maturity in November 2011 and an interest rate of 7% per annum. As at 30 June 2010, the total amount outstanding under this agreement was approximately RUR600 million. The agreement is secured by a guarantee provided by Dorinda JSC.

Loans from the Selling Shareholders

In September 2003 Axus Financial Limited, one of O'Key's subsidiaries, acting as borrower, entered into a loan agreement with Taruga Limited, an entity affiliated with Mr. Teder, Mr. Troitckii and Mr. Korzhev, three of the beneficial owners of the Company, in the amount of U.S.\$400,000. This amount was increased by additional agreements up to approximately U.S.\$140 million by the end of 2006. In 2006, part of the loan was forgiven by the lender. The debt forgiveness was treated by the Group as contribution from shareholders and amounted to approximately U.S.\$52 million. The original maturity was September 2006 which was subsequently changed to January 2013. The loan was initially interest-free. The interest rate was set at 14.5% per annum in 2006 and was subsequently reduced to 10% in April 2008. In 2008, Repofin Limited, an entity affiliated with Mr. Troitckii and Mr. Korzhev, two of the beneficial owners of the Company, replaced the original lender as the lender of record. In 2009, Axus Financial Limited entered into a novation agreement pursuant to which it was agreed to novate the initial loan agreement by division of the obligations of the borrower into two separate loan agreements, one for approximately U.S.\$23 million and the other for approximately U.S.\$20 million. As at 30 June 2010, the total amount outstanding under these agreements was approximately U.S.\$20.3 million.

In August and April 2006 Dorinda JSC, acting as borrower, entered into two loan agreements with Ascent Capital Ltd., an entity affiliated with Mr. Troitckii and Mr. Korzhev, two of the beneficial owners of the Company, in the total amount of U.S.\$70 million. The interest rate was 9% per annum and increased to 10% in May 2008. In 2008, Repofin Limited, an entity affiliated with Mr. Troitckii and Mr. Korzhev, two of the beneficial owners of the Company, replaced the original lender as the

lender of record, and the maturity was extended until 31 December 2010. As at 30 June 2010, the total amount outstanding under these agreements was approximately U.S.\$18.5 million.

Finance Leases

O'Key entered into finance leases with CJSC SEB Russian Leasing and Hansa Leasing for the leasing of cars, trading equipment and engineering equipment which were terminated in 2010.

Contractual Obligations and Commercial Commitments

The following table sets forth the Company's aggregate contractual obligations and commercial commitments as at 30 June 2010 and the payments due by period under such obligations and commitments.

<u>(RUR millions)</u>	As at 30 June 2010				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Secured bank loans	14,394.3	7,521.0	3,057.1	1,944.5	1,871.7
Finance lease liabilities	19.8	19.8	0.0	0.0	0.0
Unsecured bank loans	0.0	0.0	0.0	0.0	0.0
Unsecured loans from related parties	1,210.3	576.0	0	634.2	0.0
Unsecured loans from third parties	4.6	3.9	0.8	0	0.0
Trade and other payables	8,710.9	8,710.9	0.0	0.0	0.0
Interest rate swap liabilities	60.2	60.2	0.0	0.0	0.0
Total contractual obligations and commercial commitments	24,400.1	16,891.8	3,057.9	2,578.7	1,871.7

Off-Balance Sheet Arrangements

Historically, O'Key has not used special-purpose vehicle or similar financing arrangements. In addition, O'Key does not have any material off-balance sheet arrangements with any of its affiliates or with any unconsolidated entities.

Non-cancellable operating lease rentals are payable as follows:

<u>(RUR millions)</u>	As at 30 June 2010	As at 31 December 2009
Less than on year	365,866	485,781
Between one and five years	1,198,317	1,152,053
More than five years	4,189,703	3,659,317
Total	5,753,886	5,297,151

Critical Accounting Policies

In the application of its accounting policies, the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that the Company considers relevant. Actual results may differ from these estimates.

The most significant areas requiring the use of management estimates and assumptions relate to provision for income taxes, impairment of non-current assets, deferred tax asset recognition, revaluation of land and buildings and investment properties.

Taxation

The Group is subject to income tax and other taxes in various jurisdictions. The major part of the tax burden is in the Russian Federation. Significant judgment is required in determining the provision for income and other taxes due to the complexity of the Russian tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. O'Key recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made. See Note 29(b) to the 2009 Financial Statements.

Impairment of non-current 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. Objective evidence 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, and indications that a debtor will enter bankruptcy. 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. 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. Receivables that are not individually significant are collectively assessed by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default and timing of recovering 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.

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 such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is determined as the higher 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. 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.

Deferred tax asset recognition

The deferred tax assets represents income taxes recoverable through future reductions from taxable profits. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. O'Key's management makes judgements in determining future taxable profits and the amount of tax benefit that are probable and applies estimations based on the expectations of future income that are believed to be reasonable under the circumstances.

Revaluation of land and buildings and investment properties

The Group's land and buildings and investment properties are evaluated annually, for each reporting date, by independent appraisers. In respect of fair value of land, appraisers use the market approach, which considers prices recently paid for similar properties, with adjustments to the natures, conditions and locations of the appraised properties. In respect of buildings, appraisers

use the market approach, mainly for supermarkets, and the income approach which estimates annual net operating income for five years based on annual net rent rate and full occupancy. Discount rates are applied in the income based approach, dependent on local risk factors.

Disclosure about Market risk

Credit Risk

O'Key's financial assets, which are exposed to credit risk, consist of trade and other receivables, loans issued and cash and cash equivalents. The Group has no significant concentration of credit risk due to the nature of its retail business.

The Group's trade receivables primarily include receivables from tenants and suppliers to whom advertising services are provided. The majority of O'Key's customers are retail consumers who are not provide with any credit, therefore the Group does not have a considerable balance of trade receivables. O'Key manages credit risk associated with trade receivables through procedures for selection of suppliers and tenants.

The credit risk associated with loans issued to the related parties is insignificant due to *de minimis* amounts lent.

Cash is placed in financial institutions which are considered to have minimal risk of default at the time of deposit.

Due to the fact that the Group's business is located in Russia, the credit risk is mainly associated with the Russian market.

Currency risk

O'Key's currency risk arises from financial liabilities denominated in currencies other than the Rouble. Such financial liabilities include obligations under import contracts and loans denominated in U.S. Dollars. During 2008 and 2009 O'Key had significant borrowings denominated in U.S. Dollars and had a loss as a result of devaluation of the Rouble in both years. In 2009 and 2008 the Group did not use hedging instruments to hedge foreign exchange risks. In July 2010, the Group sought to reduce its exposure to foreign exchange risk associated with certain of its borrowings denominated in currencies other than the Rouble and entered into a currency hedging arrangement with respect to the EBRD U.S.\$200 million loan. O'Key expects to have increased exposure to currency exchange fluctuations in connection with the planned increase of its import operations, which are denominated in foreign currencies.

Liquidity risk

O'Key is exposed to daily calls on its available cash resources. Liquidity risk is managed by O'Key's Treasury under the supervision of the Group's CFO. The Group manages liquidity risk by seeking to maintain financial independence through controlling the share of one creditor on the Group's debt portfolio, monitoring compliance with debt covenants, controlling the Debt/EBITDA ratio and planning cash flows through preparation of operating, investing and financing forecasts. As at 30 June 2010, O'Key's weighted average interest rate on RUR-denominated debt was approximately 9.9% and on U.S. Dollar-denominated debt was approximately 6.3% (weighted average interest rate on U.S. Dollar-denominated debt calculated based on fixed rates under interest rate swap contracts used to hedge interest rate risk under several credit facilities).

Interest rate risk

O'Key has material exposure to interest rate risk. As at 31 December 2009, 83% of the Group's financial liabilities were subject to re-pricing within six months after the reporting date. The Group uses interest rate swaps to hedge its exposure to variability of interest rates. As at 31 December 2009, the Group hedged 95% of its borrowing with variable rate.

RUSSIAN FOOD RETAIL INDUSTRY

All data referenced below has been sourced from publicly available information. While the Company has accurately extracted this data, it has not been independently verified by the Company, the Selling Shareholders or the Managers. Where all the data in one paragraph is from the same source, that source is shown in parentheses at the end of the relevant paragraph.

Economy and Demographics

Population

As at 1 January 2010, Russia had a population of 141.9 million, making it Europe's most populous country. Approximately 7.4% of the Russian population, or 10.5 million people, live in Russia's capital Moscow, while approximately 18% live in cities with a population of over one million (as outlined below).

<u>Largest cities by population</u>	<u>As at 1 January 2010</u>	
	<u>Population</u>	<u>%</u>
Moscow	10,563,038	7.4
St. Petersburg	4,600,276	3.2
Novosibirsk	1,409,137	1.0
Yekaterinburg	1,343,839	1.0
Kazan	1,136,566	0.8
Samara	1,133,754	0.8
Nizhniy Novgorod	1,271,045	0.9
Omsk	1,127,675	0.8
Chelyabinsk	1,095,909	0.8
Rostov-on-Don	1,048,124	0.7
Ufa	1,030,812	0.7
Total	<u>25,760,175</u>	<u>18.1</u>

Source: Rosstat 2010

Consumer Spending

According to *Planet Retail*, Russia is by far the largest consumer market in Central and Eastern Europe. From 1999 until 2008, consumer spending in Russia increased significantly as the economy grew.

In 2009, the global financial crisis caused a significant decrease in disposable income and consumer spending in Russia in U.S. Dollar terms (though much of it was attributable to the Rouble devaluation effect), as demonstrated in the tables below:

<u>Key consumer spending indicators</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Consumer spending (U.S.\$ in millions)	482,466	631,718	811,328	608,996
Consumer spending per capita (U.S.\$)	3,379	4,442	5,714	4,307

Source: Planet Retail

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
		(U.S.\$ per month)			
Personal disposable income	249	319	413	490	453
Private consumption per head	221	280	367	472	394

Source: EIU 2010

The Russian inflation rate (measured as the change in the Consumer Price Index) was 13.3% in 2008, but decreased to 8.8% in 2009. (Source: Rosstat (2010)) In the six months ended 30 June 2010, inflation was 4.4% and in the year ended 30 June 2010, inflation was 6.6%. (Source: CBR, 2nd Quarter 2010 Inflation Report)

The following table sets out additional information on inflation in Russia at the end of 2006, 2007, 2008 and 2009 in percentages of the preceding years.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
		(%)		
Food products	8.7	15.6	16.5	6.1
Non-food products	6.0	6.5	8.0	9.7
Paid services	13.9	13.3	15.9	11.6
Overall Inflation (Consumer Price Index)	9.0	11.9	13.3	8.8

Source: CBR, 2nd Quarter 2010 Inflation Report

Russian Retail Market Overview

The Russian retail market is one of the most crisis defensive sectors of the Russian economy. (Source: RBC) According to *Euromonitor*, store based retail sales in Russia grew by an average of 21.0% per year from 2006 to 2008, reaching RUR7,870 billion in 2008. In 2009, retail sales decreased by 1.8% as compared to 2008 mainly due to the significant Rouble devaluation.

The following table shows the growth rates of different industries in Russia by sales. Food retail is among the fastest growing sectors with an 11% growth rate.

<u>Sales 2009 YOY growth</u>	<u>%</u>
Telecoms	16
Utilities	14
Food Retail	11
Transport	4
Food & Beverages	4
Agriculture	3
Textile	0
Mining	(5)
Chemicals	(14)
Construction	(19)
Machinery	(26)
Metallurgy	(29)

Source: Rosstat (2010)

Russia is one of the largest food retail markets in Europe with one of the lowest rates of penetration of modern retail format among Western and Central European countries, as well as the U.S. and Japan, as demonstrated by the tables below:

<u>Country</u>	Food Retail Sales (2009) U.S.\$ Billion
France	272
Germany	221
U.K.	197
Italy	159
Russia	143
Spain	126
Turkey	56
Poland	44
Sweden	30
Portugal	27
Norway	24
Finland	20
Hungary	15
Czech Republic	14

Source: *Euromonitor 2009*

<u>Country</u>	Modern retail penetration rate (2009) (%)
Russia	34
Turkey	46
Poland	57
U.S.	71
Spain	72
Italy	73
Japan	73
Hungary	78
Germany	80
Czech Republic	80
U.K.	83
France	87
Finland	88

Source: Rosstat (2010) and Euromonitor Insight

There is also a significant undersupply of hypermarkets in Russia, with an average of two hypermarkets per one million people (compared with three in Moscow, eleven in St. Petersburg and fourteen in Europe). (*Source: A.C. Nielsen*) At the same time, the market share of the hypermarket segment of the Russian food retail market has increased from 1% in 2003 to 9% in 2009. (*Source: Euromonitor*)

Retail Sales

On a nationwide basis, retail sales accounted for almost 60% of overall consumer spending in 2009, representing a high proportion when compared to Western European or even Central European levels. This is due to the fact that the overall standard of living in Russia continues to be much lower than in Western Europe or North America, which means that local consumers after addressing their more essential needs have a relatively small proportion of their incomes left over to spend on non-retail items, such as property, cars, holidays, health and education. (Source: Planet Retail)

The low level of market concentration in Russia compared to much of the Western World is reflected by the market share of the top-five retailers in these areas in terms of value:

<u>Country</u>	<u>Share of top-five retailers (2009) (%)</u>
Sweden	89
France	63
Germany	63
Portugal	61
Spain	60
U.K.	54
Hungary	50
Czech Republic	45
Italy	33
U.S.	28
Russia	21

Source: Planet Retail as of 25 June 2010

Retail sales in Russia are mainly concentrated in Moscow, St. Petersburg and large regional cities where per capita retail figures are significantly higher than the national average. As modern retail stores have recently started to spread into densely populated regions (Central, Southern Russia) and industrial regions (Urals, West Siberia), overall retail sales in these regions have also increased. (Source: Planet Retail)

Modern retail concentration (2009 data)

<u>Regions</u>	<u>Population (million people)</u>	<u>Total retail turnover (RUR billions)</u>	<u>Retail turnover per capita (RUR thousands)</u>
Volga	30.2	2,667	88
Urals	12.3	1,511	123
North-West (excl. St. Petersburg)	8.9	761	85
Far East	6.5	594	91
Central (excl. Moscow)	26.6	2,393	90
Southern	22.9	1,942	85
Siberia	19.6	1,592	81
Moscow	10.5	2,528	241
St. Petersburg	4.6	615	134

Source: Rosstat data from RBC Report

As shown in the table below, store based food retail sales in Russia grew by an average of 30% per year from 2006 to 2009. Store based food retail sales reached RUR4,872 billion in 2009, or

63% of the total retail trade turnover (*Source: Euromonitor*) 67% of Russians living in cities with a population over 500,000 people mainly buy their groceries at modern retail stores, although 50% continue to visit open markets on a regular basis. (*Source: Planet Retail*)

The following table sets out additional information on the size of the Russian retail market.

Retail market size	2006	2007	2008	2009
Store based retail sales (RUR in billions)	5,381	6,558	7,870	7,730
Retail sales per capita ('000 RUR per capita)	37.7	46.1	55.4	54.5
Store based food retail sales (RUR in billions)	2,902	3,558	4,363	4,872
Food retail sales per capita ('000 RUR per capita)	20.3	25.0	30.7	34.3

Source: Euromonitor (as at 14 July 2010)

The following table sets out the respective shares of different market players in the Russian retail market turnover for the years 2006-2009 (in percentages):

Market participants	2006	2007	2008	2009
Major and medium retailers (including retail chains)	32.7	37.3	35.2	34.5
Small retailers	22.3	22.2	26.3	25.8
Open markets	19.7	15.3	13.3	13.6
Individual entrepreneurs	25.3	25.2	25.2	26.1

Source: Infoline Trade Centres

As shown in the table above, in 2009, the decrease of the share of major and medium retail companies in the retail market turnover, including retail chains, amounted to 0.7%, while the share of open markets increased by 0.3% and the share of individual entrepreneurs increased by 0.9%, as compared to 2008. (*Source: Infoline Trade Centres*)

Regional Breakdown of the Russian Retail Market

The cities of Moscow and St. Petersburg are often viewed as retail markets that are highly distinct from the rest of Russia due to their size and the relatively high levels of disposable income of their population. According to *Infoline Trade Centres*, in 2009, the retail turnover in Moscow and St. Petersburg equalled approximately 17.2% and 4.0% of the national retail turnover, respectively.

The table below sets out the percentage of national retail turnover in each federal district, as well as in Moscow, the Moscow region and St. Petersburg in 2006-2009.

Regions	2006	2007	2008	2009
Central	35.9	34.7	33.5	33.7
Moscow	21.1	19.0	17.1	17.2
Moscow region	5.7	6.1	6.4	6.2
North-West	9.3	9.4	9.2	9.2
St. Petersburg	4.0	4.1	4.1	4.0
South	11.7	12.3	12.8	13.3
Volga	17.4	17.9	18.4	18.3
Urals	10.0	10.4	10.8	10.5
Siberia	11.6	11.5	11.6	11.0
Far East	4.0	3.9	3.8	4.1

Source: Infoline Trade Centres

Russia's food retail market is highly fragmented due to the large size of the country and the underdeveloped retail industry. Significant consolidation of the food retail market has taken place only in Moscow and St. Petersburg, with saturation in St. Petersburg. The majority of stores of modern food retail formats are located in St. Petersburg and Moscow. (Source: Planet Retail)

The table below shows the number of hypermarkets with selling space of more than 2,500 square metres per 1 million people in St. Petersburg, Moscow, Russia and Europe.

	<u>St. Petersburg</u>	<u>Moscow</u>	<u>Russia</u>	<u>Europe average</u>
Hypermarkets	11	3	2	14

Source: A.C. Nielsen

Food Retail Selling Space in Russia

The availability of food retail selling space in Russia is low compared to the United States and the EU. The difference is even greater with respect to modern food retail formats, as a significant part of food selling space in Russia is represented by older Soviet-era shop formats, where sales are carried out through over-the-counter service. This is particularly true for the food selling space outside of the largest Russian cities. (Source: Euromonitor)

Both Russian and foreign players have made significant investments in the refurbishment and modernisation of existing food retail selling space, as well as in the construction of new food retail selling space. The traditional, out-of-date formats are being gradually replaced by modern formats. However, modern formats in Russia still represent a much smaller percentage of total food retail selling space than in more developed countries. (Source: Euromonitor)

While in 2009, due to the global economic crisis, the growth rate of retail selling space in Europe sharply declined, Russia became the leader among European countries in opening new trade centres thanks to many new trade centre openings in 2009, mainly of trading centres for which openings were postponed in 2008 as a result of the economic downturn. Moreover, in the first six months of 2009, demand for retail selling space in new trade centres showed a considerable decline. (Source: RBC)

Food Retail Formats

Traditional Food Retail Formats

Large OTC stores: Large OTC stores are stores with three or more check-out points. These stores typically have over-the-counter service rather than self-service, with customers unable to touch the products.

Small OTC stores: Small OTC stores are stores with two or fewer check-out points. These stores typically have over-the-counter service rather than self-service, with customers unable to touch the products.

Kiosks and pavilions: Kiosks are small, freestanding outlets often located on sidewalks and with no customer entrance. Kiosks typically sell basic food products such as drinks, snacks and non-frozen food products. Pavilions are similar to kiosks, but have customer entrances and typically sell a limited range of food products, including fresh food products.

Street vendors: Street vendors are individuals selling a very limited range of food products from tables or stalls set up on sidewalks.

Open-air markets: Open-air markets are collections of freestanding stalls and booths that sell to retail and small wholesale customers. They vary widely in size and may only sell goods on particular days.

Modern Food Retail Formats

Hypermarkets and cash-and-carry stores: Due to the high degree of similarity between hypermarkets and cash-and-carry stores, these are often considered to be in the same retail format category. Smaller versions of hypermarkets are becoming increasingly popular in Eastern Europe and Russia.

Hypermarkets are typically located on main intersections. Hypermarkets have in-store bakeries, deli counters and other added services, which results in higher capital expenditures generally in the hypermarket sector.

The largest food retail chains operating in this segment of the Russian market are X5 Retail Group with 62 hypermarkets operating under the Karusel brand name (as at 30 June 2010), Metro Cash and Carry with 52 cash-and-carry stores, Auchan with 41 hypermarkets, Lenta with 37 hypermarkets, Magnit with 33 hypermarkets, O'Key with 32 hypermarkets and Liniya with 18 hypermarkets. Figures in this paragraph are from each company's website as reviewed on 2 September.

Supermarkets: Supermarkets are typically located in city centres and in residential areas of large cities. Because of their locations, expensive interiors, wide product range (frequently supermarkets have in-store bakeries and deli counters) and additional services offered, supermarkets generally have higher capital expenditures per store and a more labour-intensive retail format than discounters or convenience stores. Therefore, compared to discounters or convenience stores, supermarkets tend to have higher product prices and target higher income customers.

The largest food retail chains operating in this segment of the Russian market are X5 Retail Group with 275 Perekrestok supermarkets and 19 franchisee Paterson supermarkets (as at 30 June 2010) and Sedmoi Kontinent with 130 supermarkets (as at 31 August 2010).

Discounters and convenience stores: Discounters and convenience stores offer a narrower range of products than found in a standard supermarket, and compete and market themselves mainly on price.

The largest food retailers operating in this segment of the market in Russia are Magnit with 3,464 convenience stores (as at 30 June 2010), X5 Retail Group with 1,135 company-owned and 577 franchisee Pyaterochka discount stores (as at 30 June 2010), Kopeyka with 591 company-owned discount stores and 33 franchisee Kopeyka stores (as at 20 September 2010) and Dixy Group with 571 discount stores (as at 30 June 2010).

Competitive Landscape

According to *RBC*, X5 Retail Group, Auchan, Magnit, Metro Group and O'Key were Russia's top five largest retailer chains by turnover in 2009, of which X5 Retail Group, Magnit and O'Key are retailers controlled by Russian Shareholders.

The Russian food retail market still remains very fragmented. The modern food retail business is dominated by domestic retailers such as X5 Retail Group, Magnit and O'Key. Apart from these, there are several large international retailers such as Auchan and Metro Group that operate hypermarkets in Russia. Expansion plans of international retailers differ from one to another. Some of these retailers rely on acquisitions to achieve faster growth. For instance, Auchan has significantly increased its store network by acquiring some of the Ramstore hypermarkets. Other retailers emphasise geographic expansion in their growth strategy. For instance, Metro Cash & Carry has expanded into Siberia. (*Source: Planet Retail*)

The majority of modern format grocery stores are located in Moscow and St. Petersburg. The leading retailers in Moscow include X5 Retail Group, Dixy, Kopeyka and Sedmoi Kontinent. St. Petersburg's retail landscape is almost saturated and is dominated by O'Key, X5 Retail Group and Lenta. (Source: *Planet Retail*) In 2010, however, A.C. Nielsen rated O'Key's "brand capital" (assessed based on interviews with randomly-chosen retail customers) as the highest in St. Petersburg. In the same study, A.C. Nielsen found that customer awareness of O'Key's private label products had increased between 2009 and 2010, and customer opinion of the brand had improved between 2005 and 2009.

Competition in Moscow and St. Petersburg is intense, which prompted retailers to expand into regional cities such as Nizhniy Novgorod, densely populated areas such as the Volga region and industrial cities such as Yekaterinburg in the Urals and Tyumen and Novosibirsk in Siberia. Prior to the economic crisis in 2009, the majority of retailers pursued a multi-format strategy. However, this trend has been partially reversed following the onset of the global financial and economic crisis.

By contrast, outside of Moscow, St. Petersburg and certain other densely-populated areas of Russia, people mainly shop for food at small neighbourhood stores and open markets rather than organised retail store chains, with the only modern food retail chain operating in cities with fewer than 500,000 inhabitants being Magnit. (Source: *Planet Retail*)

The global economic crisis has accelerated the consolidation of the Russian food retail market, which resulted in a decline in the number of small and medium retailers and further expansion of major retail chains in 2010. (Source: *RBC*) In 2009, Russian retailers cut their capital expenditure on long term investment projects opting instead to develop small store formats, while international retailers, namely Auchan and Metro Group looked to reinforce their positions in the regions. (Source: *Planet Retail*)

Entry by International Retailers

Since 2000, foreign retail chains have been showing increased interest in Moscow, St. Petersburg and other large regional cities. In the early 2000s, major international retail companies, such as Germany's Metro Group and France's Auchan entered Russia. Another German food retailer, Tengelmann, followed in late 2003, albeit only with its OBI DIY store banner and on a franchise basis, and Rewe Group entered in September 2004, having launched its Billa supermarket network in a joint venture deal with Marta (followed by the acquisition of 16-store strong Prodmag in early 2005). In late 2006, Germany's Globus opened its first store. In 2007, the South Korean company Lotte opened a store in Moscow, the Finnish retailer Rautakirja launched its kiosks and DIY retailer Kesko opened its first K-Rauta store in St. Petersburg. In late 2008, the Finnish association SOK opened its Prisma hypermarkets in the St. Petersburg region, and Rewe Group launched its Selgros Cash & Carry stores in the Moscow region. Metro Group and Auchan are the only foreign retail chains among the top five retail chains in Russia. (Source: *Planet Retail*)

Some international retailers did not pursue their expansion plans in Russia. The German Edeka (Marktkauf) sold its outlet to Metro Group in 2006 and Migro Türk sold the Ramstore hypermarkets to its joint venture partner Enka, which leased 13 hypermarkets and sold one hypermarket to Auchan in 2007. In 2009, Carrefour opened its first outlet in Russia in Krasnodar, but sold its network in the same year due to the lack of prospects of becoming a market leader in the short and medium term. (Source: *Planet Retail*)

BUSINESS

Overview

O'Key is one of the largest retail chains in Russia. Its primary retail format is the modern Western European hypermarket, which is complemented by supermarkets. In 2009, O'Key was:

- the largest Russian hypermarket chain by revenue (excluding multinationals);
- the third largest Russian (excluding multinationals) food retailer in terms of revenue;
- one of the leaders in Russian food retail in terms of revenue per square metre of selling space; and
- rated by *A.C. Nielsen* as the strongest retailer brand in St. Petersburg.

O'Key operates its "O'Key" hypermarkets and "O'Key—Express" supermarkets across many cities in Russia. The Company opened its first hypermarket in St. Petersburg in 2002 and has enjoyed continuous growth in this market, the most competitive modern format food retail market in Russia. (*Source: Planet Retail*) Currently, St. Petersburg is O'Key's largest market in terms of revenue.

O'Key intends to continue to leverage the success of its retail model in St. Petersburg in executing its expansion strategy in order to capitalise on the growth opportunities offered by the under-penetrated and rapidly growing hypermarket sector in Russia. Since 2005, O'Key has been developing its presence outside of St. Petersburg, focusing primarily on large cities in Russia with populations of over 500,000 (including the Moscow region). As at 30 June 2010, O'Key operated 52 stores in 18 cities across the North-Western, Southern, Central and Siberian regions of the Russian Federation: 32 hypermarkets with an aggregate selling space of approximately 242,500 square metres and 20 supermarkets with an aggregate selling space of approximately 24,000 square metres. Also as of 30 June 2010, O'Key's hypermarkets had an average selling space of approximately 7,600 square metres and offered approximately 35,000 "constant" SKUs and up to 64,000 SKUs in the largest hypermarkets. O'Key's supermarkets are mostly located in residential districts, offer a larger proportion of food to non-food products and have a layout similar to O'Key's hypermarkets but on a smaller scale. As of 30 June 2010, O'Key's supermarkets had an average selling space of approximately 1,200 square metres and offered approximately 9,000 "constant" SKUs and up to 27,000 SKUs in the largest supermarkets.

Subject to favourable market conditions, O'Key plans to expand its chain of hypermarkets and supermarkets over the next several years, and believes that there is sufficient market capacity to target the doubling of the number of store openings in 2011 compared to 2010, to establish a presence in at least 25 cities in Russia with populations of over 500,000 and to maintain a fast pace of new store openings in the next five years.

O'Key's retail model reflects the Company's belief that customer satisfaction and loyalty are the foundations of the Company's success. O'Key believes that it offers its consumers a compelling value proposition that includes:

- a wide range of competitively priced, high quality products, with an emphasis on fresh food, its own bakery and delicatessen products and also a wide selection of non-food products;
- a modern shopping environment with an appealing ambiance without a "warehouse" feel;
- hypermarkets located near key traffic intersections and with easy access to public transportation, and supermarkets located within highly populated residential districts;
- availability of convenient third party day-to-day services in its hypermarkets, such as pharmacies, dry-cleaners, food courts, ATMs and bank services;

- a family-friendly environment with supervised in-store play areas for children; and
- a large number of cash registers to reduce queues.

The Company believes that its business model of operating modern hypermarkets complemented by supermarkets enables it to reach a broader customer base by providing retail formats and offerings that fit local characteristics.

O'Key's financial performance in 2009 and the first half of 2010 has been strong and resilient to the recent financial crisis. O'Key experienced rapid growth in 2009, recording a 33% increase in revenue, and also launched its first store in the Moscow region. In the year ended 31 December 2009, O'Key's revenue was RUR67,874.6 million and EBITDA was RUR5,896.3 million. O'Key's 2009 revenue per square metre of selling space was RUR321,137 and EBITDA per square metre of selling space was RUR27,897 (one of the highest among Russian publicly-traded retailers). O'Key's 2009 like-for-like revenue growth rate was 11.6% and its EBITDA margin was 8.7%. In the six months ended 30 June 2010, O'Key's revenue was RUR38,254.2 million, like-for-like revenue growth rate was 6.9% and EBITDA margin was 8.2%.

Competitive Strengths

O'Key believes that by leveraging the following key strengths, it will be in a strong position to capitalise on the expected growth of the Russian food retail market:

Successful business model and compelling value proposition for customers

O'Key believes that it offers its customers a compelling value proposition that addresses the needs of a majority of customer groups and evolving customer preferences in Russia. O'Key customers enjoy a wide assortment of high-quality products at competitive prices, at convenient locations and in a pleasant shopping environment, and can expect the same positive shopping experience and quality of the products at any O'Key hypermarket or supermarket. With satisfied and loyal customers as its primary goal, O'Key believes that the following strengths allow it to achieve this value proposition:

- A wide assortment of products at competitive prices in each product mix segment, including a large selection of fresh products, freshly prepared and baked goods made in-store at both hypermarkets and supermarkets and a wide selection of non-food products;
- A distinctive pricing model designed to make higher quality products more affordable for customers, which O'Key believes translates into a higher average ticket;
- Availability of convenient third party day-to-day services in its hypermarkets, such as pharmacies, dry-cleaners, food courts, ATMs and bank services;
- Convenient locations of hypermarkets at main public transportation hubs with sufficient free parking areas;
- Location of supermarkets in residential areas for supplementary shopping trips under the "O'Key-Express" brand name and with the same "O'Key" brand quality as experienced at O'Key hypermarkets;
- Customer- and family-friendly environment, fostered by employees trained in customer service and complimentary services for customer comfort in hypermarkets, such as children's play areas;
- Targeted loyalty and discount programmes to better meet individual customer needs;
- Appealing, well-lit and clean store interiors with spacious layouts and attractive product presentation across all hypermarkets and supermarkets;

- A large number of cash registers staffed by well-trained personnel, minimising queuing; and
- Convenient access to selling areas from parking areas.

The Company believes that this customer-oriented business model encouraged higher average tickets in 2009 compared to its competitors. O'Key believes that its value proposition will enable it to maintain its competitive pricing policy and therefore increase customer traffic.

Demonstrated capabilities in expanding both organically and through store acquisitions

Historically, the Company has grown successfully in St. Petersburg, where, according to *Planet Retail*, levels of market saturation and competition in food retail are the highest in Russia. As stated in *Infoline Top Ten*, as of April 2010, O'Key's average ticket in hypermarkets of RUR795 for 2009 was the highest among hypermarket chains operated by its Russian public competitors such as Karusel (X5 Retail Group), Nash (7th Continental), Megamart (Dixi) and Magnit. O'Key believes that its strong position in the St. Petersburg retail market is due to its customer satisfaction and loyalty. Between 2005 and 2009, the Company expanded into other large cities in Russia (including Moscow) by successfully replicating its business model in these areas while adapting product assortments to local preferences.

O'Key's in-house expansion and construction teams have demonstrated a strong track record in executing and accelerating O'Key's expansion plans, opening six stores between 2002 and 2006, 12 in 2007 and 13 stores in 2008 and nine in 2009. O'Key's compound annual growth rate ("**CAGR**") for selling space was 68% between 2002 and 30 June 2010.

In 2008 and 2009, O'Key acquired the leases of six stores from Ramstore, (a hypermarket and two supermarkets in Volgograd, a hypermarket in Murmansk, a hypermarket in Stavropol, and a supermarket in Krasnoyarsk), and one store from Sedmoi Kontinent. In the first half of 2010, O'Key acquired two stores from Carrefour. Under O'Key's management, the performance of the seven stores acquired in 2008 and 2009 improved significantly and currently the majority of them are operating at expected store performance levels. O'Key believes that it will continue to leverage its experience in successfully opening new stores.

Strong customer loyalty and brand recognition in St. Petersburg providing a blueprint for replicating O'Key's customer-focused model in other regions

According to *Planet Retail*, the hypermarket concentration in St. Petersburg is the highest in Russia, with selling space per capita levels comparable to that of Western European countries. O'Key's stores have been successfully competing in this market for the past eight years. According to *A.C. Nielsen*, O'Key enjoyed the "highest brand equity" (assessed based on annual interviews of randomly selected retail customers) among modern format food retailers in the St. Petersburg area by a significant margin. *A.C. Nielsen* concluded that O'Key successfully converts a high percentage of "trial" shoppers into regular shoppers who would recommend O'Key over other stores operating in the same market. The same study found that customers associated O'Key with pleasant and clean store environments, high quality products, good service, and a wide range of fresh and high quality products in a convenient layout. O'Key believes that its value proposition and brand recognition will support its expansion strategy in the Moscow region and other Russian cities.

Well-balanced real estate portfolio providing flexibility in store roll-out, property management and financing

Historically, O'Key has focused on constructing and owning its stores, in particular in St. Petersburg. Following the disposition of certain real estate assets (see "*Operating and Financial Review—Recent Developments—Transfer of Assets*"), O'Key will own approximately 64% of its total space and leased the remaining space. O'Key believes that land ownership protects it against

fluctuations in rental prices (similar to fluctuations observed in recent years) and also allows it to plan with greater certainty the opening and continuity of its operations, which, particularly in St. Petersburg, has assisted O'Key in attaining solid profitability and competitive positioning. In addition, O'Key has effectively used these real estate assets as security collateral for financing, which has allowed it to capitalise on commercial opportunities. At the same time, O'Key is ready to take advantage of market opportunities offered during periods when commercial leases are available at very attractive rates, such as during the recent economic downturn. With O'Key reaching its desired scale in St. Petersburg and with regional expansion in the pipeline, O'Key has several options at its disposal for its planned organic roll-out of stores, including stores built on land that it will acquire for this purpose and stores available for rent in trade centres and other locations. For instance, 20% of hypermarkets and 25% of supermarkets that were opened in 2009 were built on land acquired by O'Key specifically for development purposes. O'Key believes that this flexibility of building or renting stores depending on location and economics will allow O'Key to penetrate relevant markets and quickly capture additional market share while keeping the business model secure in terms of comfortable levels of real estate ownership.

High efficiency of operations

O'Key demonstrates high efficiency of operations due to its business model of centralised leadership with effective local support, efficient allocation of resources and cost control. O'Key had one of the highest revenues per square metre of selling space (RUR321,137) and EBITDA per square metre of selling space (RUR27,897) in 2009 among Russian (excluding multinationals) food retailers. The Company believes that O'Key's like-for-like traffic growth (10.6%) and like-for-like revenue growth (11.6%) were also higher than those of most Russian competitors in 2009, including X5, Seventh Continent, Magnit and Dixy. Between 2005 and 2009, O'Key has experienced compound annual revenue growth of 58%.

O'Key believes that it captures significant economies of scale and is able to control costs through attentive resource allocation, effective employee staffing levels management and incentive programmes. O'Key hypermarkets share resources with supermarkets on an as-needed basis. O'Key motivates its managers to minimise surplus logistical costs by tying store directors' compensation to quarterly turnover. Selling, general and administrative expenses are also controlled by adapting staff levels to store needs on a quarterly basis. O'Key believes that it can leverage these nation-wide and regional economies of scale to execute a profitable expansion strategy.

Highly skilled and experienced professional management with international and local retailing knowledge and expertise

O'Key has a highly skilled and experienced management team which combines international best-practice with local Russian market knowledge. O'Key is managed by Russian and international professionals with in-depth knowledge of, and experience in, the Russian food retail sector in general and the hypermarket sector in particular. The O'Key senior management team includes executives with successful tenures at the Russian operations of major Western European companies and leading international retail chains. This team combines knowledge of market trends and key competitors with day-to-day effective management for a track record demonstrating a value-accretive growth strategy. Notably, O'Key is headed by a CEO with 30 years of experience in the retail market both internationally and in Russia.

Business Strategy

O'Key intends to pursue the following strategies in furtherance of its primary goal of maintaining and improving customer satisfaction and loyalty:

Continue to expand its hypermarket and supermarket footprint into Moscow and other Russian regions to reach more customers

The Company believes that its focus on modern hypermarkets allows it to capitalise on opportunities created in the under-penetrated and rapidly growing hypermarket sector of the Russian retail market. O'Key currently operates in one of the most attractive food retail markets globally, demonstrated by the size of the food retail market in Russia (the fifth largest in Europe, behind only France, Germany, the United Kingdom and Italy), the low rate of modern retail penetration (34%, compared to an average of 74% in Europe) and the low level of market concentration in comparison to Western countries (a 21% share of top-five retailers in terms of value, compared with 54% in the U.K., 63% in Germany and 89% in Sweden). (Source: *Euromonitor*) Recovering consumption and income levels in Russia are expected to fuel a Russian food retail market CAGR of 14.1% over the next several years (17.1% in the hypermarket segment). (Source: *EIU and Euromonitor*)

As one of the leading Russian hypermarket operators, O'Key believes that it is well-positioned to take advantage of these opportunities offered by the Russian market in regions outside of St. Petersburg. The Company believes that the success of O'Key's hypermarket retail model in St. Petersburg and the relative scarcity of modern European retail stores in other large cities of Russia with high population densities (other than the Moscow region) place O'Key in an advantageous position to benefit from this anticipated growth. In particular, O'Key plans to further penetrate the Urals region (the second wealthiest region in Russia), Siberia and the large and lucrative Moscow region market, which is undersupplied by hypermarkets despite being the city with the highest retail turnover per capita in Russia. (Source: *Rosstat (2010)*) The average number of hypermarkets in Europe per one million people is 14 and in St. Petersburg is 11, while in Moscow the average is three and two in Russia. (Source: *A.C. Nielsen, Rosstat (2010)*)

Realise operating economies of scale to enhance ability to offer attractive prices

By expanding its hypermarket and supermarket operations, O'Key believes it will be able to realise economies of scale and margin gains that can translate into greater flexibility to offer competitive pricing and thus strengthen the value proposition for customers. O'Key believes that its increased scale of operations will enable it to purchase goods from suppliers on more favourable terms, ensure consistent price management and breadth of product selection, enjoy a better choice of suppliers of quality products and expand its private label offering, all of which the Company believes will strengthen its competitive position.

Continue to develop product assortment to attract more customers

O'Key currently offers a wide assortment of "average-plus" products at affordable prices, including non-food and fresh and delicatessen products. O'Key's product assortment management initiatives revolve around the following key goals:

- Custom-tailoring of product selection to regional tastes and preferences;
- Improved availability and revenue share of imported non-food products, especially clothing, footwear, electronics and home appliances. These products are higher-margin goods and, taking into account O'Key's plan to expand its logistics platform, are expected to increase overall profitability and allow for more competitive pricing across other product categories;

- Further develop assortment and increase revenue from private label products. Private label products carry low marketing costs, involve high margins, improve O'Key's brand visibility, and offer attractive sales growth potential from current levels. By providing an additional option to customers, private label operations are expected to complement O'Key's assortment strategy to broaden its customer base and strengthen customer loyalty, and would also increase profit margins and pricing competitiveness; and
- Continue to offer a wide selection of high quality fresh foods, including baked goods and freshly-prepared products, which are highly popular among customers and are one of O'Key's distinctive product assortment features.

O'Key believes that, by continuing to improve its product assortment, it will attract more customers from competitors to O'Key stores and will encourage more frequent visits by satisfied and loyal current and new customers.

Expand its logistics capabilities to ensure the continuous availability of a wide product assortment

O'Key intends to continue developing its sales and import logistics, in order to ensure that a wide assortment of popular products is consistently available on store shelves. Currently, O'Key sources most of its goods directly from manufacturers and distributors, which enables it to open stores throughout Russia. The majority of O'Key's private label, non-food and non-branded products are imported from China, India and Italy and are distributed to O'Key's stores by third-party transportation companies from O'Key's two rented warehouses in St. Petersburg.

O'Key intends to procure more warehousing space for its expanding import and private label operations, giving the Company more flexibility in distributing these products across its expanding network of stores. As the density of O'Key stores grows in a particular city, O'Key intends to set up a cross-docking platform in that area. The Company is currently testing such cross-docking facilities in Volgograd, Krasnoyarsk and Murmansk. The Company believes that such a network of cross-docking platforms will allow it to support its anticipated growth by ensuring availability of a wide range of products wherever O'Key has a presence, improve efficiency of its operations by reducing dependence on distributors and strengthen its competitive position due to improved product offerings, timely delivery and greater availability of products.

Implement innovative IT solutions to strengthen supply chain, inventory and category management, as well as reporting and controls

O'Key believes that effective IT management is an important tool to support O'Key's business strategy, maintain efficiency of operations and improve the Company's profitability. O'Key began optimising its information technology systems in August 2009 by implementing an advanced retail management suite which will streamline and automate the whole product selection and offering process (from supplier negotiations, assortment and pricing to delivery and trading space management). The implementation of this retail management system is being conducted in five stages and is expected to be completed by the end of 2012. O'Key plans to take advantage of the fully operational retail management suite as it executes its medium and long-term expansion plans.

History and Structure

The Group was founded in 2001 and has achieved the following key milestones:

- **First Store:** Launching of first "O'Key" hypermarket in St. Petersburg in 2002 based on the modern Western European hypermarket model;
- **Expanding Operations in St. Petersburg:** Launching of eight additional hypermarkets and two "O'Key-Express" supermarkets in the St. Petersburg area between 2003 and 2006;

increasing total selling space from approximately 6,000 square metres to approximately 87,000 square metres;

- **Change of Management:** Hiring of new management with international experience in 2007, including the current CEO, Executive Director and Marketing and Sales Director;
- **Regional Expansion:** Beginning in 2005, entering six new regions in three federal districts; between 2007 and 2008, increasing the Company's total number of stores to 37, more than doubling O'Key's selling space to 190,000 square metres; becoming one of Russia's top-ten food retailers in terms of revenue; acquiring lease rights for six Ramstore stores; and
- **A Leading Retailer:** In 2009, O'Key became the third largest Russian food retailer (excluding multi-nationals) in terms of revenue, launched its first store in the Moscow region and acquired two stores from another food retail operator, for a total of 46 stores at the end of 2009.

The project of the food retail business under the "O'Key" brand name started with the establishment of the Company in 2001. As of 30 August 2001, the shareholders of the Company were Boris Volchek, Dmitrii Troitckii, Dmitry Korzhev and Hillar Teder, each holding directly 50%, 16.7%, 16.7% and 16.6%, respectively. Between 2002 and 2006, Boris Volchek transferred 25% of his shares in the Company that were in bearer form in a number of transactions to the other shareholders (and vehicles held directly by them), as a result of which each of Boris Volchek, Dmitrii Troitckii, Dmitry Korzhev and Hillar Teder on 23 October 2006 (the date of the conversion of the bearer shares into registered shares) beneficially owned 25% of the Company's shares and each of them had equal voting rights. Since the establishment of the Company through the date of the Prospectus, the shareholders of the Company have taken most strategic shareholders' decisions (falling within the competence of the general meeting) jointly.

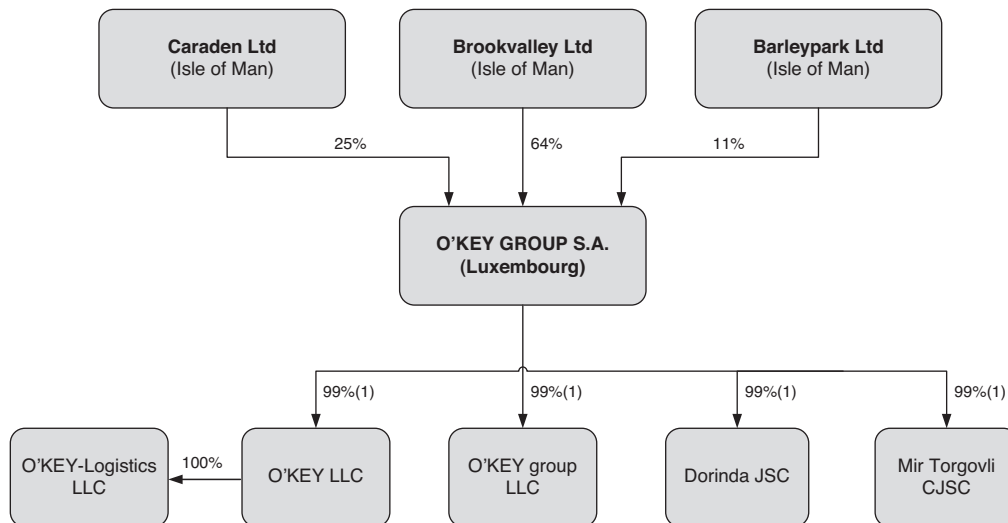
The following table sets out the number of hypermarkets and supermarkets and the total number of O'Key stores at the end of each year and the most recent interim period since 2002:

	As at 31 December								As at
	2002	2003	2004	2005	2006	2007	2008	2009	30 June
Hypermarkets									
Number of stores	1	3	4	5	10	17	23	28	32
Selling space (thousands of square metres)	6	17	28	36	85	140	176	211	243
Supermarkets									
Number of Stores	—	—	—	—	2	7	14	18	20
Selling space (thousands of square metres)	—	—	—	—	3	6	15	21	24
Total number of stores	1	3	4	5	12	24	37	46	52
Total selling space (thousands of square metres)	6	17	28	36	87	146	190	232	267

As at 30 June 2010, O'Key operated 52 stores (32 hypermarkets and 20 supermarkets). In the first half of 2010, O'Key opened four hypermarkets in Ufa, Krasnodar (two) and Lipetsk and two supermarkets in St. Petersburg and Novochoerkassk. Despite the recent financial crisis, O'Key has opened 15 stores over the past 18 months.

The Company is incorporated in Luxembourg. O'Key operates through a number of subsidiaries incorporated in the Russian Federation, which provide certain services for its business and hold licences material to O'Key's operations.

The following chart sets out O'Key's current corporate structure:



Note:

(1) Axus Financial Ltd. (British Virgin Islands), which is controlled by the Company (100%), holds the remaining 1%.

O'KEY LLC is the trading company engaged in retail operations, which also employs all store personnel. Dorinda JSC is the holder of ownership to real estate and long-term lease rights. O'KEY group LLC provides management services to the Group. O'KEY-Logistics LLC is engaged in import operations and supplies of imported non-food products, including non-branded and private label goods. Mir Torgovli CJSC owns assets that are under construction or hold short-term lease rights. O'Key's head offices in St. Petersburg and Moscow direct the Company's overall strategy, business development and operational management. Division directors at the head office level supervise and coordinate operational directors at city levels, who in turn liaise with store directors at each of O'Key's stores. O'Key believes that this structure effectively combines the benefits of strong centralised leadership with effective local support.

The Company was incorporated on 7 February 2001 as a *société anonyme* holding company, benefiting from the tax status granted by the Luxembourg Holding Company Law of 31 July 1929. On 6 October 2010, the corporate purpose of the Company changed so that the Company became a fully taxable holding company.

The Company's registered office is located at 23, rue Beaumont, L-1219 Luxembourg, Grand Duchy of Luxembourg and on 16 February 2001 the Company was registered with the Luxembourg Trade and Companies Register under number B 80533. O'Key's head offices are located at Shaumyana Street, bld. 8, Business Centre Eastern, St. Petersburg, Russian Federation, tel: +7(812)7037103 and at 21/4 Staraya Basmanaya Street, Moscow, Russian Federation, tel: +7(495)6636677.

Retail Operations

Overview

O'Key operates its "O'Key" hypermarkets and "O'Key—Express" supermarkets in Russia. As at 30 June 2010, O'Key operated 32 hypermarkets with a total selling space of approximately 242,500 square metres and 20 supermarkets with a total selling space of approximately 24,000 square metres in 18 Russian cities. As at the date of this Prospectus, O'Key operates 33 hypermarkets and 20 supermarkets with a total selling space of approximately 273,500 square metres in 18 Russian cities.

Store Locations and Demographics

As at 30 June 2010, 16 of O'Key's 32 hypermarkets and 14 of O'Key's 20 supermarkets were located in the North-Western region of Russia; eight of its hypermarkets and four of its supermarkets were located in the Southern region of Russia; six of its hypermarkets and one of its supermarkets were located in the Central region; two of its hypermarkets and one of its supermarkets were located in the Siberian region.

During the first six months of 2010, O'Key opened four hypermarkets (one in each of Lipetsk and Ufa and two in Krasnodar) and two supermarkets (one in each of St. Petersburg and Novochoerkassk). In September 2010, the Company opened an additional hypermarket in St. Petersburg. The Company currently plans to open an additional five stores during the remainder of 2010 in St. Petersburg (two), Astrakhan, Novgorod and Voronezh, as depicted below:

<u>Store</u>	<u>Date of opening</u>	<u>Region</u>	<u>Selling Area (square metres)</u>	<u>Ownership</u>
Hypermarket, Ufa	February 2010	Volga	6,700	Own
Supermarket, Novochoerkassk	March 2010	Southern	1,748	Rent
Supermarket, St. Petersburg	April 2010	North-Western	1,300	Rent
Hypermarket, Krasnodar	May 2010	Southern	9,731	Rent
Hypermarket, Lipetsk	May 2010	Central	5,790	Rent
Hypermarket, Krasnodar	June 2010	Southern	8,700	Rent
Hypermarket, St. Petersburg	September 2010	North-Western	7,563	Rent
Hypermarket, Astrakhan	Planned	Southern	4,150	Rent
Supermarket, St. Petersburg	Planned	North-Western	1,500	Rent
Supermarket, St. Petersburg	Planned	North-Western	1,696	Own
Supermarket, Krasnodar	Planned	Southern	1,670	Rent
Hypermarket, Voronezh	Planned	Central	6,200	Rent

As at the date of this Prospectus, O'Key owns 11 land plots of which three land plots are under construction of stores to be completed in 2011 (expected to total approximately 8,000 square metres of selling space). As at the date of this Prospectus, no construction is taking place on the remaining land plots owned by O'Key.

During 2011, subject to favourable market conditions, O'Key intends to open stores in Novosibirsk, St. Petersburg, Moscow, Novgorod, Astrakhan and Tyumen. The Company believes that any land plots acquired in 2011 will have operational hypermarkets or supermarkets by 2013.

The following map shows the location of O'Key stores in Russian regions at the date of this Prospectus:



Notes:

- (1) Including Krasnoe Selo and Kingisep
- (2) Including Noginsk and Lobnya

O'Key intends to continue developing primarily through organic growth as well as through acquisitions in the Central, North-Western, Southern, Siberian and Urals regions of Russia.

As at 30 June 2010, approximately 92% of O'Key's hypermarkets and supermarkets were located in cities with populations of over 500,000. O'Key has opened stores in cities with fewer than 500,000 when it believed that these cities were metropolitan hubs that fit the Company's overall business strategy.

The following table sets out the number of stores in various locations grouped into three categories based on population as at 30 June 2010.

	As at 30 June 2010	
	Population	Number of O'Key stores
Population of more than 1,000,000 people		
Moscow	10,563,038	2
Moscow region	6,752,727	1
St. Petersburg	4,600,276	28
Nizhniy Novgorod	1,271,045	1
Rostov-on-Don	1,048,124	2
Ufa	1,030,812	1
Total number of stores:		<u>35</u>
Population of between 500,000 and 1,000,000 people		
Volgograd	979,617	4
Krasnoyarsk	962,466	3
Krasnodar	713,426	4
Togliatti	721,752	1
Lipetsk	502,015	1
Total number of stores:		<u>13</u>
Population of fewer than 500,000 people		
Stavropol	369,099	1
Murmansk	309,362	2
Novocherkassk	176,699	1
Total number of stores:		<u>4</u>

Source: Rosstat (2010)

In the medium-term, O'Key expects to continue expanding its operations in cities with populations of over 500,000 and surrounding areas.

Retailing Formats

O'Key's principal store format is the hypermarket, with the supplementary supermarket format introduced by the Company in 2006.

Hypermarkets

In contrast to the warehouse type hypermarket format common in Russia, O'Key's hypermarkets are large retail facilities modelled on Western European hypermarkets. O'Key's hypermarkets carry a wide range of basic, average and average-plus food and non-food products under one roof at competitive prices and in convenient locations. O'Key believes it attracts additional customer traffic due to its high quality of service, convenient layouts (for example, low shelving for ease of reach and well-lit aisles) and locations of its stores. The Company's hypermarkets are within close proximity to and are easily accessible from major intersections and transportation hubs, providing easy access for both local customers and shoppers living further away and travelling by car or public transportation.

As at 30 June 2010, O'Key's hypermarkets had an average store size (excluding parking areas of owned stores) of approximately 13,400 square metres; an average selling space of approximately

7,600 square metres; a total area of approximately 490,000 square metres; an average ticket of approximately RUR800; and a stock of approximately 35,000 “constant” SKUs (with up to 64,000 SKUs in the largest hypermarkets).

The following table sets out information on the location of O’Key’s hypermarkets and the selling space of each store as at 30 June 2010.

Hypermarket Location	As at 30 June 2010		
	Number of Stores	Selling space (square metres)	Percentage of total hypermarket selling space (%)
St. Petersburg	14	109,278	45.1
Krasnodar	4	32,602	13.4
Moscow region	2	21,605	8.9
Rostov-on-Don	2	16,707	6.9
Krasnoyarsk	2	13,472	5.6
Murmansk	2	12,898	5.3
Togliatti	1	9,189	3.9
Nizhny Novgorod	1	7,518	3.1
Ufa	1	6,700	2.8
Lipetsk	1	5,790	2.4
Volgograd	1	3,532	1.5
Stavropol	1	3,181	1.3
Total	32	242,472	100.0

As at the date of this Prospectus, O’Key operated 33 hypermarkets.

O’Key’s hypermarkets are typically divided into O’Key’s selling space, in which O’Key offers and sells its merchandise, sizeable storage areas and, in owned stores, rented-out areas. In accordance with O’Key’s model of providing a one-stop shop, the Company rents out areas in its owned stores to third parties that provide services for greater customer convenience and satisfaction, such as fast-food restaurants, cafes, banks, payment facilities for mobile phones, pharmacies, dry-cleaners, flower shops, shoe repairs, key-cutters, photo shops, beauty salons, travel agents and theatre box offices. Management believes that these services afford customers greater convenience and saved time by allowing them to attend to their food and non-food shopping needs, as well as their other household tasks, in a single easier-to-reach location. In addition, O’Key’s owned hypermarkets have children’s play areas to foster a family-friendly shopping experience. O’Key’s leased stores are located in large shopping centres where strong anchor tenants offer the comprehensive range of services usually provided in the Company’s owned stores. Storage areas are used mainly to store products, for back-office space, unloading deliveries, storage and preparation of food products, and other logistical tasks. Depending on the total trade area, warehouse space in each hypermarket is typically between 2,000 and 4,000 square metres. This storage space at hypermarkets allows O’Key to maintain an inventory level of approximately one week of sales.

Supermarkets

O’Key’s supermarkets have a layout similar to O’Key’s hypermarkets, but on a smaller scale, and offer a larger proportion of food versus non-food products. As at 30 June 2010, O’Key’s supermarkets had a total area of approximately 39,000 square metres; an average store size of approximately 2,000 metres; an average selling space of approximately 1,200 square metres; an average ticket of approximately RUR400; and stock of approximately 9,000 “constant” SKUs (with up to 27,000 SKUs in the largest supermarkets). O’Key believes that the key factors underlying the

appeal of its supermarkets are convenient store locations, competitive prices and a large selection of fresh products.

While continuing to focus on hypermarkets, O'Key introduced its supermarket format in 2006 to take advantage of additional growth opportunities and efficiency of operations in cities where supermarkets could complement existing O'Key hypermarket operations. O'Key believes that the supermarket format appeals to customers who do not own cars or otherwise cannot easily access hypermarkets, but seek high-quality products and a pleasant shopping experience. O'Key's supermarkets are typically located in districts within a fifteen-minute walking distance from heavily populated residential areas, and can also be easily accessed by car owners who pass by the stores during daily commutes (for whom car parks of generally between 15 and 20 spaces are provided). Supermarkets also attract customers who prefer to purchase fresh products on a daily basis. In the year ended 31 December 2009, fresh and perishable products accounted for approximately 52% of sales in supermarkets.

The following table sets out information on the location of O'Key's supermarkets and selling space of each store as at 30 June 2010.

Supermarket location	As at 30 June 2010		
	Number of Stores	Selling space (square metres)	Percentage of total supermarket selling space (%)
St. Petersburg	14	12,654	52.6
Volgograd	3	6,489	27.0
Krasnoyarsk	1	1,893	7.9
Rostov city area (Novocherkassk)	1	1,748	7.3
Moscow region	1	1,260	5.2
Total	20	24,044	100.0

As at the date of this Prospectus, O'Key operated 20 supermarkets.

Store Layouts and Operations

O'Key employs uniform standards for store layout, equipment, quality of construction and the composition of building and finishing materials. O'Key believes that employing uniform standards across its stores helps limit construction and refurbishment costs, as well as improve customer satisfaction and loyalty, since customers from other cities, who may be accustomed to O'Key stores can encounter a familiar environment with a familiar product assortment, know where to find the products they normally purchase and shop more quickly and efficiently.

O'Key customers have access to large, free-of-charge and well-lit parking areas adjacent to stores. O'Key stores demonstrate a client-oriented approach with modern ventilation and air-conditioning systems, clean, well-lit trading areas and convenient layouts with a broad range of well presented and easily accessible products, and layout consistency to maintain a level of familiarity for customers from one O'Key store to another. O'Key endeavours to ensure that polite and friendly employees are available to assist customers by providing advice on product choices and locations. O'Key also endeavours to minimise queuing by providing a large number of cash registers with quick-scan systems.

Operation of cash registers is optimised based on the time of day and season to minimise long queues during peak hours, on weekends and on bank holidays, and to avoid incurring additional payroll costs from unoccupied cashiers. All cashiers attend mandatory training and additional training courses to increase the pace of checkout operations while maintaining the same high levels of service. Store employees who will be interacting with customers take additional training courses related to customer service.

Store Premises

Store Selection

O'Key believes that it has an effective four-step store location process to evaluate proposals for new hypermarkets and supermarkets:

- Segmentation of a city into areas by the the number of inhabitants based on analysis of publicly available data;
- Competitive landscape analysis for each segment of the city, including analysis of competing stores within two and a half, five and seven kilometre zones around a potential store location, using internal and third party data;
- Calculation of the share of a potential store's revenue in a household's total spending in a particular city segment, and estimated influence of competitors on the overall potential market share within each such city segment; and
- A forecast of potential turnover in the area based on number of households, income levels, daily spending, and other factors.

The main criteria taken into account in deciding on a lease, construction or acquisition of a new store is the potential location of the store or land plot, as well as proximity to main public transportation hubs, the number of inhabitants in the surrounding area, competition from other hypermarkets, current and expected personal income levels in the area, and the share of car owners within the area. A store's location is one of the key drivers of expected customer traffic and sales, and, therefore, is also a key determinant of a store's payback period. Payback periods for O'Key stores are, on average: between three and four years for leased hypermarkets; approximately seven years for owned hypermarkets; between four and five years for leased supermarkets; and approximately eight years for owned supermarkets.

Hypermarket Locations

In selecting sites for new hypermarkets, O'Key seeks locations near main public transportation hubs, with large residential areas within a fifteen-minute car trip or a thirty-minute trip by public transportation. O'Key also takes into consideration competition from other hypermarkets in the area, whether large parking areas are available (the target is one car per ten square metres of selling space), suitability in terms of size and layout for a hypermarket and whether the available land plots meet all legal and technical requirements for a hypermarket. The Company believes that the catchment area of its existing hypermarkets is up to seven kilometres.

Supermarket Locations

In selecting sites for new supermarkets, O'Key looks for convenient locations near roads within highly populated residential districts, targeting customers living within a fifteen-minute walking distance or a five-minute car trip. Supermarkets are often located on the ground floor of trade centres or free-standing buildings. The Company believes that the catchment area of its existing supermarkets is up to two kilometres.

Decision-making process

All potential store acquisitions are analysed by the Expansion Department, which prepares opportunity studies for each specific prospective property. The Chief Operating Officer reviews the study and prepares an analysis of potential sales and costs. The construction director provides an estimate of construction costs, and the property administrator director evaluates lease terms, land costs and other terms of acquisition. Lastly, a final investment study is prepared and submitted to

the Expansion Committee for approval. If this approval is issued, the CEO gives the final approval once details are finalised. As at the date of this Prospectus, approximately 30 of O'Key's employees are engaged in analysing opportunities for new store openings and land plot acquisitions.

Store Roll-Out Process

An internal O'Key team directs construction of stores. Builders are selected for each project through a tender process, based on contractors' experience, projected ability to successfully complete projects, and anticipated timeline and cost of the construction project. Based on O'Key's experience with hypermarkets and supermarkets opened to date, construction works can take up to two years for hypermarkets and one and a half years for supermarkets from the date of the decision to buy a land plot to the store's opening date, and can take up to six months for hypermarkets and three months for supermarkets from the date of the decision to lease a store to the store's opening date.

O'Key has historically focused on organic growth through opening owned stores built from scratch. Since its founding, approximately 70% of O'Key's hypermarkets and 55% of its supermarkets have been built from scratch, with approximately 12% of O'Key's hypermarkets and approximately 25% of its supermarkets being fitted out from existing shell and core, with the Company purchasing its in-store equipment from manufacturers in Europe. Approximately 18% of O'Key's hypermarkets and 20% of its supermarkets opened since 2002 have been fit-out from old stores.

According to O'Key's estimations, the average capital expenditure per new owned hypermarket is approximately RUR70,000 per square metre of total space (approximately RUR43,000 for construction, approximately RUR15,000 for equipment and approximately RUR12,000 for land) and per new leased hypermarket is approximately RUR31,000 per square metre of total space (approximately RUR14,000 for construction and approximately RUR17,000 for equipment). The average capital expenditure for a new owned supermarket is approximately RUR84,000 per square metre of total space (approximately RUR51,000 for construction, approximately RUR25,000 for equipment and approximately RUR8,000 for land) and per new leased supermarket is approximately RUR40,000 per square metre of total space (approximately RUR15,000 for construction and approximately RUR25,000 for equipment). Costs of construction are also highly dependent on the region of construction (for example, the North-Western and Moscow regions are the most expensive regions in which to build stores). Capital expenditure for purchase of property, plant and equipment and lease rights in 2009 was RUR3,628 million. As at the date of this Prospectus, approximately 55 of O'Key's employees are engaged in the supervision of construction projects.

The Company expects that it will continue to evaluate potential acquisition targets to supplement its existing store portfolio.

Leased and Owned Property

O'Key's assets consist of owned and leased property. As at 30 June 2010, O'Key owned approximately 79% of its total space and leased the remaining 21%. Following the Dispositions described below, O'Key will own approximately 64% of its commercial premises and will lease the remaining 36%. The total area of its commercial premises (approximately 527,600 square metres) will not change. As at 30 June 2010, O'Key owned 19 (or approximately 60%) and leased 13 (approximately 40%) of its hypermarkets and owned 11 (or approximately 55%) and leased 9 (or approximately 45%) of its supermarkets.

O'Key's lease contracts are divided into land lease contracts and trade space lease contracts. Most of O'Key's land lease contracts are for a term of 49 years, with several short-term land lease

contracts due to be re-signed for longer terms once O'Key completes new construction on the relevant premises. O'Key's trade space lease contracts are generally signed for a term of 10 years. Historically, O'Key has been able to renew or automatically extend most of its land and trade leases when they expire.

When negotiating rental rates for stores, the Company aims for annual rental rates that are equal to approximately 3.5% of the relevant store's expected or current revenue.

O'Key also rents out space at its hypermarkets to third parties. These leases typically have a term of 11 months to three years.

Within the next several years O'Key plans to further optimise its real estate portfolio and expects to own and operate an equal number of owned and leased hypermarkets and a higher share of leased as opposed to owned supermarkets. O'Key intends to continue to be flexible in managing its real estate portfolio, and will acquire or lease appropriate real estate properties that meet the Company's standards and requirements.

In the second half of 2010, O'Key initiated a series of transactions as part of a disposition of certain of its assets to an entity controlled by the Selling Shareholders. The disposed assets include (i) five real estate assets representing two multifunctional trade centres under construction and three hypermarket properties (two in St. Petersburg and one in Murmansk), (ii) three vacant land plots and (iii) certain other subsidiaries of the Company that do not own any real estate or other significant assets, but have loans payable to the Group. Following the completion of the Dispositions, the Group will lease back the disposed hypermarkets under long-term lease agreements. The Dispositions will take place in two stages and are expected to be completed by the end of 2010. The first stage, which was completed in September 2010, involved the transfer of the assets to Russian subsidiaries of the Group, which are controlled by Cyprus entities within the Group (the Cyprus Entities) not involved in the Group's retail business. As part of the second stage, O'Key has entered into a sale and purchase agreement with Dorinda Estate, an entity controlled by the Selling Shareholders, pursuant to which O'Key has agreed to sell and Dorinda Estate has agreed to purchase, the entire issued share capital of the Cyprus Entities. The effect of the Dispositions on the Group's assets and profit is reflected in the Pro Forma Financial Information included in Annex A of the Prospectus. See also "*Operating and Financial Review—Recent Developments*", "*Risk Factors—Risks Relating to O'Key's Business and Industry—Risks relating to real estate and construction—O'Key leases some of its stores, and there is no assurance that it will be able to continue to renew these leases or enter into additional leases on acceptable terms*" and "*Risk Factors—Risks Relating to O'Key's Business and Industry—Other risks relating to O'Key's business*".

Products

Product Categories

Basic, Average and Average-Plus Products

O'Key divides its consumer products into three main baskets: basic (approximately 25% of O'Key SKUs), average (approximately 35% of O'Key SKUs) and average-plus (approximately 40% of O'Key SKUs). Price-sensitive customers tend to purchase O'Key's "basic" goods. Other consumers who prefer well-known brands and look for competitive prices purchase a larger share of O'Key's "average" goods. A third type of customer is driven by availability of a wide range of average-plus products, including more expensive branded products and imported goods.

Food and Non-Food Products

In the year ended 31 December 2009, food products accounted for approximately 76% of O'Key's total revenue and non-food products accounted for approximately 24% of O'Key's total revenue. The following table shows trends in the share of food and non-food revenue of O'Key's hypermarkets and supermarkets in the years ended 31 December 2007, 2008 and 2009 and in the first six months ended 30 June 2010.

	<u>For the year ended 31 December</u>			<u>For the six months ended 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Hypermarkets				
Food (%)	71	73	74	74
Non-food (%)	29	27	26	26
Supermarkets				
Food (%)	89	90	89	90
Non-food (%)	11	10	11	10

Food products consist mainly of dairy products, meat and meat products, vegetables and fruit. Non-food products consist mainly of cosmetics, clothing, shoes, household chemicals, appliances and household goods, toys, sports and fitness products.

Fresh and Delicatessen Products

Among food products, fresh food products with a short shelf life, such as dairy products, baked goods, fruits and vegetables, make up more than 20% of O'Key's supermarket product offerings and complement O'Key's hypermarket product offerings. Each O'Key store has its own bakery and delicatessen counter, with quality control procedures carried out by designated quality managers. In terms of revenue, fresh food made up 42% and 52% of 2009 revenue for hypermarkets and supermarkets, respectively. O'Key believes that by having a wide selection of fresh products at its stores, it encourages more frequent visits by customers, which generally improves the results of its operations and increases brand loyalty and customer satisfaction.

Private Label and Non-Branded Products

O'Key has a low-price product segment that is divided into two types: (i) non-branded products, which are cheaper than branded products due to low marketing costs and which are produced mainly by suppliers who otherwise supply branded goods; and (ii) private label products produced for the Company, which are generally of higher quality than non-branded products, but are similarly priced due to more moderate marketing costs and low purchase prices, as these products are purchased in bulk.

As at 30 June 2010, out of the 124 food product private label SKUs in O'Key's stores, 29 were O'Key labelled products (including the "ultra-fresh" products, e.g., sour cream, labelled with the O'Key Kulinaria brand) and 95 were non-branded. As at the same date, out of the 3,259 non-food private label SKUs at O'Key's stores, 83 products were non-branded and 3,169 SKUs were other O'Key brands. O'Key's private label products are produced by selected suppliers and sold under trademarks belonging to O'Key. Private label products are generally priced lower than similar brand-name products. However, suppliers do not incur marketing and advertising expenses on private label products and O'Key can order them in bulk at a significantly lower price. Accordingly, O'Key's margins on such products are, on average, higher than on other branded products in a similar category.

Product Assortment

The Company's assortment policy is aimed at meeting demand through targeted product mixes within each category and subcategory of products. O'Key offers a broad assortment of products at its hypermarkets and supermarkets, including a large share of fresh food as well as high margin non-food products, and a growing share of private label products. The following table demonstrates the principal product categories sold in O'Key's stores for the six-month period ended 30 June 2010 as a percentage of revenue:

<u>Product category</u>	<u>Percentage of total sales</u>
Fresh	43.6%
Non-perishable foods (including alcohol and tobacco) . .	24.5%
Frozen	3.0%
Beverages	5.0%
Non-food	<u>23.9%</u>
Total	<u>100.0%</u>

Quality Control

O'Key has established strict quality control procedures at all of its hypermarkets and supermarkets and regularly monitors the quality of merchandise. Quality control is enforced at a local level. Food products are subject to random physical inspection on arrival at warehouses or stores. To further ensure the quality of its products, the Company intends to introduce supplier quality control in its tender process. A quality-based selection of suppliers is expected to maintain the high quality standards at O'Key's stores.

Pricing

O'Key's pricing model is designed to achieve significant competitive advantages by setting competitive prices in each product category and, in particular, by pursuing an attractive margin policy on O'Key's average-plus products (which make up 40% of O'Key SKUs). O'Key has also implemented a distinctive "first" price concept of low prices for top selling goods in each of its three product groups (basic, average, average-plus). Implementation of the "first" price concept involves a four step process: identifying 600 products customers find most essential for daily life; making additional adjustments for regional factors (such as local competitor prices) on a store-by-store basis; based on these findings, adjusting prices for these 600 products to ensure that O'Key continues to remain competitive; and finally, introducing the new prices of target products throughout its stores. O'Key believes that its pricing model allows it to make higher quality products more affordable for customers, which encourages customer satisfaction and loyalty.

In addition to its "first" price concept, and in order to ensure that prices of all of its products remain competitive, O'Key regularly monitors market prices. Prices are generally adjusted by a minimum margin and further adjusted by additional percentage points based on applicable government regulations and the prices of O'Key's main competitors. In particular, O'Key monitors competitors' prices of O'Key's top 30 products on a daily basis, and of O'Key's top 500 products on a weekly basis, to ensure that O'Key is selling these products at a cost equal to or lower than its competitors.

Customers

Target Customers

O'Key estimates that there were approximately 107 million tickets issued in 2009. Of this number, approximately 87 million tickets issued were in hypermarkets and approximately 20 million tickets issued were in supermarkets. With respect to individual stores, O'Key estimates that in 2009 approximately 3 million customers and 1 million customers shopped at each hypermarket and supermarket, respectively. O'Key's hypermarkets and supermarkets target both customers who live within walking distance of its stores and who use personal or public transport to shop. O'Key provides suitable car parking facilities to accommodate customers who travel to stores by car, and also locates its stores in areas close to main transportation hubs. Hypermarket customers generally live or work within a seven kilometre radius from the store and shop in large volumes on a weekly or bi-weekly basis (often on weekends). Supermarket customers generally live within a two kilometre radius from the store and visit the supermarket three or four times a week mainly for supplementary shopping trips and to buy fresh, perishable products.

Customer Segments

O'Key believes that its stores can address the needs of all its customers through its wide product range, large share of fresh and delicatessen products, a large selection of non-food products and increasing share of private label products. The Company divides its customers into the following categories: families, who account for approximately 52% of O'Key's revenues as at 30 June 2010; pensioners, who account for approximately 14% of O'Key's revenues as at 30 June 2010; and young people, who account for approximately 34% of O'Key's revenues as at 30 June 2010. O'Key monitors customer preferences and spending patterns on a quarterly basis and adjusts inventories to meet the requirements of the categories of these customers. The Company also conducts customer surveys for each store on an annual basis to gauge levels of customer satisfaction.

Loyalty Programme

Benefits of the Programme

O'Key's client-orientated approach to individual customers is reflected in its loyalty programme, which was launched in June 2002. Loyalty programme participants receive discounts of up to 50%, "buy two get one free" offers on more than 300 products in O'Key's bi-weekly catalogues, ongoing discounts of 30% on certain perfumes and 10% discounts on certain delicatessen products, confectionery and alcohol in the three days before and after the customer's birthday (and on the birthday itself).

Growth of the Programme

O'Key has issued approximately 4.1 million loyalty cards since the program's inception, and 85% of these cards are currently in active use (i.e., used at least once between 1 July 2009 and 30 June 2010). The programme has a fast-growing customer base, with over 82,000 new cards issued monthly in the first half of 2010. The growth of O'Key's loyalty programme is due primarily to the strength of the "O'Key" brand and the structuring of the programme. Over 70% of O'Key hypermarket and supermarket purchases are made by customers using loyalty cards, with the share of these purchases exceeding 80% of O'Key's retail revenue as the value of a loyalty cardholder's ticket is considerably higher than that of a non-loyalty card customer.

O'Key is planning to increase the appeal of its loyalty programme with further discounts, a co-branded bank card programme (which, for example, will allow loyalty card-carrying customers to

earn air miles on select airlines) and various bonus schemes to give customers bonus points toward future purchases at O'Key stores. The loyalty programme has the additional benefit of providing O'Key with statistics of customers' behaviour and shopping history. O'Key intends to further develop the statistical information provided by its loyalty program in order to study shopping habits so that it can further develop its product assortment and the shopping experience offered at its stores to ensure continuing customer satisfaction.

Marketing and Advertising

O'Key's marketing strategy aims to increase customer loyalty, attract new customers within its current markets, promote its private label goods and facilitate entry into new markets as new hypermarkets and supermarkets are established. In 2009, O'Key's marketing and advertising expenses were approximately RUR363 million, up from RUR282 million in 2008 and RUR199 million in 2007.

Catalogues and Leaflets

O'Key releases its standard product catalogue once every two weeks, which advertises 300 discounted goods for loyalty card-carrying customers, including its already competitively-priced private label and non-branded products. These free catalogues are available in-store. Other thematic catalogues and leaflets, such as for summer goods, school goods, holiday gifts and wine lists, are released on a periodic basis. This advertising policy is tailored to attract new customers to its business model and retain them with the quality of the goods and services available at O'Key stores.

Advertising Channels

Using a mix of different channels of communication, and often working with suppliers, O'Key advertises its stores, products and discount campaigns through popular local radio stations (for example, Europe Plus in St. Petersburg), outdoor advertising space, banners, printed media and transport advertising space. O'Key selects the appropriate advertising channels and advertisement content based on target audience coverage and traffic, estimated contact costs, advertisements in the "zone of shop" (zones easily reached by customers by foot or by car), such as banners near stores or on nearby roads, and the location of O'Key's competitors, in order to maximise media coverage of the target demographic.

Community Outreach

O'Key believes that it is important to ensure that its stores are considered to be a part of the communities in which they operate in order to maintain good relationships with local residents and authorities. Accordingly, O'Key's hypermarkets and supermarkets run special community programmes for school children, veterans and children in need (for example, discounts for veterans on Victory Day and vouchers for children's products).

Suppliers

With approximately 1,800 regular suppliers as at 31 December 2009, O'Key's supplier base is diversified between local and federal suppliers and imported goods. Food products are purchased from local Russian or federal suppliers, while the majority of non-food goods are imported from China (and their cost is denominated in U.S. Dollars). O'Key selects its suppliers using a number of criteria, including: product assortment and quality; market share of the Company in a particular supplier's location; supplier's capacity; revenue forecasts; Company business plans and budgets; logistic possibilities; and compliance with the Company's commercial principles.

O'Key believes that its business as a whole is not dependent on any single supplier. O'Key's three largest food suppliers, Spb Chicken Company, Wimm-Bill-Dann and Sladograd, together accounted for approximately 3.8% of the Company's purchases in the year ended 31 December 2009. O'Key's three largest non-food suppliers, Parfum, Unilever Rus and ALIDI Nord, together accounted for approximately 2.0% of its purchases in the year ended 31 December 2009.

Inventory Management

O'Key places orders with suppliers or manufacturers after analysing customer demand and tailoring product assortment to customers' preferences. O'Key's store managers are responsible for ordering all products except imported goods. Imported goods are ordered centrally by category managers. Before placing orders, data generated by the relevant inventory management system regarding current inventory levels, as well as future inventory forecasts and historical inventory data are reviewed. Orders are placed by email and can be monitored online in real time from the point of ordering to the point of delivery.

Fresh products, such as fruit, vegetables, dairy products and bread, are generally ordered every day or every two days, because of their short shelf life, while non-perishable products with a high turnover, such as frozen products, are typically ordered once or twice a week. Other non-perishable products, such as groceries and alcoholic beverages, are typically ordered twice a week. It takes an average of approximately two days to execute orders, from the point of placing the order to the point of receiving the product in the store.

O'Key believes that historically it has enjoyed low levels of inventory shrinkage due to spoilage and theft, relative to other Russian food retailers. In the year ended 31 December 2009, shrinkage represented approximately 1% of O'Key's revenues, with an approximately equal split between spoilage (for example, shelf life expiration or damage caused in transit) and theft. The Company's strong record in inventory statistics is in part a result of strict inventory control procedures and store monitoring procedures informed by a statistical database. "Mature" O'Key stores (i.e., stores that O'Key has operated for at least one year) have shrinkage rates that are on average two times lower than new O'Key stores, demonstrating the improvement of the effectiveness of O'Key's control procedures over time.

Logistics

O'Key stores are supported by a supply chain which aims to minimise out-of-stock products and transportation costs and maximise the selection of products available to customers. O'Key sources most of its goods directly from manufacturers and distributors, which enables it to open stores throughout Russia. As at 30 June 2010, local suppliers, federal suppliers and O'Key-Logistics accounted for approximately 46%, 53% and 1% of O'Key's cost of goods, respectively. The majority of O'Key's private label, non-food and non-branded products are imported through its subsidiary O'Key-Logistics. O'Key-Logistics purchases these low-priced specialty goods primarily from China, and, to a lesser extent, from India and Italy. Imported products are then distributed to O'Key's stores by third-party transportation companies from O'Key's two rented warehouses in St. Petersburg (with a total area of 17,000 square metres and a total of 13,000 pallets). O'Key also uses its hypermarket storage capacity to stock a week's inventory for a particular hypermarket. Food products are generally sourced from local suppliers to cater to local preferences.

As at the date of this Prospectus, the majority of deliveries to O'Key stores are by direct delivery. However, as the density of O'Key stores increases in a particular city, O'Key plans to set-up a cross-docking platform in that city. Between 2008 and 2010, the Company set up cross-docking facilities in Volgograd, Krasnoyarsk and Murmansk. To support its strategy of expansion into large

cities outside of the St. Petersburg area and to grow its supermarket operations, O'Key intends to further develop its cross-docking facilities.

Information Technology Infrastructure

O'Key currently uses Microsoft Dynamics AX to manage its retail accounting and inventory management (launched in May 2002), as well as a software package from 1C (a leading Russian software developer) for real estate accounting, Crystal Set software for cash registers, Microsoft Exchange for e-mail service, Global HRM for payroll and human resources (launched in January 2010) and is now implementing ibs Suite to support assortment planning, suppliers negotiations, supply chain, advanced price management, trade space planning, and store operations. The ibs Suite implementation began in November 2009, the first module was launched in May 2010 and is expected to be completed by the end of 2012. O'Key believes that the ibs Suite system will enable Company management to make assortment, procurement, pricing and inventory management decisions more efficiently, will further facilitate budgeting processes, and will further standardise operations across O'Key's hypermarkets and supermarkets. The ibs Suite implementation cost (split over three years) is expected to total approximately U.S.\$12 million, including software, integration and hardware.

O'Key information systems are supported by technology such as Hewlett Packard servers, storage, and workstation equipment, Oracle and Microsoft SQL Server databases, Wincor cash registers, Cisco network routers and switches.

The overall annual expenditures on IT are expected to reach between U.S.\$20-25 million in the coming two years, including IT personnel, maintenance, integration projects, and investment costs (in new stores openings, federal equipment and software upgrade, network equipments, and replacement of obsolete equipment) and leasing of data centres facilities.

Competition

O'Key competes with both traditional and modern retail operators on the basis of convenience, presentation, price and additional benefits such as loyalty cards, a wide range and assortment of products for customers of all income levels and high quality customer services. According to *RBC*, X5 Retail Group, Auchan, Magnit, Metro Group and O'Key were Russia's top five largest retailer chains by turnover in 2009, of which X5 Retail Group, Magnit and O'Key are domestic retailers. The modern food retail business is dominated by domestic retailers such as X5 Retail Group, Magnit and O'Key. Apart from these, there are several large international retailers such as Metro Group, Auchan and Rewe Group that operate hypermarkets in Russia. The largest food retail chains operating in the hypermarket segment of the Russian market are X5 Retail Group operating under the Karusel brand name, Metro Cash and Carry, Auchan, Lenta, Magnit and Liniya. O'Key's largest competitors are the X5 Retail Group (operating under the Karusel brand name) and Lenta. See "*Russian Food Retail Industry—Competitive Landscape*".

Intellectual Property

Under Russian law, the right to use a trademark in Russia is protected upon the trademark's registration with the Federal Service on Intellectual Property, Patents and Trademarks in Russia. The "O'Key" trademark ("О'КЕЙ" in Cyrillic characters) was registered in Russia in 2004. This registration is valid for 10 years. The Group will renew the registration every 10 years.

As at the date of the Prospectus, the Group owns over 40 trademarks. O'Key has registered certain trademarks related to its private label products. Some of the private label trademarks registered by O'Key include Emotionman, Emotionlady, Emotionkids, Firemark and Greenway. O'Key has also registered the domain name www.okmarket.ru.

Insurance

O'Key maintains property insurance with respect to its stores and certain store equipment (such as refrigerators and cash registers) and third party liability and mandatory medical insurance of its employees. Other than where required by law, O'Key does not purchase third-party liability insurance. O'Key's insurance policies currently in force are provided by a number of major insurance companies, such as Alliance, Zurich and Chartis.

Environmental Protection

O'Key generates various types of waste, which are removed by third-party waste disposal contractors. O'Key believes it complies in all material respects with applicable environmental standards under Russian law and regulations. O'Key has not been involved in any material legal proceedings that are, or have been in the 12 months preceding the date of this Prospectus, related to environmental protection issues.

Employees

O'Key is committed to maintaining an acceptable turnover ratio, and lowered its turnover from 55% in 2007, with 8,383 employees at the end of the year, to 50% in 2009, with 14,347 employees at the end of the year.

As at 30 June 2010, O'Key had approximately 14,300 employees. The following table sets out the number of employees as at 31 December 2007, 2008 and 2009 and as at 30 June 2010 by function:

	As at 31 December			As at 30 June 2010
	2007	2008	2009	
In-store personnel	7,708	11,639	13,395	13,332
Management and other (head and city office)	685	824	952	1,001
Total	8,393	12,463	14,347	14,333

As at 30 June 2010, and so far as the Company is aware, approximately 50 and 20 of the Group's employees belong to two trade unions, respectively. There are no collective bargaining agreements between O'Key and its employees. The Company has not experienced any industrial action by its employees. O'Key considers its relationship with its employees to be more than satisfactory. Average employee turnover in the Russian retail market is high (approximately 55%). The Company's annual turnover has historically not been higher than average industry rates. In 2009, for example, average turnover for store employees was approximately 50%.

Compensation

O'Key bases its employee and management compensation on principles of internal fairness, external competitiveness and individual achievement. This remuneration policy is designed to attract, motivate and retain employees whose qualifications and efforts can assist the Company in fulfilling its broader business strategies. Remuneration depends on an employee's seniority, professional competence and performance. Some employee positions are sub-divided into several salary categories, reflecting experience, functional duties and individual employee's performance. Factors that affect salary increases include labour market dynamics, inflation, the individual performance (with the exception of positions with fixed salaries), seniority and budget constraints. The Company pays its employees for overtime work in accordance with the Labour Code of Russia.

O'Key is committed to recruiting and retaining highly skilled personnel. To this end, O'Key offers its management-level employees performance-linked and other incentives. These employees receive bonuses that depend on performance targets. O'Key also offers benefits such as medical insurance for employees and their family members, a lunch allowance and in-store discounts, as well as corporate cars for certain members of management. Management remuneration involves a higher percentage of performance-based compensation compared with that of ordinary employees. Management bonuses are more closely linked to the Company's rather than the individual's performance. Some of the Company's subsidiaries are in the process of establishing a cash bonus award for key members of its senior management that will be linked to share performance of the Company. See "*Management and Corporate Governance—Management Incentives—Cash bonus award linked to share performance*".

Personnel Training

Personal development of employees is a priority for O'Key. O'Key provides several training programmes on a regular basis in all Russian regions where it operates, including 19 internal programmes aimed at development of professional knowledge and experience. The Company engages professional corporate trainers and employs 60 in-house trainers. These programmes are designed to facilitate the integration of new employees and help the career development of all other personnel. In 2009, more than 13,000 O'Key employees took part in at least one training programme. The Company's management, including senior management, also receives business management-focused training and coaching. O'Key expects that regular training programmes would help reduce staff turnover, increase productivity and prepare employees for progressing to more senior positions.

Legal Proceedings

From time to time, O'Key is involved in litigation in the ordinary course of its business activities. As at 30 June 2010, the aggregate amount of claims pending against O'Key is less than RUR1 million.

Neither O'Key nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus that may have, or have had, a material effect on the Company's and/or the Group's business, financial position or profitability.

RUSSIAN REGULATION OF FOOD RETAIL, REAL ESTATE AND OTHER REGULATORY MATTERS

Set out below is a summary of material information concerning the regulation of O'Key's business. This description does not purport to be a complete description of all laws and regulations applicable to O'Key's business and should not be read as such.

Regulation of Food Retail

The food retail industry in Russia is regulated by general civil and administrative legislation and specialised legislation covering quality standards, health and safety, sanitary rules and consumer protection. A number of permits and consents, including those relating to health and safety, are required in order to open a new store. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules, as well as in matters of issuance and renewal of permits and monitoring compliance with the terms thereof. Compliance with requirements imposed by regulatory authorities may be costly and time-consuming, and may, in certain cases, result in delays in the commencement or continuation of O'Key's operations.

State and Local Bodies Involved

The key state and local bodies are:

- The Ministry of Industry and Trade, which, among other things, is the principal federal body authorised to develop the governmental policy for, and the regulatory regime of, trade.
- The Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare (the "**Federal Consumer Service**"), which is the principal federal body authorised to monitor compliance with sanitary and epidemiological laws and regulations and to exercise control over the protection of consumer rights.
- The Ministry of Health Protection and Social Development, which, among other things, is the principle federal body authorised to develop the governmental policy for, and the regulatory regime of, health protection, social development, labour and consumer rights protection, and which also supervises the Federal Consumer Service.
- The Ministry of Civil Defence Affairs, Emergencies and Liquidation of Consequences of Natural Disasters (the "**Emergency Ministry**"), which, among other things, supervises fire inspection authorities in charge of fire safety regulations.
- State regional and local municipal authorities, which control compliance by the companies operating in their respective regions and municipalities with various regional and local rules and issue licences for the retail sale of alcoholic beverages.
- State courts, which resolve civil and administrative disputes and consider criminal cases, such as invalidating provisions of consumer contracts that violate consumer rights, as well as imposing criminal sanctions for offences in the food retail industry, such as the manufacture and sale of goods not in compliance with the appropriate standards.

Applicable Legislation

The key pieces of Russian legislation regulating the retail market, including the food retail, are:

- The Federal Retail Law, which became effective on 1 February 2010, (i) contains requirements related to trading activities in Russia, including anti-trust provisions and restrictions for supply contracts with respect to food products, (ii) divides regulatory

authority between federal, regional and municipal bodies with respect to trading activities, and (iii) introduces regional trade registers that will include information on suppliers, entities carrying out trading activities and the market conditions in the territories of relevant constituent entities of the Russian Federation.

- Federal Law No. 2300-1 “On Protection of Consumers’ Rights” dated 7 February 1992, as amended (the “**Law on Protection**”), establishes a general legal framework for regulating the relationship between retailers, manufacturers and service providers, on the one hand, and customers, on the other hand, in connection with the sale of goods, performance of works and rendering of services. The Law on Protection sets out the right of customers to purchase goods of good quality and to receive information on goods and their manufacturers and retailers. The Law on Protection provides for liability of retailers, manufacturers and service providers for violating consumers’ rights. The Law on Protection also invalidates any provisions in a consumer contract purporting to limit consumer rights provided by law.
- Federal Law No. 29-FZ “On Quality and Safety of Food Products” dated 2 January 2000, as amended (the “**Law on Quality and Safety**”), establishes a general framework for safeguarding the quality and safety of food products. The Law on Quality and Safety sets out general quality and safety requirements for the manufacture, packaging, storage, transportation and sale of food products as well as the disposal or destruction of poor-quality and unsafe food products.
- Federal Law No. 52-FZ “On Sanitary and Epidemiological Welfare of the Population” dated 20 March 1999, as amended (the “**Law on Sanitary and Epidemiological Welfare**”), requires food products to meet certain sanitary standards. According to this law, food products that do not conform to established sanitary standards and represent a danger to customers must be withdrawn immediately from production and sale. The Law on Sanitary and Epidemiological Welfare also establishes the framework for supervision of companies’ compliance with sanitary and epidemiological regulations.
- Federal Law No. 184-FZ “On Technical Regulation” dated 27 December 2002, as amended (the “**Law on Technical Regulation**”), establishes the legal framework for the development and enactment of state standards, as well as voluntary technical requirements, relating to manufacture, use, storage, transportation, sale and utilisation of goods and for compliance with these standards and requirements, including mandatory certification procedures. The Law on Technical Regulation supersedes the Laws of the Russian Federation “On Certification of Goods and Services” No. 5151-1 dated 10 June 1993 and “On Standardisation” No. 5154-1 dated 10 June 1993 and the revision of existing legislation and technical rules falling within the scope of this regulation is on-going. While such revision is still in process, the existing requirements remain in effect. Food products and non-food products sold by retailers are subject to either mandatory certification (e.g., children’s clothes, domestic radio-electronic equipment) or quality declaration (e.g., most food products and clothing).
- Federal Law No. 171-FZ “On State Regulation of Production of, and Operations with, Ethanol, Alcohol and Ethanol Containing Products” dated 22 November 1995, as amended (the “**Law on Alcoholic Products**”), establishes a general legal framework for the production of, and operations with (including storage and sale), ethanol, alcohol and ethanol-containing products in Russia. According to the Law on Alcoholic Products, licences are required for the production and usage of ethanol, alcohol and ethanol-containing products, including licences for the retail sale of alcoholic beverages, excluding beer.

- Federal Law No. 69-FZ “On Fire Safety” dated 21 December 1994, as amended (the “**Law on Fire Safety**”), establishes a general legal framework of fire safety measures and provides for the general powers of state authorities to perform audits and check compliance by organisations with fire safety regulations.
- Federal Law No. 89-FZ “On Production and Consumption Waste” dated 24 June 1998, as amended (the “**Law on Waste**”), sets general rules for handling waste.

Import operations are subject to the provisions of the Customs Code of the Russian Federation No. 61-FZ dated 28 May 2003, as amended, as well as the relevant regulations of the Federal Customs Service.

Violation of any of the above laws could result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.

Federal Retail Law

The antitrust provisions of the Federal Retail Law primarily relate to retail trade and trade of food products, and mainly aim to limit the ability of major food retail chains from taking advantage of their market position and exercise pressure on suppliers and small retailers. The Federal Retail Law does not apply to foreign trade activities; trade on commodities exchanges; activities in connection with the sale of goods on retail markets; and sale and purchase of securities, real estate, products intended for production and technical use, such as energy resources.

The most significant antitrust provisions of the Federal Retail Law include: (i) prohibiting the imposition of certain conditions mainly on suppliers, such as the obligation of suppliers to make payments in exchange for the right to supply food products to food retail chains and/or the right to change the range of products supplied and/or the obligation to reimburse any expenses not related to the performance of the supply contract and the subsequent sale of a certain shipments of products; and (ii) the limitation on leases or any acquisitions of additional retail space within the territory of a constituent entity of the Russian Federation, a municipal area or a city district for food retail chains with a share exceeding 25% of the total amount of food products sold during the preceding financial year within the territory of the relevant constituent entity of the Russian Federation, municipal area or city district (such limitation with respect to municipal areas and city districts came into effect from 1 July 2010).

The Federal Retail Law introduced requirements and restrictions with respect to the terms and conditions of supply contracts for food products, including: (i) limitations on time between delivery of products and payment by retailers to suppliers which are linked to the shelf life of the relevant food products; (ii) limitations on fees that suppliers are often required to pay to retailers when retailers agree to purchase larger volumes of products (such fees now may not exceed 10% of the price of the food products and cannot be imposed on certain basic types of food products, such as bread and milk); (iii) a ban on imposing fees on suppliers for the performance of and/or amendments to contracts; (iv) a ban on requiring suppliers to subscribe to ancillary services such as advertising and marketing services as preconditions to entering into a supply contract; (v) a ban on the use of commission contracts or similar contracts in wholesale trade; and (vi) the obligation to disclose the tender process for selecting suppliers and the main terms and conditions of the related supply contracts. Supply contracts entered into after 1 February 2010 (when the Federal Retail Law took effect) must comply with relevant requirements and restrictions. Supply contracts entered into before 1 February 2010 had to be brought into compliance with the Federal Retail Law by 1 August 2010. All O’Key contracts with its suppliers have been amended to ensure compliance with the Federal Retail Law.

In addition, under the Federal Retail Law, the Russian government is entitled to set maximum retail prices on certain types of necessities for a maximum period of 90 calendar days if the increase in prices of these products amounts to 30% or more during a period of 30 consecutive calendar days in the territory of one or several constituent entities of the Russian Federation. The list of these food products and the system for determining maximum retail prices are set by the Russian government. Such list contains 24 types of necessities, including bread, milk, eggs, meat, sugar and salt.

Licensing

Generally, trade operations in the Russian retail industry are not subject to licensing. However, applicable legislation requires licences for the retail sale of alcoholic beverages, excluding beer, which are issued by regional and local authorities. O'Key maintains licences for the retail sale of alcoholic beverages. Currently, almost all of O'Key's stores have alcohol licences.

Regulation of Intellectual Property

State Bodies

The Federal Service for Intellectual Property, Patents and Trademarks ("**Rospatent**") is the federal body that is authorised to register certain intellectual property rights, including rights to trademarks, and certain agreements for the transfer of intellectual property rights, including licence agreements for the use of a trademark, agreements for the transfer of the right to a trademark and franchising agreements.

Applicable Legislation

Until 1 January 2008, the main law concerning intellectual property applicable to O'Key business was the Law of the Russian Federation No. 3520-1 "On Trademarks, Service Marks and Indications of Origin" dated 23 September 1992, as amended (the "**Law on Trademarks**"), which governed issues relating to the registration and transfer of trademarks and their use. Since 1 January 2008, intellectual property has been regulated by Part 4 of the Russian Civil Code, which replaced the Law on Trademarks as part of a regulatory codification process. The regulatory regime for trademarks under Part 4 of the Russian Civil Code remains essentially the same as the one established by the Law on Trademarks.

Registration and Disposal of Trademarks

According to Part 4 of the Russian Civil Code, protection of trademarks is subject to state registration with Rospatent. Upon the registration of a trademark, Rospatent issues a certificate of registration of the trademark, which is valid for ten years from the date on which the application for registration was filed. This term may be extended for another ten years an unlimited number of times.

Agreements for assignment of rights to a trademark, franchising agreements, licence agreements and pledge agreements are subject to registration with Rospatent. In the absence of registration, such agreements are null and void.

Regulation of Real Estate

Set out below is the legal framework relating to land and other real estate in Russia.

State Bodies

In addition to the state bodies and their subdivisions having authority over general matters, a number of state bodies specifically regulate turnover and construction of real estate in Russia, including:

- The Federal Service for State Registration, Cadastre and Cartography (the “**Federal Register Service**”), which maintains the Real Estate Register and a state register (cadastre) of real estate.
- The Ministry of Regional Development of the Russian Federation, which is authorised to review and comment on construction documentation.

Applicable Legislation

Russian legislation regulating the ownership and leasehold rights to real estate and real estate construction includes the following:

- the Russian Civil Code;
- the Russian Land Code No. 136-FZ dated 25 October 2001, as amended (the “**Russian Land Code**”);
- the Russian Town Planning Code No. 190-FZ dated 29 December 2004, as amended (the “**Town Planning Code**”);
- Federal Law No. 122-FZ “On State Registration of Rights to Immovable Property and Transactions Therewith” dated 21 July 1997, as amended (the “**Law on State Registration**”);
- Federal Law No. 101-FZ “On Turnovers of Agricultural Land” dated 24 July 2002, as amended;
- Federal Law No. 221-FZ “On State Cadastre of Real Estate” dated 24 July 2007, as amended;
- Federal Law No. 172-FZ “On Transfer of Land or Land Plots from One Category to Another” dated 21 December 2004, as amended;
- Federal Law No. 102-FZ “On Mortgage (Real Estate Pledge)” dated 16 July 1998, as amended; and
- certain other federal and regional laws and regulations.

General Provisions

Most land in Russia is currently owned by the state (i.e., federal, regional or local authorities). The share of privately owned buildings and similar real estate is increasing due to a less restrictive regulatory regime with respect to these assets as compared to land.

Russian law provides for the creation of a unified register, or cadastre, in which the details of real estate, such as measurements, boundaries and other detailed characteristics, are recorded. As a general rule, only land plots with a state cadastre number may be the subject of real estate transactions. A separate register is created for the registration of title to real estate and transactions in relation to registered real estate, as described in more detail below.

All land is categorised as having a designated purpose, for example, agricultural land, land for use by industrial enterprises, power companies and communication companies, land for military purposes, forestry land and reserved land (i.e., land which is owned by the state or municipalities

and may be used only upon being transferred to other categories). Land must be used in accordance with its categorised purpose. Under the Russian Land Code, land plots owned by the state or the municipalities generally may be sold or leased to Russian and foreign persons or legal entities. However, certain land plots owned by the state may not be sold or leased to the private sector and are referred to as “withdrawn from commerce” (for example, national parks and reserves and land used for military purposes are typically withdrawn from commerce). Other land plots may be restricted in that they may not be privately owned, but they may be leased to the private sector (for example, land of a particular cultural heritage).

Under Russian law, a land plot and any buildings constructed upon it may be owned by different persons, in which case the owner of the building(s) may request that the owner of the land underneath the building(s) creates a set of legal rights so that the owner of the building(s) may access the land.

State Registration of Rights and Transactions Involving Real Estate

All rights to real estate (including land plots and buildings) and certain transactions involving real estate must be registered in the Unified State Register of Rights to Immovable Property and Transactions Therewith (the “**Register of Rights**”) maintained by the Federal Register Service. Under the Law on State Registration, registration with the Register of Rights is required for, *inter alia*: (i) rights to, and encumbrances on, buildings, facilities, land plots and other real estate; and (ii) transactions involving registered real estate such as an establishment of a trust, a creation of a mortgage or an entry into a lease for a term of not less than one year. Real estate and transactions involving registered real estate are registered with the Federal Register Service in the registration district where the property is situated.

Rights to real estate only arise upon state registration. The failure to register a transaction that requires state registration generally results in the transaction being rendered null and void.

Regulation of Real Estate Construction

Stages of Construction

The main stages of the building construction process typically include the following:

- obtaining land rights;
- preparation of project documentation and obtaining infrastructure/utilities documentation;
- obtaining a construction permit;
- performing construction works;
- obtaining a permission on initiation of use of the property; and
- registration of title to the new building.

Some of these key stages are described in more detail below.

Obtaining Land Plots for Construction Purposes

Russian law generally allows individuals and legal entities to acquire land owned by state or municipal authorities for the development and construction of buildings. Russian law generally requires state or local authorities to grant permission for land plots to be used for construction purposes unless a land plot (i) has been withdrawn from commerce, (ii) is not permitted to be privatised under federal law, or (iii) has been reserved for state or municipal needs. Any refusal of state or local authorities to grant permission for a land plot may be challenged in Russian courts.

Under the Town Planning Code, land plots are assigned for construction in accordance with town construction plans approved by the relevant authorities.

Under the Russian Land Code, land plots owned by the state or municipalities may be assigned for construction purposes either with or without prior approval of the location of the buildings and other objects to be constructed on the plots. If a land plot is assigned for construction without prior approval of the location of objects to be constructed, it can be acquired or leased by an applicant generally through a public tender process. In the event of a land plot being assigned for construction with prior approval of the location of objects to be constructed, that plot can be the subject of a lease or, in certain circumstances, is available for perpetual use or temporary gratuitous use. In these cases, an application for preliminary approval of a land plot for construction specifies the land plot in question and its size, as well as the building's proposed purpose and location. The application may be submitted together with a feasibility study. Upon consideration of an application, the relevant state or municipal authority then grants or denies preliminary approval for the use of the land plot for construction.

Construction and Operation Permits

Construction of a building on a land plot may only be carried out after obtaining a construction permit from the relevant regulatory authorities. The issuance of a construction permit generally requires approval of the building project documentation by the relevant regulatory authority. In order to obtain an affirmative decision, the project must comply with various state standards, environmental and sanitary and epidemiological laws, regulations and rules as well as fire safety and other types of safety requirements.

In addition, upon completion of construction, the relevant authority issues a permit for putting the building into operation, which confirms the compliance of the new building with its project documentation.

Since 1 January 2010, activities relating to the construction of buildings in Russia are no longer subject to licensing. Instead, building constructors must participate in non-profit self-regulated organisations and obtain certificates of approval from such organisations. Certificates of approval are obtained with respect to the constructor and certain types of activity, not to a particular construction project. Pursuant to the Town Planning Code of the Russian Federation, such certificates of approval are issued with respect to any activities involving engineering surveys, preparation of design documentation, construction and major rebuilding of buildings which affect safety of buildings.

Regulation of Real Estate Sales and Leases

Under the Russian Civil Code, agreements with respect to the sale or leasing of real estate must expressly set out the price of the sale or rent under the lease.

The transfer of ownership under a real estate sale agreement is subject to state registration, whereas the sale agreement itself is not required to be registered, except for sale agreements related to residential properties. With respect to leasing real estate, both lease rights and lease agreements are subject to registration, except for lease agreements which are for a term of less than one year.

Obligations of Land Plot Owners and Leaseholders

Owners and leaseholders of land plots and buildings are required to comply with federal, regional and municipal laws and regulations. For example, they are required to use the land plot in accordance with its designated purpose and not to cause harm to the environment. Regional and

municipal laws and regulations and agreements entered into with local and municipal authorities may provide for additional financial and other obligations, such as financing of local transportation and social infrastructure. The owner of a building will usually bear all liabilities that may arise in connection with the building, including ongoing maintenance and repairs.

Land and Real Property Taxation

Property Tax

Property tax obligations apply to all Russian entities and to non-Russian entities that carry out business in Russia through a permanent establishment or own real estate in Russia or have received real estate in Russia under a concession agreement. Natural resources are excluded from property tax requirements, as is land (which is subject to a separate land tax described below). The taxable assets of Russian entities and non-Russian entities that carry out business in Russia through a permanent establishment are movable and immovable property (including property delivered for temporary possession, use, owned by a joint venture, placed in trust or received under a concession agreement) included on the balance sheet of the taxpayer as fixed assets in accordance with RAS. The taxable assets of non-Russian entities that do not carry out business in Russia through a permanent establishment are immovable property located on the territory of the Russian Federation and/or immovable property received under a concession agreement.

The property tax rate is established by the regional authorities of the Russian Federation but may not exceed 2.2% of the average annual net book value of the relevant property calculated under RAS. Currently, the regional authorities of the most developed Russian regions have set the tax rate at the highest possible rate. Property tax is payable on a quarterly basis.

Land Tax

Obligations to pay land tax apply to individuals and entities that have ownership title, the right of permanent use or the right of lifetime ownership with right of inheritance in land.

The land tax rates are determined by the municipal authorities but may not exceed limits specified in the Tax Code: (i) 0.3% of the register (cadastre) value for the agricultural and housing land; and (ii) 1.5% of the register (cadastre) value for all other land, which includes land for use in the retail industry. Legal entities pay land tax on a quarterly basis.

Regulation of Employment and Labour

Employment and labour matters in Russia are regulated by the Labour Code dated 30 December 2001, as amended (the “**Labour Code**”), and certain other federal and regional laws and regulations as well as local acts.

Employment Contracts

As a general rule, employment contracts in Russia are for indefinite terms. Russian labour legislation restricts entrance into term employment contracts with certain exceptions, such as senior management positions.

An employer may terminate an employment contract only on the basis of specific grounds listed in the Labour Code, including:

- liquidation of an enterprise or downsizing of staff;
- failure of the employee to comply with the position’s requirements due to lack of professional qualification as evidenced by the results of an evaluation;

- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties;
- provision by the employee of false documents prior to entry into the employment contract; and
- other grounds as stated in the Labour Code or other federal laws.

An employee dismissed due to downsizing or liquidation is entitled to receive compensation (including a severance payment) and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for certain categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss pregnant women. Termination of employment contracts with mothers having a child under the age of three, single mothers having a child under the age of 14 or a disabled child under the age of 18 or other persons taking care of a child under the age of 14 or caring for a disabled child under the age of 18 without a mother is also not permitted except in certain cases provided for in the Labour Code, including liquidation of an enterprise, systematic failure of the employee to fulfil his or her duties or any single gross violation by the employee of his or her duties. The Labour Code also sets forth some restrictions with respect to the termination of employment contracts with minors.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally-dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the illegal termination and reinstatement as well as for claimed moral damages.

Work Time

The Labour Code sets the regular working week at 40 hours for most occupations. Any time worked beyond 40 hours per week as well as work on public holidays and weekends must be paid for at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. The retirement age in the Russian Federation is 60 years for men and 55 years for women.

Salaries

The minimum monthly wage in Russia, as established by the applicable federal law, is RUR4,330 from 1 January 2009.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements relating to legal strikes. Participation in a legal strike may not be grounds for terminating an employment contract, although employers are generally not required to pay salaries to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of an employment contract.

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

General

Composition of the Board of Directors

The Board of Directors is composed of five members (each, a “**Director**”). The Directors are appointed by the general meeting of shareholders (the “**General Meeting**”) by a simple majority of the votes cast for a period not exceeding 6 years or until their successors are elected.

One of the five Directors (the “**Caraden Director**”) has special rights pursuant to the Shareholders Agreement and the Articles of Association (see “—*Shareholders Agreement*”) and is appointed by the General Meeting from a list of candidates proposed by Caraden Limited or any other entity, so long as Caraden Limited or such other entity holds not less than ten point seventy-five per cent (10.75%) of the shares in issue of the Company (each of Caraden Limited or such other entity being referred to as the “**Caraden Shareholder**”) and provided that:

1. (a) Mr. Boris Volchek and/or (b) a trustee of a family trust (of which Mr. Boris Volchek is beneficial owner or in relation to which Mr. Boris Volchek has the authority to exercise control), holds directly or through other entities (in which Mr. Boris Volchek or the trustee owns the entire share capital) at least 50% of the share capital plus one (1) share of the share capital of such Caraden Shareholder;
2. (a) Mr. Boris Volchek, and/or (b) his spouse, and/or (c) his children (including adopted children) and/or (d) a trustee of a family trust (of which the above persons (or any of them) are beneficial owners or in relation to which the above persons (or any of them) have the authority to exercise control), holds directly or through other entities (in which any of the persons listed under (a) to (d) owns the entire share capital), the remaining share capital of such Caraden Shareholder; and
3. upon reasonable request of the Company, the Caraden Shareholder shall provide to the Company evidence in relation to the satisfaction of the above conditions (1) and (2).

The Board of Directors is composed of two Independent Directors. Subject to any overriding requirement under law or under stock exchange regulation applicable to the Company, an “**Independent Director**” is a director who does not have a significant business relationship with the Company that would create a conflict of interest which could impair the independence of the director’s judgment and is not an immediate family member of an executive of the Company.

Directors may be removed with or without cause by the General Meeting by a simple majority of the votes cast at a General Meeting. The Directors are eligible for re-election. The Caraden Shareholder may propose the removal of the Caraden Director nominated for appointment by it and the appointment of a replacement director by notice to the Company signed by and on behalf of such shareholder requesting that the General Meeting be convened in accordance with the Articles of Association to remove such Caraden Director so designated and appoint a replacement Caraden Director with effect from the date of the General Meeting. Following the resolution of the General Meeting to remove the Caraden Director, then a replacement Caraden Director shall be appointed only from a list of proposed board candidates provided by the Caraden Shareholder.

In the event of a vacancy in the office of a Director (other than the Caraden Director) because of death, retirement, resignation, dismissal, removal or otherwise, the remaining Directors shall continue to validly act without any replacement of the vacant Director so long as at least three Directors remain in office (including the Caraden Director). The remaining Directors may not fill that vacancy nor appoint a successor to act, unless there are less than three remaining Directors, in

which case the remaining Director(s) shall appoint such number of Director(s) as is required to have three remaining Directors (including the Caraden Director).

In the event of a vacancy in the office of the Caraden Director because of death, retirement, resignation, dismissal, removal or otherwise, the remaining Directors shall appoint a replacement director of the vacant Caraden Director only from a list of proposed board candidates provided by the Caraden Shareholder, whereas the Caraden Shareholder is obliged to provide such list within ten (10) business days following written notice sent by the remaining Directors to the Caraden Shareholder. The remaining Directors may not take any decisions, for which the positive vote of a Caraden Director is required under the Articles of Association until the earlier of (i) the appointment of replacement Caraden Director or (ii) the expiration of the (10) business days notice period. If the Caraden Shareholder fails to propose a list of candidates (i) the remaining Directors shall continue to validly act without any replacement of the vacant Caraden Director so long as at least three Directors remain in office and (ii) the provisions in the Articles of Association referring to the Caraden Director shall be temporarily suspended until the Caraden Shareholder proposes such list. In such situation, the remaining Directors may take any decisions, including decision for which the positive vote of a Caraden Director is required under the Articles of Association. Upon the proposal of a list of candidates by the Caraden Shareholder the remaining Directors shall appoint immediately a replacement Caraden Director.

Powers of the Board of Directors

The management of the Company is vested in the Board of Directors. The Board of Directors has the broadest powers to manage the business of the Company and to take actions to realise the corporate object except for the powers reserved by Luxembourg law and the Articles of Association to the shareholders.

Procedures and Meetings of the Board of Directors

The Board of Directors appoints a chairman, who shall have no casting vote in the event of a tied vote.

The Board of Directors meets upon call by the chairman or any Director. Notice of any meeting must be given at least fourteen calendar days before the meeting. Any Director may act at any meeting of the Board of Directors by appointing in writing by letter or by cable, telegram, facsimile transmission, telex or email another Director as his proxy. A meeting of the Board of Directors is deemed to have the required quorum if at least a majority of the Directors is present or represented.

Decisions of the Board of Directors are generally taken by a majority of the votes cast by the Directors present or represented at the meeting.

However, certain decisions pertaining to the Company and its subsidiaries, being any direct or indirect subsidiary of the Company, i.e., any undertaking in which the Company:

- (a) has a majority of the shareholders' voting rights; or
- (b) has the right to appoint or remove a majority of the members of the administrative, management or supervisory body and is at the same time a shareholder in that undertaking; or
- (c) is a shareholder, and controls alone, pursuant to an agreement with other shareholders in that undertaking, a majority of shareholders' voting rights in that undertaking,

shall be approved by the Board of Directors resolving at a simple majority (including the positive vote of the Caraden Director), i.e.: (a) any decision to pay bonuses and remunerations to the

general director of O'KEY LLC (referred to in the Articles of Association as "OOO O'KEY"), which are not provided in the employment agreement with such general director; (b) the sale or transfer, including pledge, by the Company or any of its subsidiaries of real estate property and/or land plots with a value (individually or in the aggregate) exceeding U.S.\$10 million, whether directly or by way of a sale of the shares of the companies that own real estate property or land plots; (c) the approval of (i) any internal rules and regulations of the Board of Directors and the committees of the Company, and the subsidiaries and (ii) any corporate governance charters of the Company and the subsidiaries (only in case when the documents listed in items (i) and (ii) contradict the provisions of the U.K. Corporate Governance Code or any other stock exchange regulations), and (iii) dividend policy; (d) the creation or liquidation of any subsidiaries, in each case with value exceeding U.S.\$5 million; (e) the acquisition, alienation, subscription of any shares and securities or acquisition (alienation) of any participation rights in any company, groups, partnerships, joint undertakings, in each case with value exceeding U.S.\$10 million; (f) the entry into any joint venture and similar agreements, which will generate investment commitment for the Company for an amount exceeding U.S.\$10 million; (g) issuance by the Company of any securities, bonds, debt securities or other financial instruments or providing or changing the rights relating to such securities, bonds, debt securities or other financial instruments; and (h) payment of interim dividends.

If the Budget (i.e. an internal document of the Company and any of its subsidiaries, compulsory for execution and implementation, which provides for monthly financial forecasts of the Company or the subsidiaries for the period of the forthcoming 12 months including the statement of operational, financial and investment cash-flows, forecasted profit and loss account, and also the forecasted balance-sheet, and in case of the producing of a Group Budget, consolidated at the level of the Company (or its successor in case of redomiciliation), prepared according to the accounting rules adopted in the Company at the moment of such preparation) of the Group (being the Company together with its subsidiaries (including O'Key hypermarkets located in Russia), which are subject to consolidation at the level of the Company according to IFRS) (a) provides for the raising of loans and borrowings as a result of which the debt/EBITDA ratio of the Group would be below 1.3 or in excess of 2.3), or (b) provides that less than 25% from each year's consolidated net profit of the Group shall be paid out as dividends (provided that the distribution amounts cannot exceed the amounts that can be legally distributed at Company level) or (c) does not provide for all profit (left after payment of dividends) to be used for the development of the activity carried on by chain of hypermarkets and/or supermarkets, and/or discount stores, and/or neighbourhood stores, and/or similar trade forms (the "Retail Business") of the Group in Russia or (d) does not include the list of the real estate properties that the Group plans to sell during the year and the minimum sale price (in case the Budget provides for the sale of any real estate properties with a total value exceeding U.S.\$5 million), such Budget has to be adopted and approved by the Board of Directors at simple majority (including the positive vote of the Caraden Director).

A Budget shall be produced each six months for the period of the next twelve months. The Budget shall include:

- (a) the maximum amount of debt to be received at the Group level during the year, the interest rate for using such debts as well as the planning amount of Group EBITDA in the next 12 months;
- (b) the list of the real estate properties that the Group plans to sell during the year and the minimum sale price;
- (c) provisions as to what percentage (%) from each year's consolidated net profit of the Group shall be paid out as dividends (provided that the distribution amounts cannot exceed the

amounts that can be legally distributed at Company level and cannot be in breach of the adopted dividend policy); and

- (d) provisions that the money remaining after paying out the dividends shall be invested in Retail Business of the Group in Russia.

The Board of Directors cannot, to the extent within its competence: (i) resolve on any matter or enter into a transaction, which constitute a Reserved Matter (as defined below, see “*Description of Share Capital and Applicable Luxembourg Legislation—General Meeting*”) or (ii) enter into an agreement in relation to a Reserved Matter, without the prior authorisation of the General Meeting, approving such Reserved Matter at a Qualified Majority (as defined below, see “*Description of Share Capital and Applicable Luxembourg Legislation—General Meeting*”).

The Board of Directors may also, in all circumstances and with unanimous consent, pass resolutions by circular means and written resolutions signed by all members of the Board.

Indemnification of Directors

The Directors are not personally liable for the indebtedness of the Company. As agents of the Company, they are responsible for the performance of their duties.

A Director, past and present, is entitled to indemnification from the Company to the extent permitted by law and the Articles of Association against liability and all expenses reasonably incurred by him in connection with any claim, action, suit or proceeding in which he is involved by virtue of his being or having been a Director. The Company may purchase and maintain for any Director insurance against any such liability.

No indemnification shall be provided against any liability of a Director to the Company or the Company’s shareholders by reason of wilful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office, with respect to any matter as to which a director shall have been finally adjudicated to have acted in bad faith and not in the interest of the Company. No indemnification will be provided in the event of a settlement (unless approved by a court of competent jurisdiction or the Board of Directors). No indemnification will be provided in defending criminal proceedings in which a director or officer is convicted of an offense.

On the date of this Prospectus, the Company entered into indemnification agreements with its Directors, pursuant to which the Company has agreed, subject to certain conditions, to indemnify the Directors against certain costs and liabilities arising from their services as directors. The total insurance cover for the Directors will be determined and approved by the Board of Directors of the Company.

Composition

As at the date of this Prospectus the Board of Directors consists of the following members:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Dmitrii Troitckii	1965	Director
Dmitry Korzhev	1964	Director
Boris Volchek	1966	Director
Heigo Kera	1966	Independent Director, Chairman
Mykola Buinycky	1950	Independent Director

Mr. Troitckii, Mr. Korzhev, Mr. Volchek and Mr. Kera were elected as members of the Board of Directors on 30 June 2010, with effect from 13 July 2010, by the General Meeting for a duration of 6 years until the annual General Meeting to be held in 2016, with such powers and rights as set

forth in the Articles of Association. Mr. Mykola Buinycky was elected as a member of the Company's Board of Directors on 6 October 2010 but with effect from the signing of the Underwriting Agreement for a duration of 6 years until the annual General Meeting to be held in 2016 with such powers and rights as set forth in the Articles of Association. The professional address of each of the Company's Directors is 23, rue Beaumont, L-1219 Luxembourg.

The qualifications and certain other information for each member of the Board of Directors are set out below:

Dmitrii Troitckii—Director

Dmitrii Troitckii was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. From 2005 until 2007, Mr. Troitckii served as a member of the Board of Directors of OJSC Ochakovo Dairy Plant. Mr. Troitckii also serves as a member of the Supervisory Board of OJSC Bank Saint-Petersburg, a position he has held since December 2005 and as Development Director of CJSC Neva-Rus, a position he has held since 2005. Mr. Troitckii graduated from Leningrad Shipbuilding Institute, currently known as State Marine Technical University of Saint Petersburg, and holds a degree in engineering. His business address is 20, Aptekarskaya naberezhnaya, Liter A, Saint Petersburg, Russian Federation.

Dmitry Korzhev—Director

Dmitry Korzhev was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. From 2005 until April 2010, Mr. Korzhev served as a member of the Supervisory Board of OJSC Bank Saint-Petersburg. Mr. Korzhev graduated from Leningrad Shipbuilding Institute, currently known as State Marine Technical University of Saint Petersburg, and holds a degree in engineering. His business address is 20, Aptekarskaya naberezhnaya, Liter A, Saint Petersburg, Russian Federation.

Boris Volchek—Director

Boris Volchek was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. Mr. Volchek also has served as President of entities comprising Union Group of companies since 1995. In addition, since 2000 he has served as General Director of Saint Petersburg Automobile Museum. Mr. Volchek graduated from Leningrad Institute of Railway Engineers, currently known as Saint Petersburg State University of Communications, and holds a degree in engineering. His business address is 54, Sinopskaya naberezhnaya, Saint Petersburg, Russian Federation.

Heigo Kera—Independent Director

Heigo Kera was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. Mr. Kera 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 Mr. Kera has been working as a Retail Projects Manager with HT Project Management OU and is responsible for starting a gourmet supermarket in Ukraine. Prior to that, from 2002 until 2008, Mr. Kera provided private consulting services, including the research of retail markets in Belarus, Kazakhstan, China and was hired by O'Key management to consult on the development of a conceptual hypermarket format in Russia from 1998 until 2002. He is a graduate of the Tallinn Technical University (Estonia) and holds a degree in economics. His business address is 23, rue Beaumont, L-1219 Luxembourg.

Mykola Buinycky—Independent Director

Mykola Buinycky was elected as a member of the Company’s Board of Directors on 6 October 2010 but with effect upon signing of the Underwriting Agreement. Mr. Buinycky’s 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, Mr. Buinycky worked for seven years as a management consultant with Coopers & Lybrand and prior to that 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 matters including investment appraisals, raising funds on public and private equity/debt markets, as well as in dealing with international financial institutions/agencies, commercial and investment banks, International Finance Corporation, European Bank for Reconstruction and Developments and rating agencies. Mr. Buinycky is graduate of Edinburgh University (U.K.) and is also a fellow of the Chartered Institute of Management Accountants and a member of the Institute of British Management. He holds Joint Diploma in Management Accounting. His business address is 19/1 Ostozhenka Street, Moscow, 119034 Russia.

Senior Management

As at the date of this Prospectus, the Company’s senior management (the “**Management**”) consists of the following members:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Patrick Longuet	1954	Chief Executive Officer
Sebastien Verhaeghe	1966	Executive Director—Corporate Functions
Dmitry Pryanikov	1973	Chief Financial Officer
Georges Kowalkowski	1954	Marketing & Sales Development Director
Vladislav Kurbatov	1971	Chief Operating Officer
Maksim Schegolev	1966	Expansion Director
Elmira Hadieva	1963	Head of HR
Eric Richard	1964	Construction Director
Nataliya Gabdelkhaieva	1973	Head of Food Products Department
Maksim Platonov	1978	Head of Non-Food Products Department
Alexander Lapin	1973	Property Management Director
Tatiana Kuznetsova	1978	Corporate and Legal Director
Dmitry Budanov	1969	Security Director
Snezhana Davydova	1972	Legal Director

The qualifications and certain other information for each member of the Management of the Company are set out below:

Patrick Longuet—CEO

Patrick Longuet has been the CEO of O’Key group LLC since March 2007. Before joining the company, Mr. Longuet had a 27 year track record with Auchan. In 1980, he began his career in Auchan as a department manager in Le Havre, France, and over 13 years he held several positions from financial controller to Marketing Director of Auchan France. In 1994-2001 he served as the CFO of Auchan Central Europe. In 2001, Mr. Longuet was appointed the head of Auchan Russia and opened the company’s first stores in the region. Under his management, Auchan launched 14 stores in Moscow and the Moscow Region, St. Petersburg, Nizhny Novgorod and Yekaterinburg. He graduated from the Higher National School of the food industry and applied biology of France. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Sebastien Verhaeghe—Executive Director — Corporate Functions

Sebastien Verhaeghe has been the Executive Director for corporate functions of O'Key group LLC since September 2007. He is responsible for financial, legal, audit, IT and efficiency monitoring. Prior to joining O'Key, Mr. Verhaeghe had over 17 years of experience in various positions with Auchan Russia and Auchan International and was responsible for strategic planning, efficiency improvement and financial and internal control as well as for opening Auchan stores in Poland and Russia. Mr. Verhaeghe graduated from Lille University of Science and Technology with a degree in Business IT and has an MBA from ESC Lille School of Management, France. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Dmitry Pryanikov—CFO

Dmitry Pryanikov has worked for O'Key since June 2001. After several years of serving as the CFO of O'KEY LLC, he was promoted to CFO of O'Key group LLC. Before joining the Company, he held various positions in the Bank St. Petersburg and other privately-held companies between 1995 and 2001. Mr. Pryanikov graduated from the St. Petersburg State Institute of Technology with a degree in economics and management. His business address is Shaumyana Street, bld. 8, Business Centre Eastern, St. Petersburg, Russian Federation.

Georges Kowalkowski—Sales Development Director

Georges Kowalkowski was appointed Sales Development Director of O'Key group LLC in September 2007. He is responsible for product mix structure, marketing, competitor analysis and customer preferences. Prior to joining O'Key he held executive positions at Auchan France, Poland and Russia. He graduated from the Economics Faculty at the University of Villeneuve, France. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Vladislav Kurbatov—Sales Director

Vladislav Kurbatov has been the Sales Director of O'Key group LLC since November 2004. He is responsible for development and day-to-day control of store operations. Mr. Kurbatov joined the company in March 2002 as head of the industrial products department of the first O'Key hypermarket in St. Petersburg and within a few months was promoted to Store Director. Between 2003 and 2004, he served as Administrative Director with responsibility for operations at all of the Group's stores. He graduated from the Leningrad Topographic Military Command Academy. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Maksim Schegolev—Expansion Director

Maksim Schegolev has been the Expansion Director of O'Key group LLC since October 2008. His responsibilities include business expansion, including competitor analysis, acquisition and rental of store premises and land sites. Since joining the company in 2004 Mr. Schegolev was promoted from Administrative Director to Sales Development Director and later to Head of O'Key's North-Western regional division. Prior to that he served as General Director of the wholesale and retail business in household appliances and furniture stores Megatechnika, Partiya-Service-Baltika and Gerola. He graduated from the St. Petersburg University for Economics and Finance with a degree in economics, holds a degree from the Russo-Dutch Marketing School and Higher School of the RF Ministry for Economic Development and Trade. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Elmira Hadieva—HR Director

Elmira Hadieva has been the HR Director of O'Key group LLC since August 2007. She is 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. She has specific responsibility for compensation and benefits, selection and recruitment, training and assessment and also corporate communications. Between 1993 and 2007, Ms. Hadieva worked in HR for British American Tobacco. She has vast experience in HR management in a multinational environment, both at start-up phase and also managing established HR functions. She graduated from the Kazan Institute for Finance and Economy with a degree in labour economics. Her business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Eric Richard—Construction Director

Eric Richard has been the Construction Director of O'Key group LLC since May 2009 and he manages construction and commissioning of the Group's new stores all over Russia. Mr. Richard has more than 20 years of experience in the construction industry. He has held positions from technical director to head of the representative office of Bouygues Batiment International, Coplan and SNC Lavalin Europe. He has a degree in civil engineering. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Nataliya Gabdelkhaieva—Head of Food Products Department

Nataliya Gabdelkhaieva has been Head of the Food Products Department since May 2008 and is responsible for purchasing food products, interaction with suppliers, merchandising and sales. Previously Ms. Gabdelkhaieva headed O'Key's product assortment division. Between 2002 and 2007, she held various management positions in Lenta and Metro Cash & Carry. She graduated from the St. Petersburg Hydro-Meteorological Institute. Her business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Maksim Platonov—Head of Non-Food Products Department

Maksim Platonov has been Head of the Non-Food Products Department of O'KEY LLC since 2006 and is responsible for purchasing non-food products, interaction with suppliers, merchandising and sales. Mr. Platonov joined the company in October 2001 and held several positions in the assortment management and import departments. He graduated from the St. Petersburg State University of Economics and Finance. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Alexander Lapin—Property Management Director

Alexander Lapin has been the Property Management Director of O'Key group LLC since April 2009 and is responsible for providing resources and effective use of real estate, property rights and financial control over the company's investments. Mr. Lapin has been with the company for more than seven years: as Deputy CFO (between 2002 and 2009) and currently as CEO of O'KEY-Logistics LLC. Before joining the company he held various management positions at investment companies in the North-Western Region, going from Financial Analyst to General Director. He graduated from the Military Engineering and Space Academy with a degree in information collection and processing and from the St. Petersburg Institute for Economics and Finance with a degree in finance and credit. His business address is Staraya-Basmannaya street, 21/4, Moscow, Russian Federation.

Tatiana Kuznetsova—Corporate and Legal Director

Tatiana Kuznetsova is the Corporate and legal director of O'Key group LLC. She has been with O'Key since 2004 and held various positions providing legal support for corporate activities, international legal issues, intellectual property rights protection, import and internal documentation. Before 2004 she was responsible for legal support of import and other activities at Heineken. She has a degree in international law from the St. Petersburg State University. Her business address is Shaumyana Street, bld. 8, Business Centre Eastern, St. Petersburg, Russian Federation.

Dmitry Budanov—Security Director

Dmitry Budanov joined O'Key as Security Director in June 2010. He is responsible for security in relation to corporate information, internal processes and HR. Over the past 18 years, Mr. Budanov has worked in corporate security for Wilbros Pipeline Construction Company, Parvus International, International Risk and Information Services and British American Tobacco, during which time he was responsible for business risk management, introducing effective internal control systems, securing non-interruption of business processes, employee safety support, fraud protection and investigation, dealing with counterfeit goods and illegal imports and IT security. He graduated from the Institute of Asian and African Countries at the Moscow State University. His business address is Staraya-Basmanaya street, 21/4, Moscow, Russian Federation.

Snezhana Davydova—Legal Director

Snezhana Davydova has been the Legal Director of O'Key group LLC since March 2008. She is responsible for legal support in all aspects of the company's operations from land and premises acquisition, construction and maintenance of O'Key's real estate and retail law issues. Ms. Davydova joined O'Key in December 2005 and prior to being named Group Legal Director she headed the legal department of O'KEY LLC. She has 15 years of legal practice, including working as legal counsellor for the St. Petersburg City Tax Inspection. She holds a degree in law from the St. Petersburg State University. His business address is Staraya-Basmanaya street, 21/4, Moscow, Russian Federation.

Litigation Statement about Directors and Management

As at the date of this Prospectus, for at least the previous five years, none of the members of the Board of Directors and none of the members of Management:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Neither O'Key nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus that may have, or have had, a material effect on the Company's and/or the Group's business, financial position or profitability.

Other Directorships

In addition to their directorships in the Company, members of the Board of Directors and Management hold, or have held within the past five years, the following directorships or partnerships:

<u>Name</u>	<u>Directorships/Partnerships</u>	<u>Position still held</u>
Dmitry Korzhev . . .	CJSC Sovmestny Kapital—CEO	yes
	LLC Perspektiva—CEO	yes
	OJSC Bank Saint-Petersburg—member of the Supervisory Board	no—since April 2010
Boris Volchek	Saint Petersburg Automobile Museum—CEO	yes
Dmitrii Troitckii	OJSC Ochakovo Dairy Plant—member of the Board of Directors	no—since 2007
	OJSC Bank Saint-Petersburg—member of the Supervisory Board	yes
	LLC Onyx—CEO	no—since 2007
Heigo Kera	Silverko Consult OU—member of the Board of Directors	yes
Patrick Longuet . . .	Auchan Central Europe—CEO	no—since 2001
Alexander Lapin . .	O'KEY-Logistics, LLC—CEO	yes

Corporate governance

As an overseas company with GDRs admitted to the Official List, the Company will not be required to comply with the provisions of the U.K. Combined Code on Corporate Governance (the “**Combined Code**”).

As of the date of this Prospectus, the Company does not comply with the Combined Code. With effect upon the execution of the Underwriting Agreement, the Company will have established a remuneration committee and audit committee, neither of which complies with the recommended composition of such committees under the Combined Code. However, the Company intends to comply in the near future with relevant recommendations of the Combined Code contained in Annex 1 to Chapter 9 of the listing rules of the FSA and the Model Code, as if it were a company incorporated in the United Kingdom and listed on the LSE’s main market for listed securities to the extent appropriate. The Company is not required to and does not comply with the corporate governance regime of Luxembourg for listed companies.

There are currently three executive Directors and two non-executive Directors on the Board of Directors of the Company. Mr. Boris Volchek has been appointed the Caraden Director.

The Directors have established remuneration and audit committees with formally delegated duties and responsibilities with written terms of references. From time to time, separate committees may be set up by the Directors to consider specific issues when the need arises.

Remuneration committee

The remuneration committee assists the Directors in determining their responsibilities in relation to remuneration, including reviewing the compensation policy, making proposals to the Directors as to the remuneration of executive Directors and Management of the Company and the subsidiaries (other than the general director of O'KEY LLC (referred to in the Articles of Association as “OOO O'KEY”), whose bonuses and remuneration shall be of the exclusive competence of the Board of Directors), and advice on any benefit or incentive schemes.

The Company's remuneration committee comprises one independent Director (Heigo Kera), the Caraden Director (Boris Volchek), and Dmitrii Troitckii. The chairman of the remuneration committee is Heigo Kera.

Audit committee

The audit committee assists the Directors in fulfilling its oversight responsibilities relating to the integrity of financial statements, including periodically reporting to the Board of Directors on its activities and the adequacy of internal controls systems over financial reporting; and to make recommendations for the appointment, compensation, retention and oversight of, and consider the independence of, the external auditors and perform such other duties imposed by applicable laws and regulations of the regulated market or markets on which the shares or global depositary receipts may be listed, as well as any other duties entrusted to the committee by the Board of Directors. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Directors. The Company's audit committee comprises one independent Director (Mykola Buinycky), the Caraden Director (Boris Volchek), and Dmitry Korzhev. Mykola Buinycky is considered by the Directors to have recent and relevant financial experience and is the chairman of the audit committee.

Interests of Directors and Management

The table below sets out the interests of the Directors and Management in the Company's share capital as at the date of this Prospectus, unless stated otherwise, and as adjusted to reflect the completion of the Offering and the full exercise of the Over-Allotment Option.

Name of directors and senior managers	Immediately preceding the Offering		After the Offering	
	Number of shares indirectly held	% of share capital	Number of shares indirectly held	% of share capital
Dmitrii Troitckii (Director)	80,992,000	32%	75,353,419	27.7
Dmitry Korzhev (Director)	80,992,000	32%	75,353,419	27.7
Boris Volchek (Director)	63,275,000	25%	59,858,150	22.0

The Company is not aware of any person other than the Board of Directors or Management who, directly or indirectly, has an interest which is notifiable under the laws of Luxembourg.

Remuneration of members of the Board of Directors and Management

In 2009, the Management were paid remuneration and compensation in an aggregate amount of approximately RUR230.7 million. In 2009, members of the Board of Directors were not paid any remuneration or compensation.

Under the current compensation policy adopted by the Company, members of the Board of Directors shall receive up to (and not more than) U.S.\$300,000 per year as compensation for the entire board.

Management Incentives

O'Key and the Group are committed to recruiting and retaining highly skilled personnel. To this end, some of the subsidiaries of the Company offer Management performance linked and other incentives. In addition, these subsidiaries are in the process of establishing a cash bonus award for key members of their Management that will be linked to share performance of the Company as described in more detail below. These incentives are designed to motivate and award Management for achieving long-term corporate financial and operational performance goals and maximizing

shareholder value. Long-term incentives also serve to encourage retention of Management. Subject to receiving consent from its lenders, the Company expects that in relation to this award it will grant a guarantee whereby the payment of these incentives by the subsidiaries will be guaranteed in case of default of payment by these subsidiaries.

Cash bonus award linked to share performance

Some of the Company's subsidiaries are in the process of establishing a cash bonus award for key members of its Management that will be linked to share performance of the Company. Pursuant to this cash bonus award, provided certain earning-per-share goals are achieved, a member of Management who is eligible for this award will receive in a period between 18 months and three years from the date the subsidiary grants this right to such senior manager, a cash bonus to be determined on that date. The maximum amount to be distributed by the relevant subsidiary of the Company to all eligible senior managers under this award will be the equivalent of the market value of up to 0.25% of the Company's share capital. The Company expects to guarantee the payment of these bonus awards in case of default of payment by the subsidiaries, subject to obtaining any lenders' consent required under the Company's facility agreements.

Other benefits

Except for Vladislav Kourbatov, Maskim Schegolev, Sebastien Verhaeghe and George Kowalkowski, no member of the Company's Board of Directors or Management is a party to any service contract with the Company or any of its subsidiaries where such contract provides for benefits upon termination of employment. According to the employment contracts between the Company and Vladislav Kourbatov and Maksim Schegolev, Mr. Kourbatov and Mr. Schegolev are entitled to six months' salary compensation if the termination occurs due to downsizing. Mr. Verhaeghe and Mr. Kowalkowski are entitled to an amount equal to their respective annual salaries if the termination occurs due to downsizing. Mr. Patrick Longuet is entitled to an annual pension contribution. Other than as described above, the Company and its subsidiaries do not provide pension, retirement or similar benefits to their Boards of Directors or Management.

Conflicts of interest

No Director shall, solely as a result of being a Director, be prevented from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any contract or other transaction between the Company and any other corporation or entity or in which any Director is in any way interested be affected or invalidated by the fact that any one or more of the Directors or officers of the Company is or are interested in such a contract or transaction or is or are a director, officer or employee of any such other corporation or entity. Any Director or officer of the Company who serves as director, officer or employee of any corporation or entity with which the Company shall contract or otherwise engage in business shall not solely by reason of that affiliation with that other corporation or entity be prevented from considering and voting or acting upon any matters with respect to any such contract or other business.

No Director who is so interested shall be liable to account to the Company or the shareholders for any remuneration, profit or other benefit realised by him by reason of the Director holding that office or of the fiduciary relationship thereby established, save to the extent the Company is obliged to have such information as a matter of any laws, regulations or listing rules applicable to the Company.

In the event that any Director of the Company shall have any personal opposite interest in any transaction of the Company, that Director shall make known to the Board of Directors his personal

and opposite interest and shall not consider or vote on that transaction, and the transaction and the Director's interest therein shall be recorded and reported to the next succeeding meeting of shareholders. In case of conflict, the Board's resolution on the item causing the conflict will require to be valid the unanimous approval of all the Directors (other than the conflicted Director(s)).

The preceding paragraph does not apply to resolutions of the Board of Directors concerning transactions made in the ordinary course of business of the Company and which are entered into on arm's length terms.

Certain members of the Board of Directors, including Mr. Dmitrii Troitckii, Mr. Dmitry Korzhev and Mr. Boris Volchek also hold beneficial interests through their indirect holding in the Company. See "*Principal Shareholders*".

The Group also engaged in the past and engages in transactions with certain entities controlled by Mr. Dmitrii Troitckii, Mr. Dmitry Korzhev, Mr. Boris Volchek and Mr. Hillar Teder. See "*Transactions with Related Parties*". As members of the Company's Board of Directors, Mr. Dmitrii Troitckii, Mr. Dmitry Korzhev and Mr. Boris Volchek could be conflicted with respect to board approval of these transactions. Transactions with related parties pose the risk of O'Key entering into transactions on terms less favourable than could be obtained in arm's length transactions with unrelated parties.

The Company has entered into indemnification agreements with its Directors. See "*—Board of Directors—General—Indemnification of Directors*".

Except as disclosed in this subsection "*Conflicts of interest*", there are no current or potential conflicts of interest between the duties to the Company of the members of the Board of Directors or the members of the Management and their private interests and/or duties.

There are no family relationships among any of the Directors and Management.

Code of Conduct

On or before the Closing Date, the Company will adopt a Code of Conduct (the "**Code of Conduct**") based on Luxembourg corporate governance principles and in accordance with the Luxembourg Law of 10 August 1915 on commercial companies, as amended. Among other things, the Code of Conduct will more fully prescribe the procedures to be followed by the Directors in the event of potential conflicts of interest between a Director and the Company. In addition, the Code of Conduct will adopt concepts from the U.K. Corporate Governance Code in relation to "related parties" and "related party transactions" and impose certain obligations on directors in relation to identifying and notifying the Board of Directors and its audit committee of such transactions. These obligations are generally in addition to those obligations set out in the Articles of Association imposed on Directors who have a "personal opposite interest" in any transaction of the Company. The Code of Conduct also will provide that transactions involving a conflict of interest or a related party transaction must be approved by no less than a majority of the non-abstaining directors, without prejudice to the provisions of the Articles of Association requiring the unanimous approval of all the Directors (other than the conflicted Director(s)) or the positive vote of the Caraden Director in certain circumstances.

Anti-Corruption Compliance Policy

The Company strictly prohibits engaging in or tolerating bribery or any other form of corruption. For this reason it will put in place a policy which will strictly prohibit the Company and its officers, directors, employees and agents, from giving or offering to give money or anything of value to government officials to secure any improper advantage or to obtain or retain business. This policy will also prohibit offering or giving money or anything of value to a political party, a party

official or a candidate for political office in order to influence official acts or decisions of that person or entity, to secure any improper advantage, or to obtain or retain business.

Loans to Directors and Management

As of the date of this Prospectus, there are no outstanding loans granted by the Company to its Directors and Management and no guarantees provided for their benefit, except as disclosed in “*Transactions with Related Parties*”.

Shareholders Agreement

Brookvalley Limited and Caraden Limited, the Company’s shareholders that, following the Offering and assuming the full exercise of the Over-Allotment Option, will own in aggregate 77.4% of the Company, and their respective beneficial owners (Dmitrii Troitckii and Dmitry Korzhev with respect to Brookvalley Limited and Boris Volchek with respect to Caraden Limited), on 6 October 2010 entered into a shareholders agreement (the Shareholders Agreement) that will come into effect upon the execution of the Underwriting Agreement. Andrey Semenov, who is expected to become a shareholder of Brookvalley Limited, has agreed to be bound by the terms of the Shareholders Agreement if he acquires shares in Brookvalley Limited. According to the Shareholders Agreement, Caraden Limited has certain additional rights as a shareholder of the Company.

Pursuant to the Shareholders Agreement and the Articles of Association of the Company, as long as Boris Volchek, the current beneficial owner of 100% of Caraden Limited, and persons connected to him beneficially own Caraden Limited, or any other person to which Caraden Limited is permitted, pursuant to the Shareholders Agreement, to transfer the shares of the Company (the “**Caraden Shareholders**”), while Boris Volchek holds beneficially at least 50% of Caraden Shareholders, and Caraden Shareholders hold not less than 10.75% of the Company, Caraden Shareholders have the right to propose a director candidate that shall be appointed to the Board of Directors of the Company (the “**Caraden Director**”). Caraden Director has a veto right with respect to certain matters, including:

- any decision to pay bonuses and/or remunerations to the General Director of O’KEY LLC (referred to in the Shareholders Agreement as “OOO O’KEY”), which are not set out in the employment agreement with such General Director;
- the sale or transfer, including pledge, by the Company or any of its subsidiaries of real estate property and/or land plots with a value (individually or in the aggregate) exceeding U.S.\$10 million whether directly or by way of a sale of the shares of the companies that own real estate property or land plots;
- the approval of any internal rules and regulations of the Board of Directors and the committees of the Company, and the Subsidiaries (if such documents contradict the provisions of the U.K. Corporate Governance Code or any other stock exchange regulations);
- the approval of any corporate governance charters of the Company and its subsidiaries (if such documents contradict the provisions of the U.K. Corporate Governance Code or any other stock exchange regulations);
- the approval of dividend policy;
- the creation or liquidation of any subsidiaries of the Company, in each case with a value exceeding U.S.\$5 million;

- the acquisition, alienation, subscription of any shares and securities or acquisition (alienation) of any participation rights in any company, groups, partnerships, joint undertakings, in each case with a value exceeding U.S.\$10 million;
- the entry into any joint venture or similar agreements, which will generate an investment commitment for the Company for an amount exceeding U.S.\$10 million;
- issuance by the Company of any securities, bonds, debt securities or other financial instruments or providing or changing the rights relating to such securities, bonds, debt securities or other financial instruments;
- payment of interim dividends; and
- approval of the budget of the Company and its subsidiaries if such document (i) provides for the raising of loans and borrowings as a result of which the debt/EBITDA ratio of the Group would be below 1.3 or in excess of 2.3, or (ii) provides that less than 25% from each year's consolidated net profit of the Group, shall be paid out as dividends (provided that the distribution amounts cannot exceed the amounts that can be legally distributed at Company level), or (iii) does not provide for all profit (left after payment of dividends) to be used for the development of the retail business of the Group in Russia, or (iv) does not include the list of the real estate properties that the Group plans to sell during the year and the minimum sale price (in case the budget provides for the sale of any real estate properties with a total value exceeding U.S.\$5 million).

As long as Caraden Shareholders hold not less than 10.75% of the Company, Caraden Shareholders have a veto right with respect to amendments to the Articles of Association which relate to (i) the rights and prerogatives of Caraden Shareholders and (ii) the appointment, removal, replacement, rights, prerogatives and requirements for a positive vote of Caraden Director. Such amendments must be approved by a vote of at least 75% plus one vote of the votes of the shareholders present or represented and voting at a General Meeting, including a positive vote of Caraden Shareholders.

The Shareholders Agreement and the Articles of Association provide for the reserved matters which require approval by the General Meeting by a vote of 75% plus one vote of the votes of the shareholders present or represented and voting at a General Meeting. See "*Description of Share Capital and Applicable Luxembourg Legislation—General Meeting—Extraordinary general meetings of shareholders*" for a description of the reserved matters. Brookvalley Limited and Caraden Limited have agreed that in the event of a transfer of the Company's shares or similar securities by either of them to a third party, the qualified majority of 75% plus one vote should be adjusted to be equal to the aggregate ownership interest of Brookvalley Limited and Caraden Limited in the share capital of the Company immediately following such transfer, provided that, among other things, (i) in relation to amendments to the Articles of Association and any changes to the issued and/or authorised share capital of the Company, the vote requirement shall at no time be less than a majority of two thirds of the Company's shareholders present or represented at the meeting and (ii) in relation to all other reserved matters, the vote requirement shall at no time be less than a majority of 50% plus one vote.

Brookvalley Limited and Caraden Limited have agreed to always jointly vote (i) in favour of recommendations by any of them or the Board of Directors to pay dividends which are equal to or exceed 25% of the annual consolidated net profit of the Group and (ii) against the recommendations to pay dividends which are less than 25% of the annual consolidated profit of the Group. Mr. Andrey Semenov, who is expected to become a shareholder of Brookvalley Limited, has agreed to adhere to the Shareholders Agreement, once he acquires shares in Brookvalley Limited.

The Shareholders Agreement provides for an obligation to procure adherence of the permitted transferees to the Shareholders Agreement if any of Brookvalley Limited or Caraden Limited wishes to transfer their shares in the Company to a connected party.

Brookvalley Limited and Caraden Limited have agreed that no decision on the reserved matters can be approved without approval in writing by Brookvalley Limited and Caraden Limited or their affiliated transferees. When the aggregate shareholding of Brookvalley Limited and Caraden Limited becomes less than two thirds of the Company's shares or any similar securities of the Company, Brookvalley Limited and Caraden Limited have agreed that, prior to such event taking place, they will procure that a General Meeting is called to amend the Articles of Association in order to remove any special provisions that were included in the Articles of Association due to the existence of the Shareholders Agreement, i.e. the provisions on the qualified quorum and qualified majority required for the approval of the reserved matters. Such obligation to amend the Articles of Association is without prejudice to the rights of Caraden Shareholders and the rights and prerogatives of Caraden Director described above and the reserved matters set fourth in the Shareholders Agreement and Articles of Association, as long as the Caraden Shareholders hold at least 10.75% of the shares of the Company.

The Shareholders Agreement terminates if Brookvalley Limited or Caraden Limited ceases to hold an ownership interest of less than 27% or 10.75% of the Company's share capital, respectively.

PRINCIPAL SHAREHOLDERS

The table below sets forth certain information regarding the ownership of Company shares prior to and immediately following the Offering:

Shareholder	Shares owned before the Offering		Shares offered (%)	Shares owned after the Offering		Shares owned after the Offering assuming full exercise of the Over-Allotment Option	
	(Number)	(%)		(Number)	(%)	(Number)	(%)
Brookvalley Limited(1)	161,984,000	64	4.5	150,706,838	56.2	150,706,838	55.4
Caraden Limited	63,275,000	25	1.3	59,858,150	22.3	59,858,150	22.0
Barleypark Limited(1)	27,841,000	11	3.3	19,579,981	7.3	19,579,981	7.2
Total	<u>253,100,000</u>	<u>100</u>	<u>9.1</u>	<u>230,144,969</u>	<u>85.8</u>	<u>230,144,969</u>	<u>84.6</u>

Note:

- (1) Barleypark Limited has pledged 2,531 ordinary shares of the Company (before the share split decided on 6 October 2010) to Brookvalley Limited as security under loan arrangements between an entity affiliated with Barleypark Limited and Brookvalley Limited. Barleypark Limited has informed the Company that it currently expects to repay these loans from the proceeds it receives from the Offering, following which it expects the pledge to be released.

Brookvalley Limited was incorporated on 19 April 2006 with registered number 116312C under the Companies Acts 1931 to 2004 of the Isle of Man as a private company limited by shares. The principal legislation under which Brookvalley Limited operates is the Companies Acts of the Isle of Man and the regulations and orders made thereunder. The registered office and principal place of business of Brookvalley Limited is at 15-19 Athol Street, Douglas, Isle of Man IM1 1LB (Tel. +(44)1624-638300). Brookvalley Limited has two shareholders: Dmitry Korzhev and Dmitrii Troitckii, members of the Board of Directors, who each own 50% of Brookvalley Limited's share capital. Subsequent to the Offering, Mr. Andrey Semenov is expected to own up to 10% of the share capital in Brookvalley Limited. If Mr. Semenov becomes a shareholder of Brookvalley Limited, he will indirectly own up to 4.3% of the Company (assuming full exercise of the Over-Allotment Option).

Caraden Limited was incorporated on 11 September 2006 with registered number 117691C under the Companies Acts 1931 to 2004 of the Isle of Man as a limited company. The principal legislation under which Caraden Limited operates is the Companies Acts of the Isle of Man and the regulations and orders made thereunder. The registered office and principal place of business of Caraden Limited is at 2nd floor, Sixty Circular Road, Douglas, Isle of Man IM1 1SA (Tel. +441624-689600). Mr. Boris Volchek, one of the Company's Directors, owns 100% of the shares of Caraden Limited.

Barleypark Limited was incorporated on 19 April 2006 with registered number 116313C under the Companies Acts 1931 to 2004 of the Isle of Man as a limited company. The principal legislation under which Barleypark Limited operates is the Companies Acts of the Isle of Man and the regulations and orders made thereunder. The registered office and principal place of business of Barleypark Limited is at International House, Castle Hill, Victoria Road, Douglas, Isle of Man (Tel. +(44)1624-630600). Mr. Hillar Teder owns 100% of the shares of Barleypark Limited.

At the date of this Prospectus, none of the Company's shareholders have voting rights different from any other holders of its shares.

The Selling Shareholders intend to transfer the shares that they own in the Company to entities incorporated in Cyprus and controlled by their respective beneficial owners. Such transfers are contemplated to take place after the Offering.

The following table sets forth information as at the date of this Prospectus regarding the Company's indirect owners:

Indirect Owner	Shares indirectly owned before the Offering		Shares indirectly owned after the Offering		Shares indirectly owned after the Offering assuming exercise of the Over-Allotment Option	
	Number	(%)	Number	(%)	Number	(%)
Dmitry Korzhev	80,992,000	32	75,353,419	28.1	75,353,419	27.7
Hillar Teder(1)	27,841,000	11	19,579,981	7.3	19,579,981	7.2
Dmitrii Troitckii	80,992,000	32	75,353,419	28.1	75,353,419	27.7
Boris Volchek	63,275,000	25	59,858,150	22.3	59,858,150	22.0
Total	<u>253,100,000</u>	<u>100</u>	<u>230,144,969</u>	<u>85.8</u>	<u>230,144,969</u>	<u>84.6</u>

Note:

(1) In 2009, Mr. Hillar Teder initiated legal proceedings in Luxembourg in connection with certain transactions with entities affiliated with Brookvalley Limited relating to the shares of the Company. In December 2009 Mr. Dmitrii Troitckii, Mr. Dmitry Korzhev and Mr. Hillar Teder entered into an amicable settlement and irrevocably terminated the proceedings. As a result of the dispute, 27,841 ordinary shares representing 11% of the share capital of the Company were transferred indirectly to Mr. Hillar Teder through the acquisition of Barleypark Limited.

Changes in Shareholders' Equity

The following table sets forth, as at the date of this Prospectus, the changes in the Company's share capital that have occurred since its incorporation on 7 February 2001. This table does not disclose any transfer of shares carried out since incorporation as such transfer does not impact the amount of the Company's share capital and is not public information under Luxembourg law.

Date	Description	Number of shares issued	Class of shares	Nominal value per share (in EUR)	Premium per share	Increase in total issued share capital (in EUR)	Total issued share capital after issuance (in EUR)	Total number of issued shares after issuance (in EUR)
7 February 2001 . . .	Incorporation	3,100	N/A	10	N/A	31,000	31,000	3,100
28 August 2009 . . .	Increase of share capital	250,000	N/A	10	N/A	2,500,000	2,531,000	253,100

TRANSACTIONS WITH RELATED PARTIES

The following is a summary of significant transactions with related parties undertaken by O'Key from 31 January 2007 to the date of this Prospectus. For further details of these transactions, see Note 30 of the 2009 Financial Statements and Note 26 of the Unaudited Interim Consolidated Financial Statements included in this Prospectus.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined under IAS 24, Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Members of the Group are, and have been, party to various agreements and other arrangements with certain related parties of which the principal transactions are set out below. See also "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements—Loans from the Selling Shareholders" and "Management and Corporate Governance—Conflicts of interest".

Dividends paid to shareholders are recognised directly in equity once the decision on the payment takes place. Transfers of assets to 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 shareholders.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at from 31 January 2007 to the date of this Prospectus is detailed below.

Transaction with companies controlled by the Selling Shareholders

At 30 June 2010, 30 June 2009, 31 December 2009, 31 December 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

<u>In thousands of RUR</u>	<u>30 June 2010</u>	<u>30 June 2009</u>	<u>31 December 2009</u>	<u>31 December 2008</u>	<u>31 December 2007</u>
	Entities under common control of the Ultimate shareholders				
Trade and other receivables:					
Trade receivables	—	18	2,400	861	884
Trade and other receivables:					
Prepayments	4,652	1,955	1,974	886	884
Trade and other receivables:					
Other receivables	—	8	—	741	2,356
Other non-current assets:					
Receivables from shareholders	—	—	—	—	138,146
Short-term investments:					
Loans issued	—	782	—	588	29,946
Long-term borrowings	(1,210,264)	(2,510,774)	(1,348,874)	(1,621,183)	(714,515)
Short-term borrowings	—	—	(813,884)	(832,602)	(2,432,504)
Trade and other payables:					
Trade payables	—	(2,421)	(71)	—	(25)
Trade and other payables:					
Prepayments	(47)	(55)	—	(61)	(74)

The income and expense items with related parties for the first half of 2010 and 2009 and the years 2009, 2008 and 2007 were as follows:

In thousands of RUR	Six months ended		Year ended		
	30 June 2010	30 June 2009	31 December 2009	31 December 2008	31 December 2007
Entities under common control of the Ultimate shareholders					
Revenue from rent of premises	1,665	9,996	21,013	2,717	11,126
Other rental income	402	2,413	—	47	460
Operating leases	(10,734)	(10,782)	—	—	(10,691)
Other operating income and expense	(10)	—	—	37	—
General, selling and administrative expenses	(91)	—	(18,470)	(345)	—
Consulting fees re purchase of land plot	—	—	—	(40,437)	—
Finance costs	(80,202)	(130,304)	(207,384)	(222,980)	(232,127)

In 2009 the following companies were affiliated with the Selling Shareholders:

Mr. Volchek:

- Union Group of companies
- Goldmax Ltd
- Darfield Ltd
- Artifiscal Ltd

Mr. Troitckii and Mr. Korzhev

- LLC AC Rus-Auto
- LLC Vostok Auto
- Repofin Ltd
- BCC Ltd
- Goldmax Ltd
- Artifiscal Ltd

Mr. Teder:

- Taruga Ltd
- BCC Ltd

In 2008 the following companies were affiliated with the Selling Shareholders:

Mr. Volchek:

- Union Group of companies
- Artifiscal Ltd
- Goldmax Ltd
- Trevorex Holding Ltd
- Darfield Ltd

Mr. Troitckii and Mr. Korzhev

- Ascent Capital Ltd
- LLC AC Rus-Auto
- LLC Vostok-Auto
- Repofin Ltd
- BCC Ltd
- Taruga Ltd
- Goldmax Ltd
- Artifiscal Ltd

In 2007 the following companies were affiliated with the Selling Shareholders:

Mr. Volchek:

- Union Group of companies
- LLC Region
- Trevorex Holding Ltd
- Goldmax Ltd

Mr. Troitckii and Mr. Korzhev

- Ascent Capital Ltd
- LLC AC Rus-Auto
- LLC Vostok-Auto
- BCC Ltd
- Taruga Ltd
- Goldmax Ltd
- Rapid Investments Group Ltd
- LLC Region

Premises Lease Agreements

In January 2007, Dorinda JSC and LLC Union-A, as lessor, entered into a short-term sublease agreement pursuant to which Dorinda JSC leased premises located at Sinopskaya embankment 54, St.-Petersburg, Russia, with monthly rent equal to approximately RUR1,043 thousand until 31 October 2007 and approximately RUR1,092 thousand as from 1 November 2007.

In February 2008, Dorinda JSC and LLC Union-City, as lessor, entered into a short-term sublease agreement pursuant to which Dorinda JSC leased premises located at Sinopskaya embankment 54, St.-Petersburg, Russia, with monthly rent equal to approximately RUR1,617 thousand. According to the additional agreement dated 31 March 2008, the monthly rent was changed to approximately RUR1,118 thousand.

In March 2009, Dorinda JSC and LLC Union-City, as lessor, entered into two long-term sublease agreements pursuant to which Dorinda JSC leased premises located at Sinopskaya embankment 52, St.-Petersburg, Russia, with monthly rent equal to RUR643,552 and RUR1,308,320, respectively.

Loans extended by the Group to related parties

In December 2006 a loan agreement was concluded between Axus Financial Ltd and Artifiscal Co Ltd. pursuant to which Axus Financial Ltd. extended a loan in the amount of U.S.\$8,000. Following the amendments made to this agreement in 2007 and 2008, the amount of the loan was increased to U.S.\$20,000.

In April 2006 a loan agreement was entered into between Axus Financial Ltd. and Goldmax Ltd. pursuant to which Axus Financial Ltd. agreed to provide a loan in the amount of U.S.\$1,050,000, which amount was subsequently increased to U.S.\$1,060,000 by an additional agreement dated December 2007.

In July, October and December 2007, LLC Region and Dorinda JSC entered into three promissory notes sale and purchase agreements pursuant to which Dorinda JSC agreed to acquire promissory notes issued by LLC Region in total amount of RUR6,595,000.

Loans extended to the Group by related parties

In September 2003, Taruga Limited and Axus Financial Ltd. entered into a facility agreement pursuant to which Taruga Limited agreed to extend to Axus Financial Ltd. an interest-free loan in the amount of U.S.\$400 thousand with maturity date on 1 September 2006. See “*Operating and*

Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements—Loans from the Selling Shareholders”.

In August and April 2006, Ascent Capital Ltd and Dorinda JSC entered into two loan agreements pursuant to which, Ascent Capital Ltd has agreed to extend U.S.\$20 million and U.S.\$50 million, respectively. See “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements—Loans from the Selling Shareholders”.*

In July 2007, BCC Limited and Axus Financial Ltd. entered into a facility agreement pursuant to which BCC Limited agreed to extend to Axus Financial Ltd. a loan in the amount of U.S.\$30 million with maturity date on 31 December 2007 and an interest rate of 9%. The debt under this agreement has been fully repaid.

In December 2003, Egerton Overseas LLC as lender and Stoxx Investments Ltd. entered into two facility agreements pursuant to which Egerton Overseas LLC agreed to extend to Stoxx Investments Ltd. two interest-free loans in overall amount of U.S.\$9,990,000 with maturity date on 15 December 2008. In December 2004, the same parties entered into additional interest-free facility agreement in the amount of U.S.\$6,110,000 with maturity date on 15 December 2009. On the basis of three assignment agreements entered into between Egerton Overseas LLC and Rapid Investment Group Ltd., Egerton Overseas LLC assigned its rights as lender to Rapid Investment Group Ltd. The debt under this agreement was fully repaid in 2008.

Car repair and maintenance services

In February and April 2006, Dorinda JSC entered into agreements on car repair and maintenance services with LLC Vostok-Auto and LLC AC Rus-Auto, respectively. Under these agreements, LLC Vostok-Auto and LLC AC Rus-Auto agreed to procure repair and maintenance services in respect of automobiles owned by Dorinda JSC.

Agency agreements with related parties

On 4 July 2007, Greenfid Investments Ltd. as principal and Axus Financial Ltd. as agent entered into an agency agreement pursuant to which Greenfid Investments Ltd. engaged Axus Financial Ltd. to act as a real estate agent for searching prospective land plots for future development. The agency agreement provides for a commission fee of Axus Financial Ltd. in the amount of U.S.\$5,458,775. On 9 July 2007, Axus Financial Ltd. as broker and Trevorex Holdings Ltd. as sub-agent entered into an agency agreement pursuant to which Axus Financial Ltd., based on terms and conditions of the agency agreement, engaged Trevorex Holdings Ltd. to act as a real estate agent for searching prospective land plots for future development for a fee in the amount of U.S.\$1,626,912.61.

Transfer of real estate assets

In the second half of 2010, O’Key initiated a series of transactions as part of a disposition of certain of its assets to an entity controlled by the Selling Shareholders. The purpose of the Dispositions was to conform the Group’s assets portfolio to its business strategy. As a result of the Dispositions, the Group expects to receive consideration in the amount of RUR3,030 million, including VAT of RUR341 million. Part of the consideration is expected to be received by 31 December 2010, in cash in the amount of RUR1,622 million through extension of a loan from Sberbank to entities controlled by the Selling Shareholders. See “*Operating and Financial Review—Recent Developments—Transfer of Assets*” and “*Risk Factors—Risks Relating to O’Key’s Business and Industry—Risks relating to real estate and construction—O’Key leases some of its stores, and there is no assurance that it will be able to continue to renew these leases or enter into additional leases on acceptable terms*”. The facility will be secured, *inter alia*, by a guarantee of O’Key, through one of its subsidiaries, in respect of which EBRD has given consent on 30 October 2010

which is required under the finance agreements relating to the EBRD facility in the amount of U.S.\$200 million.

Non-Compete (Covenant) Agreements

On the date of this Prospectus, the Company entered into agreements with the Selling Shareholders and their beneficial owners, pursuant to which neither the Selling Shareholders nor their beneficiaries will (i) directly or indirectly manage other companies or entities that conduct retail business in the Russian Federation or (ii) directly or indirectly acquire an interest in shares in other companies or entities that conduct retail business in the Russian Federation, except for acquisition of not more than 3% of the share capital of such companies for investment purposes only. For Brookvalley Limited, Caraden Limited and their beneficial owners, such obligation is effective as long as the Shareholders Agreement is in force. Barleypark Limited and its beneficial owner will be bound by such obligation for the period of three years after the date of its respective agreement. In addition, Brookvalley Limited, Caraden Limited and their beneficiaries have agreed that they shall not for a period of three years after the termination of the Shareholders Agreement (i) directly or indirectly manage companies or other entities that conduct retail business in the Russian Federation or (ii) directly or indirectly acquire an interest in shares in companies or other entities that conduct retail business in the Russian Federation. Mr. Andrey Semenov, who is expected to become a shareholder of Brookvalley Limited, has agreed to adhere to the Shareholders Agreement and the covenant agreement containing the non-compete obligation, once he acquires shares in Brookvalley Limited.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE LUXEMBOURG LEGISLATION

General

The Company is a Luxembourg public limited company (*société anonyme*). The Company was incorporated on 7 February 2001 under the name “Dorinda Holding S.A.” for an unlimited period of time. On 16 June 2010, the name of the Company was changed to O’KEY GROUP S.A.

The Company is registered with the Luxembourg *Registre de Commerce et des Sociétés* under number B 80 533 and has its registered office at 23, rue Beaumont, L-1219 Luxembourg, Grand Duchy of Luxembourg.

The Company was incorporated as a *société anonyme holding* benefiting from the tax status granted by the Luxembourg Holding Company Law of 31 July 1929. On 6 October 2010 the corporate purpose of the Company was changed so that the Company became a fully taxable holding company. As from this change the corporate purpose of the Company, as stated in article 4 of the Articles of Association, is as follows:

“The corporate object of the Company is (i) the acquisition, holding and disposal, in any form, by any means, directly or indirectly, of participations, rights and interests in, and obligations of, Luxembourg and foreign companies, (ii) the acquisition by purchase, subscription or by any other manner and the transfer by sale, exchange or by any other manner of shares, bonds, debentures, notes and other securities or financial instruments of any kind and contracts thereon or related thereto and (iii) the ownership, administration, development and management of a portfolio (including, among other things, the assets referred to in (i) and (ii) above).

The Company may borrow in any form and may issue notes, bonds and debentures and any kind of debt securities. The Company may grant loans (whether subordinated or unsubordinated) or other forms of financing to its subsidiaries and affiliated companies.

The Company may also give guarantees and grant security in favour of third parties to secure its obligations or the obligations of its subsidiaries, affiliated companies, or any other company in which it holds an interest. The Company may further pledge, transfer, encumber or otherwise create security over some or all its assets to that effect.

In general, the Company may take any controlling and supervisory measures and carry out any operation or transaction which it considers necessary or useful for the accomplishment and development of its corporate object provided the Company does not enter into dealings or transactions that would result in it being engaged in an activity that would be subject to licence requirements or that would be a regulated activity of the financial sector”.

Current share capital

As at 6 October 2010, the issued share capital of the Company amounts to EUR2,531,000 represented by 253,100,000 shares with a nominal value of EUR0.01 each, which are fully paid up. The Company’s authorised unissued share capital consists of 18,982,500 shares.

The new shares to be issued with respect to the Offering will be created under Luxembourg law, and will have the rights as set forth in the Articles of Association and Luxembourg law.

History of share capital

The Company was incorporated on 7 February 2001 with a share capital of EUR31,000 represented by 3,100 ordinary shares with a nominal value of EUR10 each.

The share capital of the Company was increased on 28 August 2009 by an amount of EUR2,500,000 to bring it to EUR2,531,000 represented by 253,100 ordinary shares with a nominal value of EUR10 each.

On 6 October 2010, the shareholders of the Company decided to split the shares then in issue at a ratio of 1000 : 1, in a way that the existing 253,100 shares be exchanged for 253,100,000 new shares. The nominal value of each ordinary share is now affixed at EUR0.01.

Form and transfer of shares

According to its Articles of Association, the Company may issue shares in registered form only.

Under Luxembourg law, the ownership of registered shares is evidenced by the inscription of the name of the shareholder, the number of shares held by him or her and the amount paid up on each share. Transfers of shares shall be effected by written declaration of transfer to be recorded in the shareholder register, such declaration to be dated and signed by the transferor and the transferee, or by their duly appointed agents.

The Company maintains a share register at the registered office.

Issuance of shares

Pursuant to the Luxembourg law of 10 August 1915 on commercial companies, as amended, the issuance of shares in the Company requires the approval by the General Meeting with the quorum and majority provided for amendment of the Articles of Association (see “—*Amendment to the Articles of Association*” and “—*General Meeting*”).

The General Meeting may also approve the creation of the authorised share capital and authorise the Board of Directors to issue shares up to the maximum amount of such authorised share capital for a maximum period of five years from the date of publication in the Luxembourg official gazette (*Mémorial C, Recueil des Sociétés et Associations*) of the minutes of the relevant general meeting and further allow the Board of Directors to cancel or limit, when so issuing shares against cash or any preferential subscription rights. The General Meeting may amend, renew or extend such authorised share capital and authorisation to the Board of Directors to issue shares.

The Company currently has an un-issued authorised share capital of EUR189,825 represented by 18,982,500 shares of a nominal value of EUR0.01 available for issuance under the present authority of the Board of Directors of the Company as from the date of signing of the Underwriting Agreement and which will expire on 10 December 2010. In accordance with the report drawn up by the Board of Directors in accordance with the Luxembourg law of 10 August 1915 on commercial companies, as amended, the shares under the authorised share capital can only be issued to BNY (Nominees) Limited, One Canada Square, London E14 5AL, United Kingdom acting on behalf of the Bank of New York Mellon, with registered office at 101 Barclay Street, 22nd Floor, New York, New York 10286, United States of America, in relation to the contemplated offering, listing on the official list maintained by the Financial Services Authority, and trading on the Regulated Market of the LSE of the shares of the Company in the form of global depositary receipts.

Restrictions on shareholders

There are no limitations currently imposed by Luxembourg law on the rights of non-resident shareholders to hold or vote their shares.

The articles of association of the Company do not provide for any transfer restrictions.

Preferential subscription rights

As a general rule, shareholders are entitled to preferential subscription rights under Luxembourg law where shares are issued for cash. The General Meeting may however suppress or

limit, or authorise the Board of Directors of the Company to suppress or limit, such preferential subscription rights of shareholders.

The Board of Directors is currently authorised to suppress shareholders' preferential subscription rights in accordance with the specific report drawn up by the Board of Directors in accordance of the Luxembourg law of 10 August 1915 on commercial companies, as amended, to issue: shares to BNY (Nominees) Limited, One Canada Square, London E14 5AL, United Kingdom acting on behalf of The Bank of New York Mellon, with registered office at 101 Barclay Street, 22nd Floor, New York, New York 10286, United States of America, in relation to the offering, listing on the official list maintained by the Financial Services Authority, and trading on the Regulated Market of the London Stock Exchange of such new shares in the form of global depositary receipts.

This authorisation is valid for a period of starting on the date of the execution of the Underwriting Agreement and ending on 10 December 2010.

The general meeting may amend, renew or extend such authorisation.

Authorisation to acquire shares (Treasury stock)

The Company cannot subscribe for its own shares.

The Company may, however, without prejudice to the principle of equal treatment of shareholders who are in the same position and the rules on prohibition of insider dealing and market manipulation, repurchase issued shares or cause another person to repurchase issued shares for its account, subject to the following conditions:

- the prior authorisation of the General Meeting (subject to the quorum and majority required for the Reserved Matters), which authorisation sets forth the terms and conditions of the proposed repurchase and in particular the maximum number of shares to be repurchased, the duration of the period for which the authorisation is given (which may not exceed five years) and, in the case of repurchase for consideration, the minimum and maximum consideration per share, must have been obtained;
- the repurchase may not reduce the Company's net assets on a non-consolidated basis to a level below the aggregate of the issued share capital and the reserves that the Company must maintain pursuant to Luxembourg law or its articles of association; and
- only fully paid up shares may be repurchased.

In addition, pursuant to Luxembourg law the Board of Directors may repurchase shares without the prior approval of the General Meeting if necessary to prevent serious and imminent harm to the Company or if the acquisition of shares has been made in view of the distribution thereof to the employees.

Capital reduction

The issued share capital may be reduced, subject to the approval by the General Meeting with the quorum and majority provided for the amendment of the articles of association of the Company (see "*—Amendments to the Articles of Association*").

Board of Directors

The Articles of Association contain provisions to the following effect: The directors shall be appointed by the shareholders for a period not exceeding six years or until their successors are elected. The number of directors shall be five. The directors shall be eligible for re-election.

The directors shall have the power to delegate to any person or persons the power to bind the Company towards third parties. The Board of Directors may, in all circumstances and with

unanimous consent, pass resolutions by circular means and written resolutions signed by all members of the Board of Directors. Any of the directors may be removed with or without cause by the General Meeting by a simple majority of the votes cast at a General Meeting. The directors shall not be held personally liable for the indebtedness of the Company; as agents of the Company they are responsible for the performance of their duties.

Voting rights

Each share entitles the holder thereof to one vote at a General Meeting.

General Meeting

Each of the shares entitles the holder thereof to attend all general meetings of shareholders, either in person or by proxy (which shall be in writing), to address the general meeting of shareholders, and to exercise voting rights.

General meetings of shareholders will be convened in accordance with the provisions of the Luxembourg law of August 10, 1915 on commercial companies, as amended, and the Articles of Association.

Convening notices for every General Meeting shall contain the agenda and shall take the form of announcements published twice, with a minimum interval of eight days, and eight days before the General Meeting, in the *Mémorial C, Recueil des Sociétés et Associations* and in a Luxembourg newspaper. Notices by mail shall be sent fourteen days before the meeting to registered shareholders, but no proof need be given that this formality has been complied with. On the date of this Prospectus, the Company entered into an agreement with Mr. Boris Volchek and Caraden, pursuant to which the Company has agreed to send copies of all convening notices and other documents sent to Caraden simultaneously to Mr. Volchek.

General meetings are convened by the Board of Directors of the Company which determines their agenda. The Board of Directors may determine a date preceding the General Meeting of shareholders as the record date for admission to the General Meeting. Only those shareholders as shall be shareholders of record on any such record date shall be entitled to notice of and to vote at any such meeting and any adjournment thereof, or to give any such consent, as the case may be.

The Board of Directors may determine any such other conditions that must be fulfilled by shareholders for them to take part in any meeting of shareholders in person or by proxy.

The Board of Directors of the Company is obliged to convene a general meeting of shareholders to be held within one month of receipt of the request, if shareholders representing, in the aggregate, 10% of the issued share capital so require in writing with an indication of the agenda. Luxembourg law in addition provides that shareholders representing, in the aggregate, 10% of the issued share capital may request that additional items be added to the agenda of a general meeting of shareholders. That request must be made by registered mail sent to the registered office of the Company at least five (5) days before the date of the general meeting of shareholders.

The Board of Directors of the Company is entitled to adjourn any general meeting while in session. The Board of Directors of the Company must do so if requested by shareholders representing in the aggregate at least 20% of the issued capital of the Company. Any such adjournment will cancel any resolution already passed at the general meeting.

Luxembourg law distinguishes between “ordinary” general meetings of shareholders and “extraordinary” general meetings of shareholders.

Extraordinary general meetings of shareholders are convened to resolve upon an amendment to the Articles of Association and certain other limited matters described below and are subject to

the quorum and majority requirements described below. All other general meetings of shareholders are ordinary general meetings of shareholders.

Ordinary general meetings of shareholders.

At ordinary general meetings of shareholders there is no quorum requirement, and resolutions are adopted by a simple majority of the votes cast, irrespective of the number of shares present or represented. Abstentions are not considered as “votes”.

Extraordinary general meetings of shareholders.

An extraordinary general meeting of shareholders convened for the purpose of (a) an increase or decrease of the authorised or issued capital, (b) a limitation or exclusion of preferential subscription rights, (c) the approval of a legal merger or division (scission) or certain similar corporate restructurings, (d) dissolution and liquidation of the Company (except in circumstances where the Company has lost more than $\frac{3}{4}$ of its share capital where special quorum and majority requirements apply) or (e) an amendment of the Articles of Association, must have a quorum of at least 50% of the issued share capital present or represented. If that quorum is not reached, the extraordinary general meeting of shareholders may be reconvened. At such reconvened meeting, no quorum will be required.

Irrespective of whether the proposed matter will be subject to a vote at the first or at a subsequent extraordinary general meeting of shareholders, its approval will require at least $\frac{2}{3}$ of the votes cast in favour at such extraordinary general meeting of shareholders. Abstentions are not considered as “votes”. A vote to change the country of incorporation to a country other than Luxembourg or to increase the contribution of the shareholders will require the affirmative vote of 100% of the shares issued by the Company.

However, a General Meeting shall not validly deliberate on and approve any Reserved Matter (as defined below) unless (i) all the shareholders are validly and effectively convened in accordance with the law and (ii) at least three quarter plus one (1) share of the share capital of the Company is present or represented at the meeting (the “Qualified Quorum”). Any decision on Reserved Matters in such first General Meeting shall be approved by a Qualified Majority. If there is no Qualified Quorum on the first call of the General Meeting of shareholders, all the Company’s shareholders shall be validly and effectively convened for a second General Meeting by means of notices published twice, at fifteen days interval at least and fifteen days before the meeting in the *Mémorial C, Recueil des Sociétés et Associations* and in two Luxembourg newspapers, and by notices sent by mail fourteen days before the meeting to registered shareholders. Such convening notice shall reproduce the agenda and indicate the date and the results of the previous meeting. Such second General Meeting shall validly deliberate on any Reserved Matter regardless of the proportion of the capital represented at the meeting. Any decision on Reserved Matters in such second General Meeting or any other meeting shall be approved by a Qualified Majority.

A Reserved Matter is a decision relating to (a) any changes to the issued and/or authorised share capital of the Company, including the issuance of any securities (other than the securities issued under the authorised share capital), the repurchase or and the redemption of any securities; (b) the amendments to the Articles of Association; (c) the appointment of any person as auditor of the Company other than one of the following KPMG, Deloitte, PricewaterhouseCoopers or Ernst&Young; (d) the liquidation of the Company, the appointment of liquidators and filing of the documents for this purpose, except for when it is necessary in case of bankruptcy of the Company or filing of a petition about designation of an external administrator of the Company; and (e) the payment of annual dividends.

“Qualified Majority” means a majority of at least three quarter plus one (1) vote of the votes of the shareholders present or represented at a General Meeting and voting at this General Meeting save where a higher majority is provided by the law.

All the amendments to the Articles of Association, which relate to (i) the rights and prerogatives of the Caraden Shareholder and (ii) the appointment, removal, replacement, rights, prerogatives and positive vote of the Caraden Director, shall be approved by a Qualified Majority (including the positive vote of the Caraden Shareholder, so long as such Caraden Shareholder holds not less than ten point seventy-five per cent (10.75%) of the shares in issue of the Company).

Annual general meeting

The next annual ordinary general meeting of shareholders will be held in Luxembourg on Wednesday, 8 June 2011 at 10 a.m. If that day is a legal or banking holiday, the meeting will be held on the first following working day.

Amendments to the Articles of Association

Luxembourg law requires an extraordinary general meeting of shareholders to resolve upon any amendment to the Articles of Association. The agenda of the extraordinary general meeting of shareholders must indicate the proposed amendments to the Articles of Association of the Company. See “—*General Meeting—Extraordinary general meeting of shareholders*”, above.

Liquidation

In the event of the liquidation, dissolution or winding-up of the Company, the assets remaining after allowing for the payment of all liabilities will be paid out to the shareholders pro rata to their respective shareholdings. Other than in case of a judicial liquidation, the decisions to liquidate, dissolve or wind-up, are Reserved Matters which require the approval by an extraordinary general meeting of shareholders at a Qualified Majority and Qualified Quorum.

Distributions

Subject to Luxembourg law, each share is entitled to participate equally in dividends. Dividends are approved by the annual ordinary general meeting of shareholders out of funds legally available for such purposes. The Board of Directors may also declare interim distributions, to the extent permitted by Luxembourg law and with the positive vote of the Caraden Director.

Luxembourg law requires that 5% of the net profit of each year be allocated to a legal reserve before declaration of dividends. This requirement continues until the reserve is 10% of the issued capital, after which no further allocations are required until the share capital is increased. The legal reserve may also be satisfied by allocation of the required amount at the time of issuance of shares or by a transfer from paid-in surplus. The legal reserve is not available for dividends.

Declared and unpaid distributions held by the Company or its agents for the account of shareholders shall not bear interest. Under Luxembourg law, claims for unpaid distributions will lapse in favour of the Company five years after the date of such distribution has been declared.

The general meeting of shareholders, upon recommendation of the Board of Directors, will determine how the remainder of the annual net profits of the Company will be disposed of, including by way of stock dividend, it being understood that, the remaining net profits of the Company left after payment of dividends shall be used for business development of the Company and its Subsidiaries and the development of the Retail Business of the Group in Russia. Interim dividends may be declared and paid (including by way of staggered payments) by the Board of Directors subject to observing the terms and conditions provided by law either by way of a cash dividend or by way of an in kind dividend.

An interim dividend was declared and paid out to the shareholders on record on 5 August 2010. This interim dividend will only become final at the annual general meeting of shareholders of the Company which will, on the basis of the stand-alone profits of the Company for the financial year, approve distributions of profits equal in amount to such interim dividend declared on 5 August 2010. Until such annual general meeting: (a) the new shares to be issued with respect to the Offering otherwise will not give right to any dividend; and (b) the currently issued shares will not give right to any future dividend, interim or otherwise. As from such annual general meeting, each share will give right to the same dividend distribution.

Annual accounts

Each year, the Board of Directors must prepare annual accounts, that is, an inventory of the assets and liabilities of the Company together with a balance sheet and a profit and loss account. The Board of Directors must also each year prepare consolidated accounts and management reports on the annual accounts and consolidated accounts. The annual accounts, consolidated accounts, to the extent required, the management report and the auditor's reports must be available for inspection by shareholders at the registered office of the Company at least fifteen (15) calendar days prior to the date of the annual ordinary general meeting of shareholders.

The annual accounts and the consolidated accounts, after approval by the annual ordinary general meeting of shareholders, will be filed with the Luxembourg *Registre de Commerce et des Sociétés*.

The Company's financial statements (both stand-alone and consolidated) are reviewed by one or several approved statutory auditors (*réviseur d'entreprises agréé*) who are appointed by the ordinary general meeting of shareholders.

Information rights

Luxembourg law gives shareholders limited rights to inspect certain corporate records fifteen (15) calendar days prior to the date of the annual ordinary general meeting of shareholders, including the annual accounts with the list of directors and auditors, the notes to the annual accounts, a list of shareholders whose shares are not fully paid-up, the management reports and the auditor's report.

The annual accounts, the auditor's reports and the management reports shall be sent to registered shareholders at the same time as the convening notices. In addition, any shareholder is entitled to receive a copy of these documents free of charge fifteen (15) calendar days prior to the date of the annual ordinary general meeting of shareholders.

Under Luxembourg law, it is generally accepted that a shareholder has the right to receive during the general meeting of shareholders responses to questions concerning items on the agenda for a general meeting of shareholders, if such responses are necessary or useful for a shareholder to make an informed decision concerning such agenda item, unless a response to such questions could be detrimental to the Company's interests.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts (“GDRs”) represented by this certificate are issued in respect of shares of par value EUR0.01 each (the “Shares”) in O’Key Group (the “Company”) pursuant to and subject to an agreement to be entered into on or about 4 November 2010, and made between the Company and The Bank of New York Mellon in its capacity as depositary (the “**Depositary**”) for the “Regulation S Facility” and for the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”). Each GDR will represent one Share. Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the “Custodian”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “Deposited Shares”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “**Conditions**”), references to the “Depositary” are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in Luxembourg as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the relevant Master GDR.

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “**Register**”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

- 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
- (a) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Luxembourg of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
 - (b) the payment of such fees, taxes, duties, charges, costs, expenses and governmental charges as may be required under these Conditions or the Deposit Agreement;
 - (c) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
 - (d) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.
- 1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:
- (a) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (b) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; **provided however that** the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (i) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(a) and (b) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (ii) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by

law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Luxembourg of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

- 1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- 1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement (*which is described in the following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions."

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933 as amended (the "Securities Act") ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions".

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a GDR certificate in definitive form or a separate temporary Regulation S Master GDR and/or temporary Rule 144A Master GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Regulation S Master GDR and/or a Rule 144A Master GDR (by increasing the total number of GDRs evidenced by the relevant Regulation S Master GDR or Rule 144A Master GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Regulation S Master GDR or a Rule 144A Master GDR, as the case may be, prior to the receipt of Shares (a “**Pre-Release**”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; **provided, however, that** the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limit for the purpose of general application. The Depositary will also set dollar limits with respect to Pre-Release transactions hereunder with any particular Pre-Releasee on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8).

1.8 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 and in Schedule 4 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be

transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A under the Securities Act. If the Company makes a written request to the Depositary to refuse to accept Shares for deposit into a Facility in the circumstances set out in such a request in order to facilitate the compliance by the Company with securities laws in the United States, the Depositary will discuss with the Company the terms on which the Depositary may agree to comply with such request. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any applicable court order or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs represented by the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Regulation S Master GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the

liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; **PROVIDED THAT:**

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(d).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs represented by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be

unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (a) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Euro or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs represented by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (b) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (c) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (i) will, **PROVIDED THAT** Holders have not taken up rights through the Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (ii) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (d) (i) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(a) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(a), such

Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(d)(iii) and receipt of the relevant subscription price in Euro or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).

- (ii) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.
- (iii) In order to proceed in the manner contemplated in this Condition 7(d), the Depositary shall be entitled to receive such opinions from Luxembourg counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such

securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable convert or cause to be converted, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary may make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency without liability for interest for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

- 9.1 Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or

DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal value or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Luxembourg and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Luxembourg in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which (as notified to the Depositary by the Company) such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

- 12.1 Holders will have the right to instruct the Depositary with respect to the exercise of voting rights with respect to the Deposited Shares subject to Clause 5 and this Condition 12. The Company has agreed to notify the Depositary of any resolution to be proposed at a meeting of shareholders of the Company on which the holders of Shares are entitled to vote and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request provided no U.S., English or Luxembourg legal prohibition exists (as demonstrated by an opinion of counsel in the relevant jurisdiction reasonably acceptable to the Depositary), of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company with respect to the Shares or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Luxembourg law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Luxembourg law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall not vote or cause to be voted such Deposited Shares.

- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Luxembourg law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be exercised, any voting attaching to such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary is entitled to request the Company to provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Luxembourg law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.
- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in such manner as the Depositary and the Company determine is required in order to comply with applicable Luxembourg law.
- 12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given, or deemed given, in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Luxembourg or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent, or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions. The Company shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Depositary of its obligations under or in connection with this Agreement or the Conditions.

- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, selected with reasonable care, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, **provided that** no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company

shall not in any circumstances and the Depositary shall not (**provided that** it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance, or the exercise or attempted exercise of (or the failure to exercise any of) its powers or discretions, under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.
- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Luxembourg law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement or these Conditions.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and to receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

- (a) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
- (b) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- (c) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of U.S.\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
- (d) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares (except for the first cash dividend paid by the Company in each calendar year): a fee of U.S.\$0.02 or less per GDR for each such dividend or distribution;
- (e) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
- (f) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR;
- (g) a fee of U.S.\$0.03 or less per GDR (or portion thereof) per calendar year for depositary services which shall be payable as provided in paragraph (h) below; and
- (h) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

- 16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

- 17.1 The Depositary shall be entitled to appoint one or more agents (the “Agents”) for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use its commercially reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the “Official List”) and admission to trading on the market for listed securities of the London Stock Exchange or, with the reasonable assistance of the Depositary (provided at the Company’s expense), on any other internationally recognised stock exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority or the London Stock Exchange or any other internationally recognised stock exchange.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian **PROVIDED THAT** the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary **PROVIDED THAT**, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian’s resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. The Depositary in its discretion may appoint a substitute or additional custodian or custodians, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall notify Holders of such change in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; **PROVIDED THAT**, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such

consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

- 20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; **PROVIDED THAT** no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its commercially reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

- 20.2 Upon the termination of the appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary such information and records as will enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and shall hold the Deposited Property for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

- 21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.
- 21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(a) and Clause 10.1(a)(i) of the Deposit

Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

- 21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

- 22.1 Subject to Condition 22.3, all and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of 30 calendar days after such notice shall have been given. During such period of 30 calendar days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.
- 22.2 For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares **PROVIDED THAT** temporary GDRs will represent such Shares until they are so consolidated.
- 22.3 The Company and the Depositary may at any time by agreement in any form amend the number of Shares represented by each GDR, provided that each outstanding GDR represents the same number of Shares as each other outstanding GDR, and at least 30 calendar days notice of such amendment is given to the Holders, but in no circumstances shall any amendment pursuant to this Condition 22.3 be regarded as an amendment requiring 30 calendar days notice in accordance with Condition 22.1.

23. Notices

- 23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

24. Reports and Information on the Company

- 24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) by mail, or one copy in English language by facsimile or electronic transmission of any financial statements or accounts that it makes generally available to its shareholders (beginning with the 31 December 2009 annual audited financial statements of the Company), including but not limited to any financial statement or accounts that may be required by law or regulation or in order to maintain a listing for GDRs on the London Stock Exchange, or another stock exchange in accordance with Condition 18 as soon as practicable following the publication or availability of such communications.
- 24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 24.3 For so long as any of the GDRs remains outstanding and are “**restricted securities**” within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective

purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

- 28.1 The Deposit Agreement, the GDRs, and all non-contractual obligations arising from or connected with the Deposit Agreement and the GDRs, are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Luxembourg law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

- 28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited of 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Trust Company of New York of 400 Madison Avenue, Suite 4D, New York, NY 10017 as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depository of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a “**Dispute**”) which may arise out of or in connection with the GDRs (including any dispute relating to the existence, validity or termination of the GDRs, or any non-contractual obligation arising out of or in connection with the GDRs, or the consequences of the nullity of the GDRs), and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. Without prejudice to the foregoing, the Depository further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depository irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depository is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depository, the Company has agreed to fully cooperate with the Depository in connection with such litigation, arbitration or Proceeding.
- 28.6 The Depository irrevocably appoints The Bank of New York Mellon, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depository does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.7 To the extent that the Company may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Company or its assets or revenues, the Company has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

OVERVIEW OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule 144A Master GDR in registered form. The Rule 144A Master GDR will be deposited with The Bank of New York Mellon in New York as custodian for DTC and registered in the name of Cede & Co as nominee for DTC on the date the GDRs are issued. The Regulation S Master GDR will be deposited with The Bank of New York Mellon, London Branch as common depositary for Euroclear and Clearstream (and registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for the common depositary) on the date the GDRs are issued.

The Regulation S Master GDR and the Rule 144A Master GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this Prospectus. The following is a summary of certain of those provisions. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in paragraphs (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates in definitive registered form representing GDRs in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- (i) DTC, in the case of the Rule 144A Master GDR, or Euroclear or Clearstream, in the case of the Regulation S Master GDR, notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or
- (ii) Either DTC in the case of Rule 144A Master GDR, or Euroclear or Clearstream in the case of the Regulation S Master GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- (iii) in respect of the Rule 144A Master GDR, DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Rule 144A Master GDR and the Regulation S Master GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary

whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Regulation S Master GDR be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Rule 144A Master GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream (in the case of GDRs represented by the Regulation S Master GDR), or by DTC (in the case of GDRs represented by the Rule 144A Master GDR), on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Regulation S Master GDR is registered in the name of a nominee for a common Depositary holding on behalf of Euroclear and Clearstream, and the Rule 144A Master GDR is registered in the name of DTC or its nominee, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The following overview of the principal Luxembourg, Russian, United Kingdom and United States federal income tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), published administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This overview does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Luxembourg Tax Considerations

General

The following is a summary discussion of certain Luxembourg tax considerations with respect to the Company and its shares held by certain resident and non-resident investors. This does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular shareholder of the Company, and does not purport to include tax considerations that arise from rules of general application or that are generally assumed to be known to the shareholders of the Company. It is not intended to be, nor should it be construed to be, legal or tax advice. This discussion is based on Luxembourg laws and regulations as they stand on the date of this prospectus and is subject to any change in law or regulations or changes in interpretation or application thereof that may take effect after such date. Prospective investors should therefore consult their own professional advisers as to the effects of state, local or foreign laws and regulations, including Luxembourg tax law and regulations, to which they may be subject.

Under Luxembourg tax law the GDRs have the same tax treatment as the Shares. Any reference to the Shares in this section shall thus be deemed including reference to the GDRs as appropriate.

Luxembourg Taxation of the Company

As a fully taxable Luxembourg resident company, the Company will be subject to Luxembourg corporate income tax and municipal business tax. The current aggregate maximum applicable rate for a company established in Luxembourg-City is 28.59% (including a contribution to the unemployment fund) on taxable net profits for the fiscal year ending 2010. Under a currently tabled bill of law, this rate is expected to increase to 28.80% starting fiscal year 2011. Net profits subject to tax include dividend income and capital gains, subject to certain exemptions. With the exception of its shareholding in Axus Financial Ltd., the Company intends to structure its participations in its subsidiaries in such a way that it should be in a position to only receive exempted dividends and capital gains. The Company will be fully taxable Luxembourg resident company and should therefore, from a Luxembourg tax perspective, be able to benefit from double taxation treaties and European directives in direct tax matters.

The Company will also be liable for annual net wealth tax at a rate of 0.5% of the non exempted net wealth of the Company. With the exception of its shareholding in Axus Financial Ltd., the Company intends to structure its participations in its subsidiaries in such a way that they should be exempted from net wealth tax.

Luxembourg Taxation of the Shareholders

General

Holders of the Shares will not become resident or be deemed to be resident in Luxembourg by reason only of holding shares in the Company.

Luxembourg Taxation of Shareholder Dividends

Withholding Tax

In Luxembourg, dividend distributions from fully taxable companies are subject to a withholding tax of 15% from the gross-amount.

Where a withholding needs to be operated, the rate of the withholding tax may be reduced pursuant to the double tax treaty existing between Luxembourg and the country of residence of the relevant holder, subject to the fulfilment of the conditions set forth therein.

No withholding tax applies if the distribution is made to (i) a Luxembourg resident corporate holder (that is, a fully taxable *collectivité* within the meaning of Article 159 of the Luxembourg Income Tax Law), (ii) a corporation which is a resident of a Member State of the European Union and is referred to by Article 2 of the Council Directive of 23 July 1990 concerning the common fiscal regime applicable to parent and subsidiary companies of different Member States (90/435/EEC), (iii) a corporation or a cooperative resident in Norway, Iceland or Liechtenstein and subject to a tax comparable to corporate income tax as provided by the Luxembourg Income Tax Law, (iv) a corporation resident in Switzerland which is subject to corporate income tax in Switzerland without benefiting from an exemption, (v) a corporation subject to a tax comparable to corporate income tax as provided by Luxembourg Income Tax Law which is resident in a country that has concluded a tax treaty with Luxembourg and (vi) a Luxembourg permanent establishment of one of the above-mentioned categories, provided each time that at the date of payment, the holder holds directly or through a tax transparent vehicle, during an uninterrupted period of at least twelve months, shares representing at least 10% of the share capital of the Company or which had an acquisition price of at least €1,200,000.

Non-Resident Holders

Holders of the Shares who are not resident in Luxembourg for Luxembourg tax purposes and who do not hold the Shares through a permanent establishment or representative in Luxembourg are not liable to Luxembourg income tax on dividends paid by Company, other than the withholding tax described above.

Resident Holders

Luxembourg individual holders and Luxembourg corporate holders subject to Luxembourg corporate income tax, as well as non-resident holders with a permanent establishment or representative in Luxembourg to which the Shares are attributed, must include distributions paid on Shares in their taxable income, 50% of the amount of such dividends being exempted from tax. The applicable withholding tax can, under certain conditions, entitle the relevant resident holder to a tax credit.

Capital Gains

Luxembourg resident individual holders

For Luxembourg resident individuals holding (together with his/her spouse or civil partner and underage children) directly or indirectly 10% or less of the share capital of the Company, capital

gains will only be taxable if they are realised on a disposal of the Shares, which takes place before their acquisition or within the first six months following their acquisition.

For Luxembourg resident individuals holding (together with his/her spouse or civil partner and underage children) directly or indirectly more than 10% of the capital of the Company, the capital gains will be taxable regardless of the holding period. Any shares of the same issuer which the individual resident taxpayer has received by way of gratuitous transfer, or successive gratuitous transmissions, within a five years period preceding the tax-relevant disposal will be taken into account for the computation of the participation threshold if any of the former transferors has held (together with his/her spouse or civil partner and underage children) directly or indirectly more than 10% of such issuer's shares or capital stock.

Moreover, capital gains arising from the disposal of the Shares by a Luxembourg resident individual holding the Shares in the course of his/her business will be taxable.

Luxembourg resident corporate holders

Capital gains realised upon the disposal of Shares by a fully taxable resident corporate holder will in principle be subject to corporate income tax and municipal business tax. An exemption from such taxes may be available to the holder pursuant to article 166 of the Luxembourg Income Tax law, and relevant Grand Ducal Decree of 21 December 2001 for the extension of the participation exemption on capital gains, subject to the fulfilment of the conditions set forth therein. The scope of the capital gains exemption can be limited in the cases provided by such Grand Ducal Decree of 21 December 2001.

Non-resident holders

Capital gains arising upon disposal of Shares by an investor who is a non-resident (and who does not have a permanent establishment or representative in Luxembourg to which the Shares are attributable), and who is not resident in a country which has concluded a double tax treaty with Luxembourg which allocates the right of taxation to the country of residence of the investor, will only be subject to Luxembourg taxation on capital gains realised on a disposal of Shares, if such holder has (together with his or her spouse or civil partner and underage children) directly or indirectly held more than 10% of the capital of Company at any time during the five years preceding the disposal, and either (1) the disposal of Shares occurs before their acquisition or within six months of their acquisition, or (2) such investor has been a resident for tax purposes for at least 15 years and has become a non-resident within the five years preceding the realisation of the gain. Any shares of the same issuer which the individual taxpayer has received by way of gratuitous transfer, or successive gratuitous transmissions, within a five years period preceding the tax-relevant disposal will be taken into account for the computation of the participation threshold if any of the former transferors has held (together with his/her spouse or civil partner and underage children) directly or indirectly more than 10% of such issuer's shares or capital stock.

Net Wealth Tax

Resident Holders

Net wealth tax is levied annually at the rate of 0.5% on the net wealth of commercial undertakings resident in Luxembourg. The Shares may be exempt from net wealth tax, subject to the conditions set forth by Article 60 of the law of 16 October 1934 on the valuation of assets (*Bewertungsgesetz*), as amended.

Non-Resident Holders

Luxembourg net wealth tax will not be levied on a non-resident holder with respect to the Shares held unless the Shares are attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg. The Shares may be exempt from net wealth tax subject to the conditions set forth by Article 60 of the law of 16 October 1934 on the valuation of assets (*Bewertungsgesetz*), as amended.

Other Taxes

Stamp and Registration Taxes

No registration tax or stamp duty will be payable by a holder of Shares in Luxembourg solely upon the disposal of Shares by sale or exchange.

Estate and Gift Taxes

No estate or inheritance tax is levied on the transfer of Shares upon the death of a holder of Shares in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes and no gift tax is levied upon a gift of Shares if the gift is not passed before a Luxembourg notary or recorded in a deed registered in Luxembourg. Where a holder of Shares is a resident of Luxembourg for tax purposes at the time of his death, the Shares are included in his/her taxable estate for inheritance tax or estate tax purposes.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the GDRs and to the purchase, ownership and disposition of the GDRs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect at the date of this Prospectus. The discussion with respect to Russian legislation is based on the Group's understanding of the current Russian law and tax rules, which are subject to frequent change and varying interpretations. See "*Risk Factors—Risks Relating to Russia—Legislative and legal risks relating to Russia—Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and O'Key therefore may be subject to a greater than expected tax burden that could materially adversely affect O'Key's business and results of operations*".

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regional, local or other non-federal authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own professional advisers regarding the tax consequences of investing in the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDRs are characterised by uncertainties and by an absence of special provisions with respect to transactions with GDRs. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a "Russian non-resident holder" means (i) an individual holder of the GDR who is actually present in the Russian Federation for an aggregate period of less

than 183 days (including days of arrival in Russia and days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or (ii) a holder that is a legal entity or other legal entity or organisation, in each case not organised under Russian law that purchases, holds and/or disposes of the GDR otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a “resident holder” means a GDR holder not qualifying as a non-resident holder defined in the previous paragraph. Based on published comment of the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future. The residency rules may be affected by the applicable double tax treaty.

For the purposes of this summary, a “Tax Agent” means: (i) a legal person organised under Russian law; or (ii) a legal person or legal entity, in either case, organised under a foreign law and carrying on activities through a permanent establishment in Russia or, arguably, having any other registered presence in the Russian Federation, who are charged as described below with obligations associated with calculation, withholding from a taxpayer income and transfer to the revenue of taxes.

Taxation of Acquisition of the GDRs

No Russian tax implications should arise for holders of the GDRs upon purchase of the GDRs.

However, under certain conditions the material gain may arise for Russian resident holders if the GDRs are purchased at the price below the market value. Such material gain is generally subject to personal income tax at 13%.

Taxation of Dividends

Currently the Russian tax legislation does not have special provisions regarding the taxation of income on GDRs. According to the Russian Tax Code, should an income from outside of Russia be recognised as “dividends” in accordance with the law of the foreign country where it arises, it should be recognised as “dividends” for Russian taxation purposes as well.

The tax treatment of dividends on GDRs will primarily depend on the status of the dividend’s recipient. No Russian tax consequences shall arise for non-resident holders with respect to dividends on or capital gains derived from GDRs. Russian tax consequences for resident holders are described below.

Corporate Holders

Dividends on GDRs paid by a foreign company to a Russian legal entity will be taxable at 9%, unless the 0% rate below applies.

Dividends paid to a Russian resident holder which is a legal entity are taxed at 0% rate provided that the following conditions are met: (i) the Russian company holds at least 50% of the equity of the distributing entity or depositary receipts and the participation confers the right to receive at least 50% of the dividends distributed; (ii) the Russian company has held such participation for at least 365 days at the time the decision to distribute dividends is made; (iii) the cost of the acquisition or other receipt, in accordance with the legislation of the Russian Federation, of such participation exceeds RUB 500 million. The condition (iii) will be eliminated starting from 1 January 2011 with respect to dividends distributed for 2010 and later periods.

The above participation exemption is not applicable if the foreign entity distributing the dividends is included into the list of countries and territories with beneficial tax treatment and/or

which do not require the disclosure and provision of information when financial operations are carried out adopted by the Ministry of Finance of the Russian Federation. Currently, Luxembourg is not included in this list.

Since the current Russian legislation contains no specific instructions with respect to whether the income on GDRs shall be regarded as “dividends”, in case the income received by Russian resident holders will not be recognised as such by the Russian tax authorities, it may be taxed at a standard 20% corporate tax rate.

Individuals

Dividends on GDRs received by a Russian resident holder which is an individual are subject to personal income tax at 9% rate.

Similar to corporate holders, should the income of individual Russian resident holders received on GDRs be treated by tax authorities as “other income” and not as “dividends”, it should be generally subject to the standard personal income tax rate of 13%.

Foreign tax credit

In accordance with the Convention between Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital of 28 June 1993, withholding tax paid in Luxembourg may be credited against the Russian tax liability when dividend is paid to Russian legal entities or individual residents. However, such deduction shall not exceed the amount of tax due in accordance with the laws of Russia.

Due to separation of legal ownership and beneficial ownership to the Ordinary Shares underlying the GDRs, Russian GDR holders may be unable to obtain the abovementioned tax benefits with respect to dividends paid via the Depositary. The Russian tax rules applicable to the holders of the GDRs are characterised by significant uncertainties and, until recently, by an absence of interpretive guidance.

No assurance can be given how the Russian tax authorities will ultimately treat the GDR holders in this regard. In particular, the tax authorities may not allow utilising the tax treaty credit.

Taxation of capital gains

The following sections summarise the taxation of capital gains in respect of the disposal of the GDRs. As the Russian legislation related to taxation of capital gains derived by Russian resident holders (including corporate holders and individuals) in connection with the GDRs is not entirely clear, Russian residents should consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of GDRs in their particular situation.

Corporate Holders

Capital gains arising from the sale of the GDRs by a Russian resident holder which is a legal entity shall be generally taxable at the regular Russian corporate income tax rate of 20%.

Russian tax legislation contains a requirement that a profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted for separately from a profit from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident holders may be able to apply losses arising in respect of the GDRs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a broker and/or dealer licence.

The Russian Tax Code also establishes special rules for calculation of the tax base for the purposes of transactions with securities.

Individuals

Capital gains arising from the sale, exchange or other disposition of the GDRs by individuals who are Russian resident holders shall be declared on the holder's tax return and are generally subject to personal income tax at a rate of 13%. The income in respect of sale of the GDRs by an individual is calculated as sale proceeds less documentary confirmed expenses related to purchase of these securities (including cost of securities and expenses associated with purchase, keeping and sale of these securities).

The tax base subject to personal income tax at 13% may be reduced by the amount of loss generated under operations with securities generated in previous periods starting from the tax period 2010.

Stamp Duties and Other Taxes

No Russian stamp duty will be payable by the holders of the GDRs upon purchase or sale of the GDRs.

No value added tax will be payable in Russia in respect of the purchase, ownership and disposition of the GDRs by Russian resident and non-resident holders.

United Kingdom Tax Considerations

The comments below are of a general nature and are based, at the date of this Prospectus, on current U.K. law, published practice and published interpretation of H.M. Revenue & Customs ("HMRC"), all of which are subject to change possibly with retroactive effect. The summary only discusses certain U.K. tax consequences of holding the Shares or the GDRs and receiving dividends for the absolute beneficial owners of the Shares or the GDRs who are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the U.K., for tax purposes ("U.K. holders") except insofar as express reference is made to the treatment of non-U.K. residents and/or non-U.K. domiciled individuals. In addition, the summary (1) only addresses the principal tax consequences for U.K. holders who hold the Shares and the GDRs as capital assets (and who do not hold the Shares or GDRs as part of hedging or conversion transactions) or investments, and does not address the tax consequences which may be relevant to certain other categories of U.K. holders, for example dealers, insurance companies or collective investment schemes; (2) assumes that each U.K. holder does not either directly or indirectly control or hold 10% or more of the issued share capital or of the voting power of the Company; (3) assumes that a holder of the GDRs is the absolute beneficial owner of the underlying Shares and of the dividends on the Shares; (4) assumes that there will be no register kept in the U.K. in respect of the Shares or GDRs; (5) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a Depositary incorporated in the U.K.; (6) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the U.K.; and (7) assumes that the U.K. holders have not (and are not deemed to have) acquired the Shares or GDRs by virtue of an office or employment.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under U.K. law and HMRC practice of the acquisition, ownership and disposition of Shares and GDRS in their own particular circumstances, by consulting their tax advisers.

Taxation of Dividends

Withholding Tax and Tax Credits

Assuming that the income under the GDRs does not have a U.K. source, there should be no U.K. withholding tax on the payment of such income.

Dividend payments in respect of the Shares will not be subject to U.K. withholding tax.

When the Company pays dividends, it will be in principle required for Luxembourg tax purposes to withhold 15% of the gross amount of the dividend paid to U.K. holders and to account for that amount to the Luxembourg tax authorities. However, dividend payments to certain corporate holders should be exempt from Luxembourg withholding tax under Luxembourg domestic legislation. See “*Luxembourg Taxation of the Shareholders—Luxembourg Taxation of Shareholder Dividends*” for further details on the various Luxembourg domestic exemptions.

For U.K. holders for whom dividend payments are not exempt from such 15% withholding tax under Luxembourg domestic legislation, such withholding tax should generally be allowed as a credit against the U.K. tax liability of a U.K. holder, but if there is any excess of such Luxembourg withholding tax over the U.K. tax payable on the aggregate amount of the dividend, the Luxembourg withholding tax is generally not refundable.

Income Tax and Corporation Tax

A U.K. holder who is an individual will generally be subject to U.K. income tax on the gross dividend (before deduction of any Luxembourg withholding tax) paid on the Shares or GDRs. Such a U.K. holder may, depending on their circumstances, be entitled to a credit against their liability to U.K. income tax incurred as a result of any dividend paid in respect of their Shares or GDRs. Where such tax credit is available, it will be equal to 10% of the gross dividend (the “**gross dividend**” being the amount of the dividend plus the tax credit such that the tax credit will be one-ninth of the amount of the actual dividend paid (before deduction of any Luxembourg withholding tax)). There is no entitlement to claim repayment of this tax credit.

For an individual U.K. holder who is liable to U.K. tax on the dividend at the dividend ordinary rate (currently 10%), the above 10% tax credit should mean that they have no further U.K. income tax to pay in relation to the dividend. Where such U.K. holder is entitled to, in addition, a credit for Luxembourg tax deducted at source (as described above), such credit will generally exceed their U.K. income tax liability in respect of the dividend. Such Luxembourg withholding tax will generally not be refundable.

For an individual U.K. holder who is liable to U.K. tax on the dividend at the dividend upper rate, U.K. tax will be chargeable on the gross dividend generally with credit for Luxembourg tax deducted at source. The dividend upper rate is currently 32.5% which, after taking the 10% U.K. tax credit into account, produces an effective tax rate of 25% on the actual dividend paid (before deduction of any Luxembourg withholding tax).

A new dividend additional rate of 42.5% has been introduced and has had effect since 6 April 2010. The dividend additional rate applies to the extent that an individual U.K. holder’s income for U.K. tax purposes exceeds £150,000. After allowing for the 10% tax credit, such a U.K. holder will be liable to income tax equal to 32.5% of the gross dividend (before deduction of any Luxembourg withholding tax) equating to approximately 36.1% of the actual dividend paid (before deduction of any Luxembourg withholding tax).

Other U.K. holders who are not liable to U.K. tax on dividends (for example, pension funds and charities) will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

An individual holder of shares in the Company who is not resident in the U.K. for tax purposes will not be liable to U.K. income tax on dividends paid by the Company unless such a holder carries on a trade, profession or vocation in the U.K. through a branch or agency and has used, held or acquired the shares in the Company for the purposes of such trade, profession or vocation, branch or agency.

Where a U.K. holder is within the charge to corporation tax, it will be subject to corporation tax on the actual amount of any dividend paid on the Shares or GDRs, subject to any applicable credit for Luxembourg withholding tax, unless (subject to special rules for such U.K. holders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Although it is likely that most dividends paid on the Shares or GDRs to U.K. holders within the charge to U.K. corporation tax would fall within one or more of the classes of dividend qualifying for exemption from corporation tax, the exemptions are not comprehensive and are also subject to anti-avoidance rules. Where a U.K. holder within the charge to U.K. corporation tax is exempt from such tax on any dividend paid on the Shares or GDRs and is entitled to a credit for Luxembourg tax deducted at source (as described above), such credit will exceed their U.K. corporation tax liability in respect of the dividend. Such Luxembourg withholding tax will generally not be refundable.

Provision of Information

Persons in the United Kingdom paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, an individual may be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or the GDRs may constitute “foreign dividends” for this purpose.

Taxation of Disposals

The disposal or deemed disposal by an individual who carries on a trade, profession or vocation in the U.K. through a branch or agency to which the Shares or GDRs are attributable, or who is a U.K. holder of interests in the Shares or the GDRs may give rise to a chargeable gain or allowable loss for the purposes of the U.K. taxation of chargeable gains, depending on the U.K. holder’s circumstances and subject to any available exemption or relief.

An individual holder of the Shares or GDRs who is neither resident nor ordinarily resident in the U.K. for U.K. tax purposes or is resident in a territory outside the U.K. for the purposes of double taxation relief arrangements for a period of less than five years, but who was previously resident or ordinarily resident in the U.K. (and at such time, not being resident in a territory outside the U.K. for the purposes of double taxation relief arrangements), and who disposes of such Shares or GDRs during that period of non-residence may also be liable, on returning to the U.K. or upon ceasing to be resident in a territory outside the U.K. for the purposes of double taxation relief arrangements, for U.K. tax on capital gains despite the fact that the individual was not resident or ordinarily resident in the U.K. for U.K. tax purposes at the time of the disposal.

A corporate U.K. holder or a company which carries on a trade in the U.K. through a permanent establishment to which the Shares or GDRs are attributable will generally be subject to U.K. corporation tax on any chargeable gain arising from the disposal of the Shares or GDRs.

Other Taxes

Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

No U.K. stamp duty or SDRT should be payable on (i) the issue of the GDRs, (ii) the delivery of the GDRs into a clearance service, such as Euroclear or Clearstream, or (iii) any dealings in the GDRs once they are delivered into the clearance service, where such dealings are effected in

book-entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Assuming that any document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or GDRs is neither (i) executed in the U.K. nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the U.K. (which may include involvement of U.K. bank accounts in payment mechanics), then no U.K. *ad valorem* stamp duty should be payable on such a document.

Even if a document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or GDRs is (i) executed in the U.K. and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the U.K., in practice it should not be necessary to pay any U.K. *ad valorem* stamp duty on such a document unless the document is required for any purposes in the U.K.. If it is necessary to pay U.K. *ad valorem* stamp duty, it may also be necessary to pay interest and penalties.

No SDRT should be payable in respect of the issue of, or any agreement to transfer, the Shares.

Inheritance Tax

Shares and GDRs in the Company will be assets situated outside the U.K. for the purposes of U.K. inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets who is domiciled or is deemed to be domiciled in the U.K. may (subject to certain exemptions and reliefs) give rise to a liability to U.K. inheritance tax. Generally, U.K. inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to the death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Since Shares and GDRs in the Company will be assets situated outside the U.K. for the purposes of U.K. inheritance tax, where a holder is neither domiciled nor deemed domiciled in the U.K. (under certain rules relating to long residence or previous domicile), neither a gift of such assets by the holder nor the death of such holder will give rise to a liability to U.K. inheritance tax.

United States Federal Income Tax Considerations

The following is a discussion of certain material U.S. federal income tax considerations relating to the ownership and disposition of the GDRs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to holders of the GDRs. The discussion applies only to holders that are initial purchasers of the GDRs pursuant to this offering and that will hold such GDRs as capital assets for U.S. federal income tax purposes and does not address all the U.S. federal income tax considerations that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as dealers and traders in securities or currencies, certain financial institutions, insurance companies, tax-exempt entities, real estate investment trusts, regulated investment companies, persons owning, directly, indirectly or constructively, 10% or more of the Company's voting shares for U.S. federal income tax purposes, persons holding the GDRs as part of a hedging transaction, wash sale, straddle, conversion transaction or other integrated transaction for U.S. federal income tax purposes, persons entering into a "constructive sale" with respect to the GDRs for U.S. federal income tax purposes, persons that have a functional currency for U.S. federal income tax purposes other than the U.S. Dollar, certain former citizens or long-term residents of the United States, or persons holding the GDRs in connection with a trade or business conducted outside the United States.

Moreover, this description does not address the U.S. federal estate and gift tax considerations relating to the ownership or disposition of the GDRs. U.S. Holders should consult their tax advisers

with respect to the U.S. federal, state, local and non-U.S. tax considerations relating to the acquisition, ownership and disposition of the GDRs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “**Code**”), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury regulations, as well as the convention between the Government of Luxembourg and the Government of the United States of America for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital (the “**Luxembourg-U.S. Treaty**”), in each case as in effect and available on the date hereof. All of the foregoing is subject to change, or differing interpretations, which could affect the U.S. federal income tax considerations described herein, possibly with retroactive effect. In addition, this discussion assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any other related document will be performed in accordance with its terms.

For purposes of this discussion, a “**U.S. Holder**” is a beneficial owner of the GDRs that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation, created or organised under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust, if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes, or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust. For purposes of this discussion, a “**Non-U.S. Holder**” is a beneficial owner of the GDRs that is not a U.S. Holder, but that is, for U.S. federal income tax purposes, a nonresident alien, a corporation, estate, or trust.

If a partnership, or any other entity or arrangement treated as a partnership for U.S. federal tax income tax purposes, holds GDRs, the U.S. federal income tax treatment of a partner in such partnership will generally depend on the status of the partner and on the activities of the partnership. Partnerships holding GDRs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the GDRs.

U.S. Holders should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax considerations arising under the law concerning the overall tax consequences to you, including the consequences arising under the laws of any non-U.S., state and local tax jurisdiction.

U.S. Internal Revenue Service Circular 230 Disclosure

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

Ownership of GDRs in General

In general, U.S. Holders of GDRs will be treated for U.S. federal income tax purposes as owners of the Shares underlying the GDRs. Accordingly, no gain or loss will be recognised if a U.S.

Holder exchanges GDRs for the underlying Shares represented by those GDRs or exchanges the underlying Shares represented by those GDRs for GDRs.

Taxation of Distributions

Subject to the discussion below under “—*Passive foreign investment company*,” the gross amount of any distributions made to a U.S. Holder on GDRs, before reduction for any Luxembourg taxes will be includable as ordinary dividend income on the day on which the dividends are actually or constructively received by a U.S. Holder to the extent paid out of the Company’s current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. A distribution in excess of the Company’s current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder’s adjusted basis in the GDRs and as a capital gain to the extent it exceeds the U.S. Holder’s basis. The Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles. Therefore, U.S. Holders should expect that distributions that the Company makes will generally be treated as dividends to U.S. Holders for U.S. federal income tax purposes.

Dividends paid to corporate U.S. Holders will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. If the Company qualifies for the benefits of the Luxembourg-U.S. Treaty and subject to other applicable limitations, dividends paid to non-corporate U.S. Holders may be eligible for the preferential tax rate currently applicable to certain “qualified dividend income” received by individuals for tax years beginning before January 1, 2011. However, the Company currently does not qualify for the benefits of the Luxembourg-U.S. Treaty. Accordingly, non-corporate U.S. Holders will likely not be entitled to qualified dividend income treatment on any dividends paid by the Company.

Dividends paid to U.S. Holders in Euros will be includable in income in a U.S. Dollar amount based on the exchange rate in effect on the date of actual or constructive receipt whether or not converted into U.S. Dollars at that time. If dividends received in Euros are converted into U.S. Dollars on the day they are actually or constructively received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income. Assuming the payment is not converted at that time, the U.S. Holder will have a tax basis in Euros equal to that U.S. Dollar amount, which will be used to measure gain or loss from subsequent changes in exchange rates. Any gain or loss that a U.S. Holder recognises on a subsequent conversion of Euros into U.S. Dollars (or other disposition) generally will be U.S. source ordinary income or loss.

Dividends on the GDRs received by a U.S. Holder will generally be treated as foreign source income for U.S. foreign tax credit purposes. Subject to certain conditions and limitations under U.S. federal income tax law concerning credits or deductions for non-U.S. taxes and certain exceptions for short-term and hedged positions, a Luxembourg withholding tax imposed on dividends would be treated as a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or at a U.S. Holder’s election may be deducted in computing taxable income if the U.S. Holder has elected to deduct all foreign income taxes for the taxable year). The limitation on non-U.S. taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific “baskets” of income. The rules with respect to foreign tax credits are complex and U.S. Holders are urged to consult their own tax advisers regarding the availability of the foreign tax credit under their particular circumstances. Instead of claiming a credit, a U.S. Holder may, at its election, deduct such otherwise creditable Luxembourg taxes in computing its taxable income, subject to generally applicable limitations under the Code and the Treasury regulations promulgated thereunder.

Subject to the discussion below under “—*Information reporting and backup withholding requirements*,” a Non-U.S. Holder of the GDRs will not be subject to U.S. federal income or withholding tax on dividends received on the GDRs, unless such income is effectively connected

with the conduct by such Non-U.S. Holder of a trade or business in the United States (and in the event a tax treaty applies, attributable to a permanent establishment or fixed base of the Non-U.S. Holder within the United States), in which case the Non-U.S. Holder generally will be subject to tax in respect of such dividends in the same manner as a U.S. Holder. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a U.S. branch profits tax equal to 30% of its effectively connected earnings and profits for the taxable year, as adjusted for certain items, unless a lower rate applies under an applicable tax treaty.

Taxation of Sale, Exchange or Disposition of GDRs

Subject to the discussion below under “—*Passive foreign investment company*,” a U.S. Holder will generally recognise gain or loss on the sale, exchange or other disposition of a GDR equal to the difference between the amount realised on such sale, exchange or other disposition and the U.S. Holder’s adjusted tax basis in the GDR. The initial tax basis of GDRs to a U.S. Holder will be the purchase price determined on the date of purchase. Subject to the discussion below under “—*Passive foreign investment company*”, such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder’s holding period for the GDRs exceeds one year at the time of the disposition. Gain or loss, if any, recognised by a U.S. Holder generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations under the Code.

A U.S. Holder that receives Euros upon a sale, exchange or other disposition of the GDRs will realise an amount equal to the U.S. Dollar value of the Euros on the date of sale, exchange, or other disposition (or in the case of a cash basis taxpayer or, if an election is made, an accrual basis taxpayer, on the settlement date). A U.S. Holder will have a tax basis in the Euros received equal to that U.S. Dollar amount. Any gain or loss realised by a U.S. Holder on a subsequent conversion of Euros into U.S. Dollars (or other disposition) generally will be U.S. source ordinary income or loss.

If any gain from the sale, exchange or other disposition of the GDRs is subject to Luxembourg tax, U.S. Holders may not be able to credit such taxes against their U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code since such gain generally would be U.S. source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Alternatively, the U.S. Holder may take a deduction for the Luxembourg income tax if such holder does not take a credit for any foreign income tax during the taxable year. The rules with respect to foreign tax credits are complex and U.S. Holders are urged to consult their own tax advisers regarding the availability of the foreign tax credit under their particular circumstances.

Subject to the discussion below under “—*Information reporting and backup withholding requirements*,” a Non-U.S. Holder of GDRs will not be subject to U.S. federal income or withholding tax on any gain realised on the sale, exchange or other taxable disposition of such GDRs unless:

- such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (and in the event a tax treaty applies, attributable to a permanent establishment or fixed base of the Non-U.S. Holder within the United States); or
- in the case of any gain realised by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive Foreign Investment Company (“PFIC”)

In general, the PFIC rules are designed to eliminate the benefit of deferral of U.S. federal income tax that a U.S. Holder could derive from investing in certain corporations that are organized outside the United States that do not distribute all their earnings on a current basis. A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (i) at least 75 percent of its gross income consists of passive income, such as dividends, interest, rents and royalties, or (ii) at least 50 percent of the average value of its gross assets, by value, is attributable to assets that produce passive income or are held for the production of passive income.

Based on a review of the Company’s gross income and assets, the manner in which the Company currently operates its business, and the current interpretation of the PFIC provisions in the Code, the Company believes that it was not a PFIC for U.S. federal income tax purposes for its 2009 taxable year, and does not expect to become a PFIC for its 2010 taxable year or the foreseeable future. However, since PFIC status depends upon the composition of a company’s income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be considered a PFIC for the current taxable year or any subsequent taxable year.

If the Company were a PFIC for any taxable year during which a U.S. Holder held GDRs, a U.S. Holder of GDRs may be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale, exchange or other taxable disposition of, and certain excess distributions with respect to, the GDRs. In such event, distributions received in a taxable year that were greater than 125 percent of the average annual distributions received during the shorter of (i) the three preceding taxable years or (ii) a U.S. Holder’s holding period for the GDRs would be treated as excess distributions. Under these special tax rules: (i) the excess distribution or gain would be allocated ratably to each day in the U.S. Holder’s holding period for the GDRs, (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which the Company was a PFIC, would be treated as ordinary income for the current taxable year, and (iii) the amount allocated to each other taxable year that the Company was a PFIC would be subject to tax at the highest tax rate applicable to ordinary income for each such earlier taxable year and the interest charge generally applicable to underpayments of tax would be imposed on the resulting tax attributable to each such year.

U.S. Holders should consult their tax advisers regarding the tax consequences that would arise if the Company were treated as a PFIC for U.S. federal income tax purposes, and the possibility of making a mark-to-market election in order to alleviate certain of these tax consequences.

Information Reporting and Backup Withholding Requirement

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (1) the holder is an exempt recipient or (2) in the case of backup withholding, the holder provides a correct taxpayer identification number and certifies that such holder is not subject to backup withholding.

Backup withholding is not an additional tax. A holder will be entitled to credit any amounts withheld under the backup withholding rules against its U.S. federal income tax liability, provided the required information is timely furnished to the Internal Revenue Service. A holder may generally obtain a refund of any amounts withheld under the backup withholding rules that exceed a holder’s U.S. federal income tax liability by timely filing a refund claim with the Internal Revenue Service.

SUBSCRIPTION AND SALE

The Company, the Selling Shareholders and the Managers named below have entered into an underwriting agreement dated 2 November 2010 (the “**Underwriting Agreement**”) with respect to the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement (described below), each has agreed, severally but not jointly, to purchase such number of GDRs as are set forth opposite its name in the following table.

<u>Managers</u>	<u>Number of GDRs</u>
Goldman Sachs International	19,070,516
VTB Capital plc	19,070,515
Total	<u>38,141,031</u>

The GDRs will be represented by the Rule 144A Master GDR Certificate and the Regulation S Master GDR Certificate and will be subject to certain restrictions as further discussed in “*Terms and Conditions of The Global Depositary Receipts*”.

The Managers will receive an aggregate underwriting commission equal to 1.75% of the gross proceeds of the Offering, including any over-allotment option and a discretionary fee of up to 1.0% of the gross proceeds of the Offering, including any over-allotment option. In addition, the Company and the Selling Shareholders have agreed in the Underwriting Agreement to reimburse the Managers for certain of their expenses in connection with the Offering, including, fees, expenses and disbursements of their legal counsel and out of pocket and other expenses. The estimated amount of the expenses of the Offering is approximately U.S.\$6 million (assuming no exercise of the Over-Allotment Option).

The Offer Price is U.S.\$11.00 per GDR.

Prior to the Offering, there has been no public market for the Company’s securities. No assurance can be given as to the liquidity of the trading market for the GDRs. See “*Risk Factors—Risks Relating to the Shares, the GDRs and the Trading Market—Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs and their price may be highly volatile*” and “*The Shares underlying the GDRs are not listed and may be illiquid*”.

Underwriting Agreement

In the Underwriting Agreement, the Company and each of the Selling Shareholders have made certain representations and warranties and agreed to indemnify the Managers against certain liabilities, including liability under the Securities Act. The Managers are offering GDRs when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares, and other conditions contained in the Underwriting Agreement, such as Admission occurring on or before 8.00 a.m. on 5 November 2010 (or such later time and/or date as the Managers and the Company may agree) and the receipt by the Managers of officers’ certificates and legal opinions. The Managers may terminate the Underwriting Agreement prior to the closing of the Offering under certain specified conditions that are typical for an agreement of this nature. If any of such conditions are not satisfied or waived, or the Underwriting Agreement is terminated prior to the closing of the Offering, then this Offering will lapse.

Lock-up Arrangements

Subject to certain exceptions, the Company and the Selling Shareholders have each undertaken, among other things, not to issue, offer, sell, lend, mortgage, assign, contract to sell,

pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares (including GDRs) or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares, enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to, enter into any transaction described above, whether any such transaction described above is to be settled by delivery of Shares, GDRs or such other securities, in cash or otherwise for a period of 180 days after the date of the Underwriting Agreement, without the prior consent of the Joint Global Coordinators, except, pursuant to this Offering and the Over-Allotment Option and certain other exceptions as set out in the Underwriting Agreement.

Over-Allotment and Stabilisation

In connection with the Offering, Goldman Sachs International as the Stabilising Manager may, for stabilisation purposes, over-allot GDRs. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by it during the stabilising period, the Company has granted to it the Over-Allotment Option, pursuant to which the Stabilising Manager may subscribe or procure subscribers for up to additional 3,796,500 Optional GDRs. The Over-Allotment Option is exercisable once only in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the GDRs on the LSE. Any Optional GDRs made available pursuant to the Over-Allotment Option will rank *pari passu* in all respects with the GDRs, including for all dividends and other distributions declared, made or paid on the GDRs, will be subscribed for the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

In connection with the Offering, the Stabilising Manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and subject to fulfilment of applicable legal requirements, over-allot GDRs or effect other stabilising transactions with a view to supporting the market price of the GDRs at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such stabilisation transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the GDRs on the LSE and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilising transactions conducted in relation to the Offering.

In connection with the Over-Allotment Option, the Selling Shareholders will enter into securities lending agreements with the Stabilising Manager, pursuant to which they will agree to lend up to 3,796,500 Shares to the Managers. The Managers will return the Shares either through the exercise of the Over-Allotment Option or through open market purchases.

Other Relationships

The Managers and their respective affiliates have engaged in transactions with, and performed various investment banking, financial advisory and other services for, the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees. In particular, banks affiliated with one of the Managers, VTB Capital, provided financing to various companies of the group. See “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness*” for details of these funding arrangements. The Managers and their respective affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future. In addition, as described under “*Use of Proceeds*” and “*Capitalisation*”, a portion of the proceeds from the Offering will be used to repay certain of the outstanding facilities with VTB, an affiliate of VTB Capital plc. See “*Use of Proceeds*” and “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness*”.

In connection with the Offering, each of the Managers and any affiliate, acting as an investor for its own account may take up GDRs and in that capacity may retain, purchase or sell for its own account such GDRs and any related investments and may offer or sell such GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this prospectus to the GDRs being offered or placed should be read as including any offering or placement of GDRs to the Managers and any affiliate acting in such capacity. None of the Managers intend to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholder and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, certain of the Managers may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where securities are used as collateral, that could result in such Managers acquiring shareholdings in the Company.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

The distribution of this Prospectus and the offer of the GDRs and the Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs or the Shares, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs and Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs or Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the subscription and sale of the GDRs and Shares, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the securities GDRs offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The GDRs and Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold within the United States except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws.

The GDRs are being offered and sold outside of the United States in accordance with Regulation S under the Securities Act. The Underwriting Agreement provides that the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the GDRs and Shares within the United States only to QIBs in accordance with Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the GDRs or Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

European Economic Area

In relation to each Relevant Member State of the EEA, an offer to the public of any GDRs which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any

GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year, (ii) a total balance sheet of more than €43,000,000 and (iii) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) by the Managers, to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators; or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer shall result in a requirement for publication of a prospectus by the Company or any Manager pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any GDRs or to whom any offer is made under the Offering will be deemed to have represented, acknowledged and agreed to and with the Managers and the Company that it is a “qualified investor” within the meaning the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, an “offer of any GDRs to the public” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and “Prospective Directive” means Directive 2003/81/EC and includes any relevant implementing measures in each Relevant Member State.

In the case of any GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the GDRs acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any GDRs to the public, other than their offer or resale in a Relevant Member State to qualified investors or in circumstances in which the prior consent of the Joint Global Coordinators has been obtained to each such proposed offer or resale.

Each subscriber for or purchaser of GDRs in the Offering located within a Member State of the EEA will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive. The Company and its affiliates and the Managers and each of their respective affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgment and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Joint Global Coordinators, be permitted to subscribe for or purchase GDRs in the Offering.

United Kingdom

Each of the Managers has represented and agreed that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the

United Kingdom any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

The Russian Federation

The GDRs have not been offered or sold or otherwise transferred and will not be offered or sold or otherwise transferred to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

Dubai International Financial Centre

The GDRs have not been offered and will not be offered to any person in the Dubai International Financial Centre unless such offer is:

- (i) deemed to be an “Exempt Offer” in accordance with the Offered Securities Rules of the DFSA; and
- (ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

United Arab Emirates (Excluding the Dubai International Financial Centre)

The GDRs have not been and will not be offered, sold or publicly promoted or advertised in the U.A.E. other than in compliance with laws applicable in the U.A.E. governing the issue, offering or the sale of securities.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the “SFA”) and accordingly, the GDRs or the Shares may not be offered or sold, nor may the GDRs or the Shares be the subject of an invitation for subscription or purchase, nor may this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Shares or the GDRs be circulated or distributed, whether directly or indirectly, to any person in Singapore, other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA), or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Where the Shares or the GDRs are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely: (1) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (2) a trust (where the trustee is not an accredited investor), whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that

corporation or that trust has acquired the Shares or the GDRs pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law.

Hong Kong

The contents of this Prospectus have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offering. If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice from your broker, bank manager, solicitor, professional accountant, financial adviser or other professional adviser.

The Shares and the GDRs have not been offered or sold and may not be offered or sold in Hong Kong, by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) or (ii) to “professional investors” as defined in the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made under that ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap.32, Laws of Hong Kong). Further, no person shall issue or have in its possession for the purpose of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Shares or GDRs, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Shares and GDRs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made under that ordinance. This Prospectus and the information contained herein may not be used other than by the person to whom it is addressed and may not be reproduced in any form or transferred to any person in Hong Kong. This Offering is not an offer for sale to the public in Hong Kong and it is not the intention of O’Key that the Shares or the GDRs be offered for sale to the public in Hong Kong.

Japan

The GDRs offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act Law of Japan (the “Financial Instruments and Exchange Act Law No. 25 of 1948 as amended; the “**FIEL**”). Accordingly, each Manager has represented, warranted and agreed that the GDRs which it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any GDRs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act FIEL and any other relevant applicable laws, and regulations and ministerial guidelines of Japan.

Kuwait

By receiving this Prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that this Prospectus has not been approved by the Kuwait Central Bank, the Kuwait Ministry of Commerce and Industry or any other authority in Kuwait, nor have the managers for Kuwait received authorisation or licensing from the Kuwait Central Bank, the Kuwait Ministry of Commerce and Industry or any other authority in Kuwait to market or sell the securities within Kuwait.

No marketing of any financial products or services has been or will be made from within Kuwait and no subscription to any securities, financial products or financial services may or will be consummated within Kuwait. The managers for Kuwait do not advise parties in Kuwait as to the appropriateness of investing in purchasing or selling securities or other financial products. Nothing contained in this Prospectus is intended to constitute investment, legal, tax, accounting or other professional advice. This Prospectus is for your information only and nothing in this Prospectus is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

The GDRs have not been licenced for offering in Kuwait by the Ministry of Commerce and Industry or the central bank of Kuwait or any other relevant Kuwaiti Government Agency. The offering of the GDRs in Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990, as amended, and Ministerial Order no. 113 of 1992, as amended. No private or public offering of the GDRs is being made in Kuwait, and no agreement relating to the sale of the GDRs will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the GDRs in Kuwait.

Qatar

The GDRs have not been, and will not be offered, sold or delivered at any time, directly or indirectly, in the state of Qatar in a manner that would constitute a public offering. This Prospectus has not been reviewed or approved by or registered with the Qatar Central Bank or the Qatar Financial Markets Authority. This Prospectus is strictly private and confidential and may not be reproduced or used for any other purpose, nor. It is being issued to a limited number of sophisticated investors and should not be provided to any person other than the original recipient thereof.

Transfer Restrictions

None of the GDRs (or the Ordinary Shares represented thereby) has been or will be registered under the Securities Act and the GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Accordingly, the GDRs are being offered and sold only:

- (i) to QIBs in compliance with Rule 144A under the Securities Act or in reliance on another exemption from, or transaction not subject to, registration under the Securities Act; and
- (ii) in offshore transactions in compliance with Regulation S under the Securities Act. As used in this document, the term “offshore transaction” has the meaning given to it in Regulation S.

GDRs purchased pursuant to Rule 144A

Each purchaser of the Rule 144A GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (i) The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Rule 144A GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB.
- (ii) The purchaser is aware that the Rule 144A GDRs (and the Ordinary Shares represented thereby) have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the Rule 144A GDRs represented thereby are subject to significant restrictions on transfer.
- (iii) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer Rule 144A GDRs, such Rule 144A GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS RULE 144A MASTER GLOBAL DEPOSITARY RECEIPT ("GDR") AND THE SHARES OF O'KEY GROUP S.A. REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ANY OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS GDR IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDER OR BENEFICIAL OWNER HEREOF BY PURCHASING OR OTHERWISE ACQUIRING THIS GLOBAL DEPOSITARY RECEIPT ACKNOWLEDGES THAT SUCH GDR HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREES FOR THE BENEFIT OF O'KEY GROUP S.A. THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) OTHERWISE IN ACCORDANCE WITH THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (B) OR (C) ABOVE, THE TRANSFEROR SHALL PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR DEPOSIT IN THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) THEREUNDER. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE

DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS. EACH HOLDER AND BENEFICIAL OWNER BY ITS ACCEPTANCE OF THIS RULE 144A GLOBAL DEPOSITARY RECEIPT CERTIFICATE OR BENEFICIAL INTEREST IN THE RULE 144A GLOBAL DEPOSITARY RECEIPT EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

- (iv) The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any Global Depositary Receipts acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Global Depositary Receipts purchased pursuant to Rule 144A will be deemed to have acknowledged that we, the Managers, our and their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Global Depositary Receipts are no longer accurate, it shall promptly notify us, the Managers. If it is acquiring such Global Depositary Receipts as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

Prospective purchasers are hereby notified that sellers of the Rule 144A GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S GDRs and Shares

Each purchaser of Regulation S GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (i) The purchaser (i) at the time of the offer to it of Regulation S GDRs and at the time the order originated is outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not in the business of buying or selling securities or, if it is in such business, it did not acquire the Regulation S GDRs (or the Ordinary Shares represented thereby) from the Company or an affiliate thereof in the initial distribution of Regulation S GDRs or Shares.
- (ii) The purchaser is aware that the Regulation S GDRs and (the Ordinary Shares represented thereby) have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.
- (iii) The purchaser will not offer, resell, pledge or otherwise transfer such Regulation S GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state or other jurisdiction of the United States.
- (iv) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer Regulation S GDRs, such Regulation S GDRs Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the

Regulation S GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS REGULATION S MASTER GLOBAL DEPOSITARY RECEIPT AND THE SHARES OF O'KEY GROUP S.A. REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER BY ITS ACCEPTANCE OF THIS REGULATION S GLOBAL DEPOSITARY RECEIPT CERTIFICATE OR BENEFICIAL INTEREST IN THE REGULATION S GLOBAL DEPOSITARY RECEIPT EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

- (v) The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any Global Depositary Receipts acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Global Depositary Receipts purchased pursuant to Regulation S will be deemed to have acknowledged that we, the Managers, our and their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of such Global Depositary Receipts are no longer accurate, it shall promptly notify us and the Managers. If it is acquiring such Global Depositary Receipts as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs offered in the Offering and cross market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant tax laws and regulations of the United States. See "*Taxation—United States Federal Income Tax Considerations*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form of GDRs

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by a Regulation S Master GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by a Rule 144A Master GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depository as custodian for DTC. As necessary, the Depository will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC. The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depository for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depository will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depository will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreement.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depository receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see “*Selling and Transfer Restrictions—Transfer Restrictions*”.

Trading between Euroclear and Clearstream, Luxembourg Participants. Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depository receipts.

Trading between DTC Participants. Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be

settled using the procedures applicable to depositary receipts, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg Purchaser. When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR, and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser. When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Regulation S Master GDR, and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR.

General

Although the foregoing sets forth the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Selling Shareholders, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286. A copy of the Depositary's Articles, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

LEGAL MATTERS

Certain legal matters in connection with the Offering with respect to the laws of England and the United States will be passed upon for O'Key by Skadden, Arps, Slate, Meagher & Flom (UK) LLP. Certain legal matters under Luxembourg law will be passed upon for O'Key by Elvinger, Hoss & Prussen, Luxembourg. Certain legal matters in connection with this Offering will be passed upon for the Managers with respect to the laws of England, the United States and Luxembourg by Linklaters LLP.

INDEPENDENT AUDITORS

The Group's Audited Consolidated Financial Statements as at and for the years ended 31 December 2009, 2008 and 2007 have been audited by KPMG Audit S.à r.l., independent auditors, as stated in their report appearing herein. At the end of 2005, the Group was in the process of upgrading its inventory management systems, which did not allow the Group to adequately maintain the accounting records during the upgrade phase. As a result, the auditors had to qualify their opinion on the Company's 2007 Financial Statements with respect to cost of sales, taxation expense and net profit for the year ended 31 December 2006. Except as set forth above, no report issued by the auditors on the Group's Consolidated Financial Statements contained in this Prospectus contained an adverse opinion or was modified as to uncertainty, audit scope or accounting principle.

GENERAL INFORMATION

1. Incorporation and Status of the Company

- (a) The principal objectives of the Company, as set out in article 4 of the Company's Articles of Association, are described in "*Description of Share Capital and Applicable Luxembourg Legislation*".
- (b) Dorinda Holding S.A. was incorporated for an unlimited duration under the laws of Luxembourg on 7 February 2001 as a *société anonyme* holding company, and was renamed O'KEY GROUP S.A. on 16 June 2010. The Articles of Association of the Company have been amended several times and most recently on 6 October 2010 pursuant to a notarial deed which has not yet been published in the Luxembourg official gazette (*Memorial C. Recueil des Sociétés et Associations*). O'Key's registered office is located at 23, rue Beaumont, L-1219 Luxembourg, Grand Duchy of Luxembourg. O'Key's head offices are located at Shaumyana Street, bld. 8, Business Centre Eastern, St. Petersburg, Russian Federation, tel: +7 (812)703-71-03 and at 21/4 Staraya Basmanaya Street, Moscow, Russian Federation, tel: +7(495)663-66-77. Since 16 February 2001, the Company has been registered with the Trade and Companies' Register in Luxembourg under number B 80533. The Company is the ultimate holding company for the O'Key Group of companies.

2. Significant Subsidiaries

The following is a list of the Company's principal subsidiaries, their date of establishment, registered addresses, and principal business activities, together with the Company's direct and indirect ownership of the share capital or participation interests, as the case may be.

Entity	Date of Incorporation	Registered Address	Activity	Direct or indirect ownership, %
Dorinda JSC	28 September 1995	195213, Russian Federation, St. Petersburg, Zanevskiy prospekt, 65, bld. 1, liter A	Holding ownership to real estate	100
O'KEY LLC	30 July 2001	195213, Russian Federation, St. Petersburg, Zanevskiy prospekt, 65, bld. 1, liter A	Retail operations	100
O'KEY group LLC . . .	6 September 2005	192212, Russian Federation, St. Petersburg, Budapeshtskaya str., 19, bld. 1, premises 3H, liter A	Management company	100
O'KEY-Logistics LLC ⁽¹⁾	22 November 2006	195027, Russian Federation, St. Petersburg, Shaumyana prospekt, 8, bld. 1, liter IO	Import operations	100
Mir Torgovli CJSC . . .	24 January 2003	190000, Russian Federation, St. Petersburg, Dekabristov str., 6, premises 10-H	Holding construction-in-progress assets	100

Note:

(1) O'KEY-Logistics LLC has a representative office in Guangzhou, China.

3. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or any member of the Group within the three years immediately preceding the date of this Prospectus and are, or may be, material or have been

entered into at any time by the Company or any member of the Group and contain provisions under which any of the Company or any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this Prospectus:

(a) *Agreements for the Offering*

(i) *Underwriting Agreement*

The Underwriting Agreement dated 2 November 2010, among the Company, the Selling Shareholders and the Managers, providing for, among other things, the underwriting of the Offering, as described in “*Subscription and Sale*”.

(ii) *Deposit Agreement*

The Deposit Agreement to be dated on or around 4 November 2010, among the Company and the Depositary, as described in “*Terms and Conditions of the Global Depositary Receipts*”.

(b) *Loan Agreements*

(i) For a description of the loan agreements, please see “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements*”.

4. **General**

- (a) All consents, approvals, authorisations or other orders required for the issuance of the Shares and the GDRs under the laws of Luxembourg have been given or obtained.
- (b) The creation of a new authorised share capital of the Company with respect to the Offering was duly authorised by the shareholders of the Company on 6 October 2010.
- (c) The issuance of the newly issued Shares within the limits of the authorised capital and the Company entering into the Underwriting Agreement and the Deposit Agreement were duly authorised by the Board of Directors of the Company on 6 October 2010 in accordance with its constitutional documents.
- (d) It is expected that listing of the GDRs will take place on 5 November 2010, subject only to the issuance of the Master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the LSE in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 2 November 2010. Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the LSE is conditional upon the issuance of the GDRs by the Depositary.
- (e) There has been no significant change in the financial or trading position of the Group since 30 June 2010, the date of the last published audited financial statements of the Group.
- (f) Neither O’Key nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus that may have, or have had, a material effect on the Company’s and/or the Group’s business, financial position or profitability.
- (g) Copies of the following will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, at the registered office of the

Company from the date of this Prospectus until twelve months after the date of this Prospectus:

- (i) the Group's Audited Consolidated Financial Statements as at and for the years ended 31 December 2009, 31 December 2008 and 31 December 2007, and the Unaudited Interim Consolidated Financial Statements as at and for the six months ended 30 June 2010 and 2009;
 - (ii) the Pro Forma Financial Information as at and for the year ended 31 December 2009 and as at and for the six month period ended 30 June 2010;
 - (iii) a copy of this Prospectus; and
 - (iv) a copy of the Articles of Association of the Company in force as at the date of the Underwriting Agreement.
- (h) The Company will prepare annual and interim consolidated financial statements in accordance with IFRS. Copies of the Company's future annual audited consolidated financial statements and reviewed interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the registered office of the Company.
- (i) There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Managers. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date.
- (j) If definitive certificates are issued in exchange for the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the LSE.
- (k) The GDRs have no nominal or par value. The offer price was determined based on the results of the book building exercise conducted by the Managers.

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Dorinda Holding S.A.

**Consolidated Financial Statements
for the year ended 31 December 2009**
(with the report of the Réviseur d'Entreprises Agréé thereon)

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To the Shareholders of
DORINDA HOLDING S.A.
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of DORINDA HOLDING S.A., which comprise the consolidated statement of financial position as at December 31, 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 DORINDA HOLDING S.A. as of December 31, 2009, 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 management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, June 10, 2010

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

Thierry Ravasio

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DORINDA HOLDING S.A. Group
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	<u>Note</u>	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
ASSETS			
Non-current assets			
Investment Property	15	1,567,424	1,041,642
Property, plant and equipment	13	18,995,363	17,337,092
Construction in progress	13	974,042	1,647,007
Intangible assets	14	481,426	283,936
Long-term loans issued		9,362	1,039
Deferred tax asset	17	243,107	176,226
Other non-current assets	16	3,622,627	3,999,844
Total non-current assets		25,893,351	24,486,786
Current assets			
Inventories	18	5,145,489	3,940,604
Trade and other receivables	19	980,402	1,531,512
Prepayments for current assets		463,162	316,812
Short-term loans issued		1,724	588
Cash and cash equivalents	20	1,462,312	1,673,466
Total current assets		8,053,089	7,462,982
Total assets		33,946,440	31,949,768
EQUITY AND LIABILITIES			
Equity	21	7,135,792	6,289,530
Non-current liabilities			
Loans and borrowings	23	9,026,488	4,325,512
Deferred income tax liability	17	392,541	250,310
Deferred income		1,108	3,768
Other non-current liabilities		—	26,395
Total non-current liabilities		9,420,137	4,605,985
Current liabilities			
Loans and borrowings	23	6,439,677	10,767,769
Trade and other payables	24	10,800,614	10,152,275
Current income tax payable		150,220	123,524
Deferred income		—	10,685
Total current liabilities		17,390,511	21,054,253
Total liabilities		26,810,648	25,660,238
Total equity and liabilities		33,946,440	31,949,768

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-62.

DORINDA HOLDING S.A. Group
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Note	2009 '000 RUR	2008 '000 RUR
Revenue	6	67,874,615	51,142,680
Cost of goods sold		<u>(53,106,388)</u>	<u>(40,381,622)</u>
Gross profit		14,768,227	10,761,058
General, selling and administrative expenses	7	(10,303,667)	(7,381,061)
Other operating income and expenses	8	<u>(846,307)</u>	<u>(3,831,712)</u>
Operating profit/(loss)		3,618,253	(451,715)
Finance income	10	37,791	33,698
Finance costs	10	(1,683,931)	(1,036,560)
Foreign exchange losses	11	<u>(320,812)</u>	<u>(1,820,809)</u>
Profit/(loss) before income tax		1,651,301	(3,275,386)
Income tax (expense)/benefit	12	<u>(936,879)</u>	<u>343,698</u>
Profit/(loss) for the year		714,422	(2,931,688)
Other comprehensive income			
Foreign currency translation differences for foreign operations		30,063	(23,471)
Revaluation of property, plant and equipment	13	(47,300)	(1,986,070)
Change in fair value of hedges	26	22,266	(153,675)
Income tax on other comprehensive income	12	<u>5,007</u>	<u>695,693</u>
Other comprehensive income for the year, net of income tax		10,036	(1,467,523)
Total comprehensive income for the year		724,458	(4,399,211)
Earnings per share			
Basic and diluted earnings per share (RUR)	22	<u>6,621</u>	<u>(945,706)</u>

Approved for issue and signed on 10 June 2010.

Schneider G.
Schneider G.
Member of Administrative Board

Schaeffer N.
Schaeffer N.
Member of Administrative Board

Pryanikov D.N.
Pryanikov D.N.
Financial Director

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 F-11 to F-62.

DORINDA HOLDING S.A. Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Note	Share capital '000 RUR	Legal reserve '000 RUR	Additional paid-in capital '000 RUR	Hedging reserve '000 RUR	Retained earnings '000 RUR	Revaluation reserve '000 RUR	Translation reserve '000 RUR	Total equity '000 RUR
Balance at 1 January 2008		<u>1,027</u>	<u>111</u>	<u>2,923,135</u>	<u>—</u>	<u>1,829,691</u>	<u>5,094,472</u>	<u>99,844</u>	<u>9,948,280</u>
Total comprehensive income for the year									
Loss for the year		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,931,688)</u>	<u>—</u>	<u>—</u>	<u>(2,931,688)</u>
Other comprehensive income									
Foreign currency translation differences . .		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(23,471)</u>	<u>(23,471)</u>
Revaluation of property, plant and equipment	13	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,986,070)</u>	<u>—</u>	<u>(1,986,070)</u>
Change in fair value of hedges	26	<u>—</u>	<u>—</u>	<u>—</u>	<u>(153,675)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(153,675)</u>
Income tax on other comprehensive income	12	<u>—</u>	<u>—</u>	<u>—</u>	<u>30,735</u>	<u>—</u>	<u>664,958</u>	<u>—</u>	<u>695,693</u>
Total other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>(122,940)</u>	<u>—</u>	<u>(1,321,112)</u>	<u>(23,471)</u>	<u>(1,467,523)</u>
Total comprehensive income for the year		<u>—</u>	<u>—</u>	<u>—</u>	<u>(122,940)</u>	<u>(2,931,688)</u>	<u>(1,321,112)</u>	<u>(23,471)</u>	<u>(4,399,211)</u>
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Contributions from shareholders	21	<u>—</u>	<u>—</u>	<u>740,461</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>740,461</u>
Total contributions by and distributions to owners . .		<u>—</u>	<u>—</u>	<u>740,461</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>740,461</u>
Balance at 31 December 2008		<u>1,027</u>	<u>111</u>	<u>3,663,596</u>	<u>(122,940)</u>	<u>(1,101,997)</u>	<u>3,773,360</u>	<u>76,373</u>	<u>6,289,530</u>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-62.

DORINDA HOLDING S.A. Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
for the year ended 31 December 2009

	Note	Share capital '000 RUR	Legal reserve '000 RUR	Additional paid-in capital '000 RUR	Hedging reserve '000 RUR	Retained earnings '000 RUR	Revaluation reserve '000 RUR	Translation reserve '000 RUR	Total equity '000 RUR
Balance at 1 January 2009		<u>1,027</u>	<u>111</u>	<u>3,663,596</u>	<u>(122,940)</u>	<u>(1,101,997)</u>	<u>3,773,360</u>	<u>76,373</u>	<u>6,289,530</u>
Total comprehensive income for the year									
Profit for the year		—	—	—	—	714,422	—	—	<u>714,422</u>
Other comprehensive income									
Foreign currency translation differences		—	—	—	—	—	—	30,063	<u>30,063</u>
Revaluation of property, plant and equipment	13	—	—	—	—	—	(47,300)	—	<u>(47,300)</u>
Change in fair value of hedges	26	—	—	—	22,266	—	—	—	<u>22,266</u>
Income tax on other comprehensive income	12	—	—	—	(4,453)	—	9,460	—	<u>5,007</u>
Total other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>17,813</u>	<u>—</u>	<u>(37,840)</u>	<u>30,063</u>	<u>10,036</u>
Total comprehensive income for the year		<u>—</u>	<u>—</u>	<u>—</u>	<u>17,813</u>	<u>714,422</u>	<u>(37,840)</u>	<u>30,063</u>	<u>724,458</u>
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Issue of shares	21	108,788	—	13,016	—	—	—	—	<u>121,804</u>
Total contributions by and distributions to owners		<u>108,788</u>	<u>—</u>	<u>13,016</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>121,804</u>
Balance at 31 December 2009		<u>109,815</u>	<u>111</u>	<u>3,676,612</u>	<u>(105,127)</u>	<u>(387,575)</u>	<u>3,735,520</u>	<u>106,436</u>	<u>7,135,792</u>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-62.

DORINDA HOLDING S.A. Group
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2009

	<u>Note</u>	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
Cash flows from operating activities			
Profit/(loss) before income tax		1,651,301	(3,275,386)
<i>Adjustments for:</i>			
Depreciation and amortisation	13, 14, 16	1,361,306	1,128,353
Loss/(gain) on disposal of property, plant and equipment, investment property	8	37,321	(148,513)
Loss from revaluation of investment property	15	81,215	789,185
Impairment of non-current assets	13, 14, 16	134,445	469,000
Revaluation of property, plant and equipment	13	618,078	2,591,741
Finance income	10	(37,791)	(33,698)
Finance costs	10	1,683,931	1,036,560
Foreign exchange losses less gains	11	320,812	1,796,141
Cash from operating activities before changes in working capital and provisions		5,850,618	4,353,383
Change in net trade and other receivables		231,646	689,756
Change in carrying values of inventories		(1,204,885)	(1,326,724)
Change in trade and other payables		675,396	3,223,910
Change in deferred income		(13,345)	(16,033)
Cash flows from operations before income taxes and interest paid		5,539,430	6,924,292
Interest paid		(1,933,703)	(1,431,160)
Income tax paid		(733,479)	(908,491)
Net cash from operating activities		2,872,248	4,584,641
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(3,221,703)	(4,743,301)
Purchase of lease rights		(46,624)	(444,851)
Purchase of other intangible assets		(65,876)	(54,722)
Proceeds from sales of property, plant and equipment and investment property		16,256	186,101
Proceeds from repayment of loans issued		—	69,140
Interest received		28,332	33,698
Net cash used in investing activities		(3,289,615)	(4,953,935)
Cash flows from financing activities			
Proceeds from borrowings		17,166,280	11,399,452
Repayment of borrowings		(17,125,503)	(10,901,521)
Issue of shares		121,804	—
Repayment of finance lease payables		(34,236)	(51,850)
Net cash from financing activities		128,345	446,081
Net (decrease)/increase in cash and cash equivalents		(289,022)	76,787
Cash and cash equivalents at beginning of year		1,673,466	1,557,456
Effect of exchange rate fluctuations on cash and cash equivalents		77,868	39,223
Cash and cash equivalents at end of year	20	1,462,312	1,673,466

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-11 to F-62.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009

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 2009 for Dorinda Holding S.A. (the “Company”) and its subsidiaries (together referred to as the “Group”).

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

The Group is ultimately controlled by four individuals, Mr. Korzhev, Mr. Troitckii, 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. Related party transactions are detailed in Note 30.

The Group’s principal business activity is operation of retail chain in Russia under brand name “O’Key”. At 31 December 2009 the Group operated 46 stores (31 December 2008: 37 stores).

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

(b) Business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These consolidated 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 10 June 2010.

(b) Basis of measurement

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

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

2. Basis of preparation (Continued)

(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 2009 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUR 30.2442; EUR 1 = RUR 43.3883 (2008: USD 1 = RUR 29.3804; EUR 1 = RUR 41.4411).

(d) Use of estimates and judgments

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

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

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

Tax legislation. The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 12.

Impairment of non-current assets. The recoverable amount of non-current assets is determined as the higher of fair value less costs to sell and value in use. The details are set out in notes 14 and 16.

Revenue recognition. The Group has recognised revenue amounting to RUR 67,031 million for sales of goods during 2009 (2008: RUR 50,274 million). According to the Group's policy customers has the right to return the goods if they are dissatisfied. The Group believes that, based

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

2. Basis of preparation (Continued)

on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

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

Assumptions in revaluing land and buildings and investment properties. Fair value of the Group's land and buildings and investment property is determined by registered independent appraisers with appropriate recognised professional qualification and recent experience in the location and type of the property valued. The detailed approaches are outlined in note 13.

Going concern. Management believes that the Group has sufficient financial arrangements to continue as a going concern. In making this judgement management considered current intentions and financial position of the Group and does not believe that there are material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The main details of management's analysis are outlined in note 26.

(e) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- presentation and measurement of investment property under construction;
- determination and presentation of operating segments;
- presentation of earnings per share; and
- presentation of financial statements.

(i) Presentation and measurement of investment property under construction

Since 1 January 2009 the Group classifies investment property under construction as investment property and measures it at fair value, unless there is clear evidence that the fair value of investment property under construction is not reliably determinable. If fair value of investment property under construction is not reliably determinable, the Group measures that property at cost until either its fair value becomes reliably determinable (whichever is earlier).

Previously the Group classified all investment property under construction as property, plant and equipment and measured it at cost. This change in accounting policy was due to adoption of revised IAS 40 *Investment Property* (2008), which became effective as at 1 January 2009.

As a result of the changed accounting policy investment property under construction as at 31 December 2009, profit for the year and retained earnings increased by RUR 92,739 thousand. In accordance with transitional provisions of the standard comparative figures have not been restated.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

2. Basis of preparation (Continued)

(ii) Determination and presentation of operating segments

As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to Chief Executive Officer (hereinafter, CEO), who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. The Group has early-adopted the amendment to IFRS 8 introduced by *Improvements to IFRS April 2009*. The new accounting policy in respect of operating segments disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard.

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. An operating segment's operating results are reviewed regularly by CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(iii) Presentation of earnings per share

As at 1 January 2009 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. This change in accounting policy is due to the adoption of IAS 33 *Earnings per Share*.

Comparative information has been re-presented so that it is also in conformity with the revised standard.

(iv) Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is also in conformity with the revised standard.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Investments in Joint Ventures

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUR at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUR at exchange rates at the dates of the transactions.

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

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

(c) Financial instruments

Non-derivative financial instruments comprise investments in debt securities, 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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

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

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

Such financial liabilities are recognised initially at fair value plus 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 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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

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

(d) Transactions with owners

(i) Ordinary shares/share capital

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

(ii) Distributions to owners/contributions from owners

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Revaluation of land and buildings

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

(iv) Depreciation

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

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

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

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

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

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

(f) Investment property

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

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

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

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

(g) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

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

(h) Leased assets

(i) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortized using straight-line method over the period of lease being normally 50 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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other 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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

(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.

(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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

(ii) Services

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

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

(n) Finance income and costs

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

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

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

(o) 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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

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.

(p) 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.

(q) 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 (see note 2(e)(ii)).

(r) 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.

(s) 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 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3. Significant accounting policies (Continued)

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement—Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment becomes mandatory for the Group's 2010 consolidated financial statements with retrospective application required. The Group has not yet determined the potential effect of the amendment.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity. The Group has not yet determined the potential effect of the revised standard.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The 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.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009. The Group has not yet determined the potential effect of the interpretation.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of all the improvements on its financial position or performance. However, it is expected that the improvements to IAS 17 in relation to the classification of leases of land could have material impact on the financial position of the Group.

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

4. Determination of fair values (Continued)

for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Land and buildings, investment property

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

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

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

(b) Non-derivative financial assets

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

(c) Derivatives

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

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

(d) Non-derivative financial liabilities

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

5. Operating segments

The Group is engaged in management of retail stores located in Russia and has identified retail operations as a single reportable segment.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

5. Operating segments (Continued)

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

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

The segment represents Group's retail business including advertising and rent income.

Within the segment all business components demonstrate similar economic characteristics:

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

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

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

The segment information for the year ended 31 December 2009 is as follows:

	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
Revenue	67,874,615	51,142,680
EBITDA	<u>5,813,297</u>	<u>4,526,564</u>

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

5. Operating segments (Continued)

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

	2009 '000 RUR	2008 '000 RUR
EBITDA	5,896,309	4,548,552
Revaluation gain/(loss)	(699,293)	(3,380,926)
(Loss)/gain from disposal of non-current assets	(37,321)	53,267
Gain from disposal of assets held for sale	—	95,246
Loss from write-off of receivables	(2,110)	(12,181)
Impairment of receivables	(43,581)	(158,321)
Depreciation and amortisation	(1,361,306)	(1,128,353)
Impairment losses	(134,445)	(469,000)
Finance income	37,791	33,698
Finance costs	(1,683,931)	(1,036,560)
Foreign exchange gains/(losses)	(320,812)	(1,820,809)
Profit before income tax	1,651,301	(3,275,386)
Income tax	(936,879)	343,698
Profit/(loss) for the year	<u>714,422</u>	<u>(2,931,688)</u>

6. Revenue

	2009 '000 RUR	2008 '000 RUR
Sales of trading stock	63,540,249	47,083,930
Sales of self-produced catering products	3,490,440	3,189,654
Rental income	636,317	589,070
Revenue from advertising services	207,609	280,026
	<u>67,874,615</u>	<u>51,142,680</u>

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

7. General, selling and administrative expenses

	Note	2009 '000 RUR	2008 '000 RUR
Personnel costs	9	(5,229,496)	(3,644,078)
Depreciation and amortization		(1,361,306)	(1,128,353)
Advertising and marketing		(363,425)	(281,530)
Operating leases		(672,162)	(293,993)
Repairs and maintenance costs		(239,400)	(184,198)
Communication and utilities		(891,509)	(750,547)
Materials and supplies		(179,146)	(54,780)
Security expenses		(428,525)	(314,838)
Insurance and bank commission		(255,827)	(181,785)
Legal and professional expenses		(133,425)	(87,526)
Operating taxes		(391,455)	(317,607)
Other costs		(157,991)	(141,826)
		(10,303,667)	(7,381,061)

8. Other operating income and expenses

	Note	2009 '000 RUR	2008 '000 RUR
(Loss)/gain from disposal of non-current assets		(37,321)	53,267
Gain from disposal of assets held for sale		—	95,246
Loss from write-off of receivables		(2,110)	(12,181)
Impairment of receivables	26	(43,581)	(158,321)
Loss from revaluation of investment property	15	(81,215)	(789,185)
Loss from revaluation of property, plant and equipment		(618,078)	(2,591,741)
Loss from impairment of non-current assets	13, 14, 16	(134,445)	(469,000)
Sundry income		70,443	40,203
		(846,307)	(3,831,712)

9. Personnel costs

	Note	2009 '000 RUR	2008 '000 RUR
Wages and salaries		(3,304,911)	(2,105,914)
Contributions to state pension fund		(869,131)	(613,373)
Employee benefits		(1,004,008)	(872,392)
Other		(51,446)	(52,399)
Total personnel costs		(5,229,496)	(3,644,078)

During the year ended 31 December 2009 the Group employed 12 thousand employees in average (2008: 9 thousand employees in average). Approximately 84% of employees are store employees and the remaining part is office employees.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

9. Personnel costs (Continued)

Comparative amounts of personnel costs were reclassified to conform with the current year's presentation. The amount of payroll taxes which had been previously disclosed in aggregate was split into personal income tax paid by the Group on behalf of the employees and contributions to state pension fund. Personal income tax for 2008 was included in the line 'Wages and salaries' in the amount of RUR 352,672 thousand and contributions to state pension fund for 2008 were disclosed in separate line in the amount of RUR 613,373 thousand.

Management believes that such presentation is more appropriate.

10. Finance income and finance costs

	2009	2008
	'000 RUR	'000 RUR
Recognised in profit or loss		
Interest income on loans and receivables	30,479	33,227
Other finance income	7,312	471
Finance income	37,791	33,698
Interest costs on loans and borrowings	(1,680,881)	(1,011,708)
Finance leasing costs	(3,050)	(4,031)
Other finance costs	—	(20,821)
Finance costs	(1,683,931)	(1,036,560)
Net finance costs recognised in profit or loss	(1,646,140)	(1,002,862)
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	37,791	33,698
Total interest expense on financial liabilities	(1,683,931)	(1,036,560)
	2009	2008
	'000 RUR	'000 RUR
Recognised in other comprehensive income		
Change in fair value of hedges	22,266	(153,675)
Income tax on income and expense recognised in other comprehensive income	(4,453)	30,735
Finance income recognised in other comprehensive income, net of tax	17,813	(122,940)

During 2009 the Group has capitalised interests in the value of property, plant and equipment and investment property. The amount of capitalised interest comprised RUR 232,577 thousand (2008: RUR 284,574 thousand).

In 2009 capitalisation rate of 7.3% was used to determine the amount of borrowing costs eligible for capitalisation (2008: 8.9%).

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

11. Foreign exchange loss

During 2009 the Group had significant borrowings denominated in US dollars. The devaluation of Russian Rouble during 2009 has resulted in foreign exchange loss for the year amounting to RUR 320,812 thousand (2008: RUR 1,820,809 thousand). In 2009 and 2008 the Group has not used hedging instruments to hedge foreign exchange risks.

12. Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%.

	2009	2008
	'000 RUR	'000 RUR
Current tax expense	(909,831)	(796,126)
Deferred tax (expense)/benefit	(27,048)	1,139,824
Total income tax (expense)/benefit	(936,879)	343,698

Income tax recognised directly in other comprehensive income

	2009			2008		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Foreign currency translation differences for foreign operations . .	30,063	—	30,063	(23,471)	—	(23,471)
Revaluation of property, plant and equipment . . .	(47,300)	9,460	(37,840)	(1,986,070)	664,958	(1,321,112)
Change in fair value of hedges	22,266	(4,453)	17,813	(153,675)	30,735	(122,940)
	5,029	5,007	10,036	(2,163,216)	695,693	(1,467,523)

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. Income tax expense (Continued)

Reconciliation of effective tax rate:

	2009 '000 RUR	2008 '000 RUR
Profit/(loss) before income tax	1,651,301	(3,275,386)
Income tax at applicable tax rate (2009: 20%, 2008: 24%)	(330,261)	786,093
Effect of income taxed at different rates	(5,928)	(5,424)
Tax effect of items which are not deductible or assessable for taxation purposes:		
—Inventory shrinkage expenses	(272,800)	(192,659)
—Other non-deductible expenses	(80,626)	(71,969)
Effect of change in tax rate	—	(172,343)
Write-off of deferred tax asset of tax losses carried forward	(208,985)	—
Adjustments to current income tax for previous periods	(38,279)	—
Income tax (expense)/benefit for the year	(936,879)	343,698

13. Property, plant and equipment

	Land '000 RUR	Buildings '000 RUR	Leasehold improvements '000 RUR	Auxiliary facilities '000 RUR	Machinery and equipment '000 RUR	Other fixed assets '000 RUR	Construction in progress '000 RUR	Total '000 RUR
Cost or deemed cost/								
Revalued amount								
Balance at 1 January 2008	6,443,844	9,591,378	—	30,210	1,879,709	812,772	1,721,646	20,479,559
Additions	1,059,383	1,556,232	201,496	3,210	546,646	251,828	1,223,026	4,841,821
Transfers	—	750,598	—	2,490	76,706	(3,966)	(825,828)	—
Transfers from								
Investment Property	702,477	—	—	—	—	—	—	702,477
Transfers from initial cost of land lease	129,535	—	—	—	—	—	—	129,535
Revaluation	(1,578,328)	(3,341,629)	—	—	—	—	—	(4,919,957)
Disposals	(251,546)	(13,152)	—	(4,964)	(2,681)	(8,151)	(171,837)	(452,331)
Balance at 31 December 2008	6,505,365	8,543,427	201,496	30,946	2,500,380	1,052,483	1,947,007	20,781,104
Balance at 1 January 2009	6,505,365	8,543,427	201,496	30,946	2,500,380	1,052,483	1,947,007	20,781,104
Additions	92,000	1,525,649	446,057	994	568,238	245,143	524,669	3,402,750
Transfers	—	838,739	48,302	—	38,263	—	(925,304)	—
Transfers to Investment								
Property	(293,712)	—	—	—	—	—	(547,503)	(841,215)
Revaluation	(203,274)	(809,764)	—	—	—	—	—	(1,013,038)
Disposals	—	—	—	(2,313)	(7,668)	(2,090)	(24,827)	(36,898)
Balance at 31 December 2009	6,100,379	10,098,051	695,855	29,627	3,099,213	1,295,536	974,042	22,292,703

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

13. Property, plant and equipment (Continued)

	Land '000 RUR	Buildings '000 RUR	Leasehold improvements '000 RUR	Auxiliary facilities '000 RUR	Machinery and equipment '000 RUR	Other fixed assets '000 RUR	Construction in progress '000 RUR	Total '000 RUR
Depreciation and impairment losses								
Balance at 1 January 2008	—	—	—	(11,309)	(503,330)	(302,039)	—	(816,678)
Depreciation for the year	—	(342,146)	(1,169)	(4,048)	(432,897)	(246,056)	—	(1,026,316)
Revaluation	—	342,146	—	—	—	—	—	342,146
Impairment losses	—	—	—	—	—	—	(300,000)	(300,000)
Transfers	—	—	—	(1,364)	—	1,364	—	—
Disposals	—	—	—	1,165	2,340	338	—	3,843
Balance at 31 December 2008	—	—	(1,169)	(15,556)	(933,887)	(546,393)	(300,000)	(1,797,005)
Balance at 1 January 2009	—	—	(1,169)	(15,556)	(933,887)	(546,393)	(300,000)	(1,797,005)
Depreciation for the year	—	(347,660)	(41,353)	(2,109)	(530,055)	(259,070)	—	(1,180,247)
Revaluation	—	347,660	—	—	—	—	—	347,660
Transfers to Investment property	—	—	—	—	—	—	300,000	300,000
Disposals	—	—	—	1,639	3,274	1,381	—	6,294
Balance at 31 December 2009	—	—	(42,522)	(16,026)	(1,460,668)	(804,082)	—	(2,323,298)
Carrying amounts								
At 1 January 2008	6,443,844	9,591,378	—	18,901	1,376,379	510,733	1,721,646	19,622,881
At 31 December 2008	6,505,365	8,543,427	200,327	15,390	1,566,493	506,090	1,647,007	18,984,099
At 31 December 2009	6,100,379	10,098,051	653,333	13,601	1,638,545	491,454	974,042	19,969,405
Net book value had no revaluations taken place								
At 1 January 2008	3,243,443	9,115,976	—	18,901	1,376,379	510,733	1,721,646	15,987,078
At 31 December 2008	3,489,884	10,862,339	200,327	15,390	1,566,493	506,090	1,647,007	18,287,530
At 31 December 2009	3,596,158	12,720,557	653,333	13,601	1,638,545	491,454	974,042	20,087,690

Depreciation expense of RUR 1,180,247 thousand has been charged to selling, general and administrative expenses (2008: RUR 1,026,316 thousand).

(a) Revaluation of land and buildings

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

DORINDA HOLDING S.A. Group
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for the year ended 31 December 2009

13. Property, plant and equipment (Continued)

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

The market approach considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the nature, conditions and locations of the appraised property relative to the market comparative. In the income approach, an estimate is made of annual net operating income for 5 years, which is mainly based on annual net rent rate varying from RUR 4,300 to RUR 6,700 per sq. m. (2008: from RUR 4,600 to RUR 6,500 per sq.m.) and full occupancy. The annual net operating income is assumed to be constant from year 6 to perpetuity. Discount rates from 15.8% to 19.3% (2008: from 17.5% to 19.5%) were applied in the income based approach, dependent on local risk factors.

(b) Security

At 31 December 2009 property, plant and equipment carried at RUR 8,333,576 thousand (2008: RUR 6,666,158 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 23.

(c) Leased plant and machinery

Included in Machinery and equipment are assets held under finance leases with a carrying value of RUR 77,672 thousand (2008: RUR 110,556 thousand). Included in Other fixed assets are assets held under finance leases with a carrying value of Nil (2008: RUR 2,000 thousand). Refer to note 25.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

14. Intangible assets

	Software '000 RUR	Lease rights '000 RUR	Total '000 RUR
Cost			
Balance at 1 January 2008	74,344	—	74,344
Additions	43,558	230,572	274,130
Disposals	—	—	—
Balance at 31 December 2008	117,902	230,572	348,474
Balance at 1 January 2009	117,902	230,572	348,474
Additions	82,100	208,460	290,560
Transfer from other assets	—	52,443	52,443
Disposals	—	—	—
Balance at 31 December 2009	200,002	491,475	691,477
Amortisation and impairment losses			
Balance at 1 January 2008	(20,146)	—	(20,146)
Amortisation for the year	(44,392)	—	(44,392)
Impairment losses	—	—	—
Balance at 31 December 2008	(64,538)	—	(64,538)
Balance at 1 January 2009	(64,538)	—	(64,538)
Amortisation for the year	(52,099)	(69,969)	(122,068)
Impairment losses	—	(23,445)	(23,445)
Balance at 31 December 2009	(116,637)	(93,414)	(210,051)
Carrying amounts			
At 1 January 2008	54,198	—	54,198
At 31 December 2008	53,364	230,572	283,936
At 31 December 2009	83,365	398,061	481,426

Amortisation and impairment charge

Amortisation of RUR 122,068 thousand has been charged to selling, general and administrative expenses (2008: RUR 44,392 thousand). Impairment losses of RUR 23,445 thousand have been included in other operating expenses (2008: Nil).

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

14. Intangible assets (Continued)

Impairment testing of lease rights

For the purposes of impairment testing, lease rights are allocated to assets acquired in stores. The aggregate carrying amounts of other intangible assets allocated to each store are as follows:

	Lease rights NBV 2009 '000 RUR	Impairment 2009 '000 RUR	Lease rights NBV 2008 '000 RUR	Impairment 2008 '000 RUR
Murmansk	113,041	—	111,465	—
Volgograd 1	88,346	(23,445)	85,482	—
Volgograd 2	35,173	—	33,625	—
Voljskiy	77,041	—	—	—
Krasnoyarsk	19,919	—	—	—
Stavropol	87,986	—	—	—
	<u>421,506</u>	<u>(23,445)</u>	<u>230,572</u>	<u>—</u>

The recoverable amount of each store represents value in use as determined by discounting the future cash flows generated from the continuing use of the stores. The following key assumptions were used in determining the recoverable amounts of the respective stores:

- Cash flows were projected based on estimated operating results and the seven-year business plan.
- The anticipated annual sales growth included in the cash flow projections was 3% (not taking into account inflation rate of 12%) for the years 2011 to 2015.
- A discount rate of 18% was applied in determining the recoverable amount of the stores.

The values assigned to the key assumptions represent management's assessment of future trends in retail industry and are based on both external and internal sources.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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15. Investment property

	Investment property '000 RUR	Investment property under construction '000 RUR	Total investment property '000 RUR
Investment properties at fair value as at 1 January			
2008	2,534,444	—	2,534,444
Expenditure on subsequent improvements	1,389	—	1,389
Transfers to property, plant and equipment	(702,477)	—	(702,477)
Disposals	(2,529)	—	(2,529)
Fair value loss	(789,185)	—	(789,185)
Investment properties at fair value as at			
31 December 2008	<u>1,041,642</u>	<u>—</u>	<u>1,041,642</u>
Investment properties at fair value as at 1 January			
2009	1,041,642	—	1,041,642
Additions	—	65,358	65,358
Transfers from property, plant and equipment	293,712	247,503	541,215
Expenditure on subsequent improvements	424	—	424
Fair value gain/(loss)	(173,954)	92,739	(81,215)
Investment properties at fair value as at			
31 December 2009	<u>1,161,824</u>	<u>405,600</u>	<u>1,567,424</u>

As a result of the change in accounting policy with respect to the presentation and measurement of investment property under construction, since 1 January 2009 investment property under construction is classified as investment property and measured at fair value, unless there is clear evidence that the fair value of investment property under construction is not reliably determinable. Refer to note 2(e)(i).

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued. Refer to note 13.

During 2009 the Group has reconsidered the planned use of one particular land plot. Instead of plans of using this land plot for hypermarket, the Group has determined that it would be used for trade center. Consequently, that resulted in the reclassification of this land plot from property, plant and equipment to investment property.

At 31 December 2009 investment property carried at RUR 1,161,824 thousand (2008: RUR 956,642 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 23.

Direct operating expenses arising from investment property that generated rental income amounted to RUR 68,081 thousand for the year ended 31 December 2009 (2008: RUR 66,043 thousand). There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2009 (2008: Nil).

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

16. Other non-current assets

	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
Prepayments for non-current assets	688,768	897,637
Initial cost of land lease	2,787,467	2,963,874
Long-term deposits to lessors	95,359	71,035
Deferred bank commissions	51,033	67,298
	<u>3,622,627</u>	<u>3,999,844</u>

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

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

	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
Cost		
Balance at 1 January	3,299,117	2,869,254
Additions	16,557	571,651
Transfers to investment property	—	(129,535)
Disposals	(24,761)	(12,253)
Balance at 31 December	3,290,913	3,299,117
Amortization and impairment losses		
Balance at 1 January	(335,243)	(117,454)
Amortization charge	(58,991)	(57,645)
Impairment losses	(111,000)	(169,000)
Disposals	1,788	8,856
Balance at 31 December	(503,446)	(335,243)
Net book value	2,787,467	2,963,874

At 31 December 2009 initial cost of land lease carried at RUR 492,683 thousand (2008: RUR 315,186 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 23.

Impairment loss

During 2008 and 2009 the market for land deteriorated which resulted in loss from revaluation of land for the Group for two consequent years. The Group therefore assessed the recoverable amount of initial cost of land lease as of 31 December 2009 as higher of fair value less costs to sell and value in use as at 31 December 2009. Based on this assessment, management determined that the recoverable amount of initial cost of land lease was RUR 111,000 thousand lower than its carrying amount, and recognised an impairment loss. This impairment loss relates to several rented land plots.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

16. Other non-current assets (Continued)

The fair value less costs to sell was determined by the registered independent appraisers who also appraised the Group's property, plant and equipment and investment property.

The impairment loss was recognised in other operating expenses.

17. 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	
	2009 '000 RUR	2008 '000 RUR	2009 '000 RUR	2008 '000 RUR	2009 '000 RUR	2008 '000 RUR
Investment property	—	16,026	(89,166)	—	(89,166)	16,026
Property, plant and equipment . .	—	—	(595,414)	(788,874)	(595,414)	(788,874)
Construction in progress	—	102,057	(26,838)	(49,026)	(26,838)	53,031
Intangible assets	—	—	(123)	(4,533)	(123)	(4,533)
Investments	3,327	4,490	—	—	3,327	4,490
Other non-current assets	59,028	96,042	—	(5,836)	59,028	90,206
Inventories	117,199	85,329	(905)	—	116,294	85,329
Trade and other receivables	18,768	17,820	(1,821)	—	16,947	17,820
Borrowings	—	—	—	—	—	—
Deferred income	—	754	—	—	—	754
Trade and other payables	252,805	128,880	—	—	252,805	128,880
Tax losses carry-forwards	113,706	322,787	—	—	113,706	322,787
Tax assets/(liabilities)	564,833	774,185	(714,267)	(848,269)	(149,434)	(74,084)
Set off of tax	(321,726)	(597,959)	321,726	597,959	—	—
Net tax assets/(liabilities)	243,107	176,226	(392,541)	(250,310)	(149,434)	(74,084)

Tax losses carry-forwards expire in 2018. The related deferred tax asset has been recognised as management believes, based on budgets and actual performance, that it is probable that future taxable profit will be available against which the Group can utilise these tax losses before expiry.

(b) Unrecognised deferred tax liability

As at 31 December 2009 a temporary difference of RUR 6,214,166 thousand (2008: RUR 3,398,544 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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17. Deferred tax assets and liabilities (Continued)

(c) Movement in temporary differences during the year

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

(*) In 2008, RUR 53,309 thousand was mistakenly recognised as a deferred tax asset as a result of an acquisition of assets. This amount has been reclassified as a part of cost of intangible assets in 2009.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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17. Deferred tax assets and liabilities (Continued)

	1 January 2008 '000 RUR	Recognised in profit or loss '000 RUR	Recognised in hedging reserve '000 RUR	Recognised in revaluation reserve '000 RUR	Recognised in acquisitions '000 RUR	31 December 2008 '000 RUR
Investment property	(141,803)	157,829	—	—	—	16,026
Property, plant and equipment	(1,884,460)	424,507	—	664,958	6,121	(788,874)
Construction in progress	(36,965)	89,996	—	—	—	53,031
Intangible assets	—	(373)	—	—	(4,160)	(4,533)
Investments	4,639	(149)	—	—	—	4,490
Other non-current assets	(24,473)	63,331	—	—	51,348	90,206
Inventories	38,341	46,988	—	—	—	85,329
Trade and other receivables	14,654	3,166	—	—	—	17,820
Borrowings	(810)	810	—	—	—	—
Deferred income	2,136	(1,382)	—	—	—	754
Trade and other payables	52,281	45,864	30,735	—	—	128,880
Tax loss carry-forwards . .	13,550	309,237	—	—	—	322,787
	(1,962,910)	1,139,824	30,735	664,958	53,309	(74,084)

18. Inventories

	2009 '000 RUR	2008 '000 RUR
Goods for resale	4,997,712	3,831,070
Raw materials and consumable	313,387	242,177
Write-down to net realisable value	(165,610)	(132,643)
	5,145,489	3,940,604

Due to 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 a loss of RUR 165,610 thousand for 2009 (2008: RUR 132,643 thousand). The write down to net realisable value was determined applying the percentages of discount on sales 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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19. Trade and other receivables

	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
Trade receivables	85,293	511,869
VAT receivable	517,069	737,317
Prepaid taxes	46,763	151,308
Other receivables	331,277	131,018
	<u>980,402</u>	<u>1,531,512</u>

Taxes prepaid include RUR 40,144 thousand of prepaid Income tax (2008: RUR 147,939 thousand).

Other receivables include RUR 302,527 thousand (2008: RUR 60,397 thousand) of bonuses receivable from suppliers.

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

20. Cash and cash equivalents

	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
Cash on hand	153,282	111,330
RUR denominated bank current account	610,850	472,838
USD denominated bank current account	12,373	15,816
RUR term deposits (interest rate: 7.7% p.a.; 2008—8% p.a.)	11,204	530,766
Cash in transit	674,603	542,716
Cash and cash equivalents	<u>1,462,312</u>	<u>1,673,466</u>

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, UniCredit bank and Uralsib bank.

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

21. Equity

As at 31 December 2009 the Group's subscribed share capital of RUR 109,815 thousand (EUR 2,531 thousand, 2007: EUR 31 thousand) is represented by 253,100 shares (2008: 3,100 shares) with a par value of 10 EUR each.

During 2009 Dorinda Holding S.A. issued 250,000 new shares. Excess of consideration received for shares over their nominal value was recognised in additional paid-in capital in the amount of EUR 300 thousand (RUR 13,016 thousand).

DORINDA HOLDING S.A. GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

21. Equity (Continued)

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

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

	Revaluation reserve for property, plant and equipment '000 RUR	Additional paid-in capital '000 RUR	Total '000 RUR
At 1 January 2008	5,094,472	2,923,135	8,017,607
Revaluation loss	(1,986,070)	—	(1,986,070)
Income tax effect	397,214	—	397,214
Income tax effect due to change in tax rate	267,744	—	267,744
Contribution from shareholders in kind (land plot)	—	740,461	740,461
At 31 December 2008	3,773,360	3,663,596	7,436,956
Revaluation loss	(47,300)	—	(47,300)
Income tax effect	9,460	—	9,460
Issue of shares	—	13,016	13,016
At 31 December 2009	3,735,520	3,676,612	7,412,132

During 2008 shareholders made contributions in kind disclosed in additional paid in capital. This contribution included land plot located in Moscow region.

22. Earnings per share

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of RUR 714,422 thousand (2008: loss RUR 2,931,688 thousand), and a weighted average number of ordinary shares outstanding of 107,895 (2008: 3,100), calculated as shown below. The Company has no dilutive potential ordinary shares.

	2009 Number of shares	2008 Number of shares
Issued shares at 1 January	3,100	3,100
Effect of shares issued	104,795	—
Weighted average number of shares for the year ended 31 December	107,895	3,100

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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23. Loans and borrowings

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

	<u>2009</u> <u>'000 RUR</u>	<u>2008</u> <u>'000 RUR</u>
<i>Non-current liabilities</i>		
Secured bank loans	7,677,614	2,704,329
Unsecured loans from Related parties	1,348,874	1,621,183
	<u>9,026,488</u>	<u>4,325,512</u>
<i>Current liabilities</i>		
Secured bank loans	5,622,922	7,821,835
Unsecured loans from Related parties	813,884	832,602
Unsecured bank facilities	—	2,113,332
Unsecured loans from third parties	2,871	—
	<u>6,439,677</u>	<u>10,767,769</u>

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of RUR 12,146,747 thousand (2008: RUR 7,937,986 thousand). Refer to notes 13, 15 and 16.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

23. Loans and borrowings (Continued)

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2009		31 December 2008	
				Face value '000 RUR	Carrying amount '000 RUR	Face value '000 RUR	Carrying amount '000 RUR
Secured bank loan	USD	10.2%	2009	—	—	763,890	763,890
Secured bank loan	USD	LIBOR + 3.9-5%	2013	1,032,439	1,032,439	1,090,731	1,090,731
Secured bank loan	USD	LIBOR + 5%	2012-2014	575,421	575,421	652,704	652,704
Secured bank loan	USD	9.2-10%	2011	963,373	963,373	1,259,008	1,259,008
Secured bank loan	USD	LIBOR + 3.15%	2015	6,061,058	6,061,058	2,650,284	2,650,284
Secured bank loan	RUR	15.5%	2011-2012	1,586,613	1,586,613	455,014	455,014
Secured bank loan	USD	15.5%	2011-2012	—	—	1,455,736	1,455,736
Secured bank loan	RUR	12.75-16.25%	2012-2014	1,962,301	1,962,301	2,198,797	2,198,797
Secured bank loan	RUR	13.3%	2010	452,558	452,558	—	—
Secured bank loan	RUR	11.8%	2010	50,178	50,178	—	—
Secured bank loan	RUR	12-17%	2010	36,595	36,595	—	—
Secured bank loan	RUR	10.6-11.3%	2010	150,000	150,000	—	—
Secured bank loan	RUR	12.5%	2010	430,000	430,000	—	—
Unsecured bank loan	RUR	9.5%	2009	—	—	972,769	972,769
Unsecured bank loan	RUR	9.5%	2009	—	—	200,000	200,000
Unsecured bank loan	RUR	9.5%	2009	—	—	154,000	154,000
Unsecured bank loan	USD	LIBOR 1m + 4.25%	2009	—	—	442,265	442,265
Unsecured bank loan	RUR	11.2%	2009	—	—	341,687	341,687
Unsecured bank loan	RUR	11.3%	2009	—	—	2,611	2,611
Unsecured loans from related parties	USD	9%	2009	—	—	937	937
Unsecured loans from related parties	USD	10%	2010	1,172,973	1,172,973	1,430,772	1,430,772
Unsecured loans from related parties	USD	10%	2010	175,901	175,901	231,438	231,438
Unsecured loans from related parties	USD	10%	2010	813,884	813,884	790,638	790,638
Unsecured loans from other companies	RUR	0%	2010	2,871	2,871	—	—
				15,466,165	15,466,165	15,093,281	15,093,281

(b) Breach of loan covenant

The Group monitors compliance with the banks covenants on 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.

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23. Loans and borrowings (Continued)

As of 31 December 2009 the Group did not comply with one covenant of one loan, which triggered 3 breaches of cross-covenants as detailed below:

	Carrying amount		Original maturity	Breached covenant
	Total '000 RUR	Long-term portion '000 RUR		
Sberbank	1,427,188	1,355,390	2010-2014	Negative net assets of as at 31 March 2009 according to statutory financial statements of borrower
Sberbank	535,113	319,830	2009-2012	Cross-covenant
Sberbank	500,590	181,465	2009-2011	Cross-covenant
Sberbank	462,783	163,682	2009-2011	Cross-covenant
Total	<u>2,925,674</u>	<u>2,020,367</u>		

Before 31 December 2009 the Group obtained letter from Sberbank confirming that the bank did not intend to use its right to demand early redemption, however this letter did not waive the right itself. Consequently, in accordance with the requirements of IFRS, these loans have been reclassified as current liabilities as at 31 December 2009.

24. Trade and other payables

	Note	2009 '000 RUR	2008 '000 RUR
Trade payables		9,625,067	8,803,565
Advances received		117,996	517,804
Taxes payable (other than Income tax)		318,711	193,712
Payables to staff		564,081	399,705
Interest rate swap liabilities	26	131,409	153,675
Finance lease liability	25	39,226	44,017
Other current payables		4,124	39,797
		<u>10,800,614</u>	<u>10,152,275</u>

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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25. Finance leases

Minimum lease payments under finance leases and their present values are as follows:

	<u>Due within 1 year '000 RUR</u>	<u>Due between 2 and 5 years '000 RUR</u>	<u>Total '000 RUR</u>
Minimum lease payments at 31 December 2008	49,877	28,446	78,323
Less future finance charges	<u>(5,860)</u>	<u>(2,051)</u>	<u>(7,911)</u>
Present value of minimum lease payments at 31 December 2008	<u>44,017</u>	<u>26,395</u>	<u>70,412</u>
Minimum lease payments at 31 December 2009	40,560	—	40,560
Less future finance charges	<u>(1,334)</u>	<u>—</u>	<u>(1,334)</u>
Present value of minimum lease payments at 31 December 2009	<u>39,226</u>	<u>—</u>	<u>39,226</u>

There are no lease payments under finance leases due after 5 years. Finance leases are included under other non-current liabilities and under trade and other payables.

26. Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

The 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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

26. Financial instruments and risk management (Continued)

(b) Credit risk

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

(i) Trade and other receivables

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

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

(ii) Investments

The only investments of the Group are insignificant loans issued to the related parties, consequently credit risk is considered to be insignificant.

(iii) Exposure to credit risk

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

	Note	Carrying amount	
		2009	2008
		'000 RUR	'000 RUR
Trade and other receivables	19	416,570	642,887
Loans issued		11,086	1,627
Cash and cash equivalents	20	1,462,312	1,673,466
		1,889,968	2,317,980

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 customers are considered to be remote, as there are only few foreign customers and they were properly assessed for creditability.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

26. Financial instruments and risk management (Continued)

Impairment losses

The aging of trade receivables at the reporting date was:

	<u>Gross 2009 '000 RUR</u>	<u>Impairment 2009 '000 RUR</u>	<u>Gross 2008 '000 RUR</u>	<u>Impairment 2008 '000 RUR</u>
Past due less than 90 days	307,071	—	589,252	(12,516)
Past due 90-180 days	6,414	—	21,679	(1,749)
Past due 180-360 days	20,704	—	15,526	(9,039)
More than 360 days	187,304	(104,923)	196,351	(156,617)
	<u>521,493</u>	<u>(104,923)</u>	<u>822,808</u>	<u>(179,921)</u>

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

	<u>2009 '000 RUR</u>	<u>2008 '000 RUR</u>
Balance at beginning of the year	179,921	21,600
Impairment loss recognised	43,581	158,321
Impairment loss utilised	(118,579)	—
Balance at end of the year	<u>104,923</u>	<u>179,921</u>

There was only one individually significant debt in the amount of RUR 118,579 thousand, which was fully impaired as at 31 December 2008. During 2009 this debt was written-off.

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

(c) Liquidity risk

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

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

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 2.5;

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

26. Financial instruments and risk management (Continued)

- 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:

2009

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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26. Financial instruments and risk management (Continued)

2008

	<u>Carrying amount '000 RUR</u>	<u>Contractual cash flows '000 RUR</u>	<u>0-6 mths '000 RUR</u>	<u>6-12 mths '000 RUR</u>	<u>1-5 yrs '000 RUR</u>
Non-derivative financial liabilities					
Secured bank loans	10,526,164	(11,363,520)	(5,034,151)	(3,203,070)	(3,126,299)
Unsecured bank loans	2,113,332	(2,167,773)	(1,724,211)	(443,562)	—
Unsecured loans from related parties	2,453,785	(3,165,368)	(749,329)	(120,681)	(2,295,358)
Trade and other payables	9,243,067	(9,243,067)	(9,243,067)	—	—
Finance lease liabilities	70,412	(78,323)	(26,666)	(23,211)	(28,446)
Derivative financial liabilities					
Interest rate swap liability	153,675	(161,391)	(52,490)	(53,786)	(55,115)
	<u>24,560,435</u>	<u>(26,179,442)</u>	<u>(16,829,914)</u>	<u>(3,844,310)</u>	<u>(5,505,218)</u>

There are no payments due after 5 years.

(d) Market risk

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

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

(i) Currency risk

The Group holds its business in Russian Federation and mainly collects receivables nominated in Russian Roubles. However financial liabilities of the Group are also nominated 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 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 liabilities in foreign currencies to total financial liabilities at acceptable level. From time to time the Group converts liabilities from one currency to another. The Group regularly considers necessity of using forward currency exchange contracts to hedge its exposure to currency risk. During 2009 the Group did not use forward exchange contracts.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

26. Financial instruments and risk management (Continued)

Exposure to currency risk

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

	USD- denominated 2009 '000 RUR	Euro- denominated 2009 '000 RUR	USD- denominated 2008 '000 RUR	Euro- denominated 2008 '000 RUR
Trade and other receivables	28,532	81,342	33,245	—
Secured bank loans	(8,632,291)	—	(7,872,353)	—
Unsecured bank loans	—	—	(442,265)	—
Unsecured loans from related parties	(2,162,758)	—	(2,453,785)	—
Trade and other payables	(24,427)	(2,216)	(81,933)	(14,320)
Finance lease liabilities	(39,226)	—	(70,397)	—
Interest rate swap liabilities	(131,409)	—	(153,675)	—
Gross exposure	(10,961,579)	79,126	(11,041,163)	(14,320)

The following significant exchange rates applied during the year:

Russian Rouble equals	Average rate		Reporting date rate	
	2009	2008	2009	2008
US Dollar	31.7231	24.8553	30.2442	29.3804
Euro	44.1320	36.4291	43.3883	41.4411

Sensitivity analysis

A 10% strengthening of the RUR, as indicated below, against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	Equity '000 RUR	Profit or loss '000 RUR
2009		
USD (10% strengthening)	1,096,158	1,083,017
EUR (10% strengthening)	—	(7,913)
2008		
USD (10% strengthening)	1,104,116	1,088,750
EUR (10% strengthening)	—	1,432

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26. Financial instruments and risk management (Continued)

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

(ii) Interest rate risk

The Group has material exposure to interest rate risk. As at 31 December 2009 83% of the Group's financial liabilities were subject to re-pricing within 6 months after the reporting date (2008: 76%).

The Group also uses interest rate swaps to hedge its exposure to variability of interest rates. As at 31 December 2009, the Group has entered into several agreements with Morgan Stanley & Co. International Plc and with VTB Bank. Under these agreements the Group swaps LIBOR rate for fixed rate varying from 1.3% to 4.1%. At inception, swaps had maturity of two years. The Group hedged 95% (2008: 86%) of its borrowings with variable rate applying these hedges.

Profile

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

	Carrying amount	
	2009	2008
	'000 RUR	'000 RUR
Fixed rate instruments		
Financial assets	22,290	532,393
Financial liabilities	(7,649,878)	(10,327,693)
Variable rate instruments		
Financial assets	6,758	—
Financial liabilities	(7,986,922)	(4,989,659)

Starting from 2009 the Group includes the balance of bank deposits in the above schedule in category financial assets. Comparative information was corrected accordingly.

Fixed rate financial liabilities include bank loans with interest rate, which is conditional on the turnover on the bank accounts of borrower and guarantor, opened in the bank-lender. Carrying amount of such loans as at 31 December 2009 amounted to RUR 2,925,675 thousand (2008: RUR 3,457,818 thousand).

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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26. Financial instruments and risk management (Continued)

other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or loss		Equity	
	100 bp increase '000 RUR	100 bp decrease '000 RUR	100 bp increase '000 RUR	100 bp decrease '000 RUR
2009				
Variable rate instruments	(78,328)	78,328	—	—
Interest rate swap	74,216	(74,216)	79,098	(55,297)
Cash flow sensitivity (net)	(4,112)	4,112	79,098	(55,297)
2008				
Variable rate instruments	(48,227)	48,227	—	—
Interest rate swap	41,470	(41,470)	64,235	(63,234)
Cash flow sensitivity (net)	(6,757)	6,757	64,235	(63,234)

(e) Fair value hierarchy

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

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

	2009		2008	
	Derivative financial assets '000 RUR	Derivative financial liabilities '000 RUR	Derivative financial assets '000 RUR	Derivative financial liabilities '000 RUR
Balance at 1 January	—	(153,675)	—	—
Total gains recognised in profit or loss	6,758	—	—	—
Total losses recognised in other comprehensive income	—	22,266	—	(153,675)
Balance at end of the year	6,758	(131,409)	—	(153,675)

(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. There were no changes in the Group's approach to capital management during the year. 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. Also some of the bank covenants impose capital requirements on the Group (the breaches of covenants are discussed in note 23).

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27. Operating leases

Leases as lessee

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

When the Group leases land plots under operating leases, the lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 50 years. The Group has also a few premises under operating leases. These leases typically run for 10 years. The Group has non-cancellable leases and contingent rent arrangements (2008: none). The Group has no subleases.

During the year ended 31 December 2009 RUR 731,153 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUR 58,991 thousand) in the consolidated statement of comprehensive income in respect of operating leases (2008: RUR 351,638 thousand).

Non-cancellable operating lease rentals are payable as follows:

	2009	2008
	'000 RUR	'000 RUR
Less than one year	485,781	261,969
Between one and five years	1,152,053	426,000
More than five years	3,659,317	2,426,223
	<u>5,297,151</u>	<u>3,114,192</u>

Contingent rent recognised as an expense for the year ended 31 December 2009 amounted to RUR 13,974 thousand (2008: Nil). Contingent rent is determined as higher of fixed rent rate or 3%-6% of the revenue of related stores.

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2009 RUR 636,317 thousand was recognised as rental income in the consolidated statement of comprehensive income (2008: RUR 589,070 thousand). The Group has no non-cancellable leases. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUR 109,933 thousand for the year ended 31 December 2009 (2008: Nil). Rental fee for such leases is determined as the higher of the fixed rent rate or 7-35% of the tenant's revenue.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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28. Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUR 886,566 thousand as at 31 December 2009 (2008: RUR 1,965,076 thousand).

29. Contingencies

(a) Legal proceedings

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

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 position in their interpretation and enforcement of tax legislation.

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

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

29. Contingencies (Continued)

(c) Assets pledged or restricted

At 31 December 2009 the Group has the following assets pledged as collateral:

	Note	2009 '000 RUR	2008 '000 RUR
Fixed assets (carrying value)	13	8,333,576	6,666,158
Investment property (carrying value)	15	1,161,824	956,642
Initial cost of land lease (carrying value)	16	492,683	315,186
Total		9,988,083	7,937,986

30. Related party transactions

(a) Control relationships

The Group is controlled by four individuals Mr. Korzhev, Mr. Troitckii, 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 9):

	2009 '000 RUR	2008 '000 RUR
Salaries and bonuses	79,567	83,568
Contributions to State pension fund	1,472	1,719
Long-service bonus	149,641	13,964
	<u>230,680</u>	<u>99,251</u>

(c) Transactions with other related parties

Other related parties are entities which belong to the Group’s ultimate shareholders.

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

30. Related party transactions (Continued)

(i) Revenue

	Transaction value 2009 '000 RUR	Transaction value 2008 '000 RUR	Outstanding balance 2009 '000 RUR	Outstanding balance 2008 '000 RUR
Services provided:				
Other related parties	21,013	2,801	4,374	1,541
	<u>21,013</u>	<u>2,801</u>	<u>4,374</u>	<u>1,541</u>

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 2009 '000 RUR	Transaction value 2008 '000 RUR	Outstanding balance 2009 '000 RUR	Outstanding balance 2008 '000 RUR
Consulting fees regarding purchase of land plot:				
Other related parties	—	(40,437)	—	—
Other services received:				
Other related parties	(18,470)	(345)	(71)	886
Finance costs:				
Other related parties	(207,384)	(222,980)	—	—
	<u>(225,854)</u>	<u>(263,762)</u>	<u>(71)</u>	<u>886</u>

In the table above finance costs do not include RUR 39,384 thousand of interest costs, which were capitalised and thus increased initial cost of the Group's property, plant and equipment (2008: RUR 27,277 thousand).

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.

(iii) Loans

	Amount loaned 2009 '000 RUR	Amount loaned 2008 '000 RUR	Outstanding balance 2009 '000 RUR	Outstanding balance 2008 '000 RUR
Loans received:				
Other related parties	(1,288,623)	(5,254,863)	(2,162,758)	(2,453,785)
Loans given:				
Other related parties	—	—	—	588

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

30. Related party transactions (Continued)

The loans from other related parties bear interest at 9-10% per annum and RUR 813,884 thousand are repayable within 6-12 months and RUR 1,348,874 thousand are repayable within 1-5 years.

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

During 2008 shareholders made contributions in kind disclosed in additional paid in capital in the amount of RUR 740,461 thousand. This contribution included land plot located in Moscow region.

31. Subsidiaries

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>2009 Ownership/ voting</u>	<u>2008 Ownership/ voting</u>
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Stoxx Investments Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	100%	100%
Dextenco Co. Limited	Cyprus	100%	100%
Filorus Limited	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	100%
Lonmax Limited	Cyprus	100%	100%
Marcopia Limited	Cyprus	100%	100%
Naviline Limited	Cyprus	100%	100%
Ricandano Co. Limited	Cyprus	100%	100%
LLC Dorinda Invest	Russian Federation	100%	100%
LLC Premium	Russian Federation	100%	100%
LLC Elart	Russian Federation	100%	100%
LLC Legion	Russian Federation	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 Dorinda-Murmansk	Russian Federation	100%	100%
LLC O'Key-Finans	Russian Federation	100%	100%

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

31. Subsidiaries (Continued)

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>2009 Ownership/ voting</u>	<u>2008 Ownership/ voting</u>
LLC Vega	Russian Federation	100%	100%
LLC Gradstroyentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	100%
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC N.E.F.-Saint-Petersburg	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	100%	100%
LLC Tagar-City	Russian Federation	100%	100%
LLC Region	Russian Federation	100%	100%
LLC Tandem Group	Russian Federation	100%	—
LLC Dunaiskoe	Russian Federation	—	100%
LLC Krona-1	Russian Federation	—	100%
LLC Reiki	Russian Federation	—	100%
LLC Severnoe	Russian Federation	—	100%
LLC Stroymarket	Russian Federation	—	100%
LLC Sinopskaya Naberezhnaya	Russian Federation	—	100%
LLC Baltyisky prostor	Russian Federation	—	100%

During 2009 LLC Sinopskaya Naberezhnaya was merged with LLC N.E.F.-Saint-Petersburg.

In 2009 the Group merged its subsidiaries LLC Dunaiskoe, LLC Krona-1, LLC Reiki, LLC Severnoe, LLC Stroymarket, LLC Baltyisky prostor into newly established entity LLC 'Tandem Group'. LLC 'Tandem Group' was liquidated in February 2010. The contribution of these subsidiaries to the profit for the year and the effect of liquidation of the subsidiaries on the Group's assets and liabilities were not significant.

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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

32. Events subsequent to the reporting date

In May 2010 the Group has committed to purchase right of long-term land lease from third party for the amount of RUR 240 655 thousand.

Subsequent to the balance sheet date the Group has entered into bank loan agreements totaling RUR 3 000 000 thousand. The agreements have maturities from 1 to 2 year and bear interest in the range 9.0-10.8%.

DORINDA HOLDING S.A.

**Consolidated financial statements
for the year ended December 31, 2008**
(with the report of the Réviseur d'Entreprises thereon)

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To the Shareholders of
DORINDA HOLDING S.A.
23, rue Beaumont
L-1219 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of DORINDA HOLDING S.A., which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

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 by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, 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 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 DORINDA HOLDING S.A. as of December 31, 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

Luxembourg, July 10, 2009

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

Thierry Ravasio

DORINDA HOLDING S.A. GROUP
CONSOLIDATED BALANCE SHEET

	Note	31 December 2008 '000 RUR	31 December 2007 '000 RUR
ASSETS			
Non-current assets			
Investment property	11	1,041,642	2,534,444
Property, plant and equipment	9	17,337,092	17,941,235
Construction in progress	9	1,647,007	1,721,646
Intangible assets	10	283,936	54,198
Long-term loans issued		1,039	38,955
Deferred income tax asset	26	176,226	67,748
Other non-current assets	12	3,999,844	3,620,024
Total non-current assets		24,486,786	25,978,250
Current assets			
Inventories	13	3,940,604	2,605,825
Trade and other receivables	14	1,531,512	1,647,541
Prepayments for current assets		316,812	316,572
Short-term loans issued		588	31,812
Cash and cash equivalents	15	1,673,466	1,557,456
Assets held for sale	28	—	54,100
Total current assets		7,462,982	6,213,306
TOTAL ASSETS		31,949,768	32,191,556
EQUITY	17	6,289,530	9,948,280
LIABILITIES			
Non-current liabilities			
Borrowings	16	4,325,512	5,749,702
Deferred income tax liability	26	250,310	2,030,658
Deferred income		3,768	8,885
Other non-current liabilities	18	26,395	60,924
Total non-current liabilities		4,605,985	7,850,169
Current liabilities			
Borrowings	16	10,767,769	7,029,541
Trade and other payables	20	10,152,275	7,142,748
Current income tax payable		123,524	144,896
Deferred income		10,685	21,601
Liabilities held for sale	28	—	54,321
Total current liabilities		21,054,253	14,393,107
TOTAL LIABILITIES		25,660,238	22,243,276
TOTAL LIABILITIES AND EQUITY		31,949,768	32,191,556

Approved for issue and signed on 10 July 2009.

Schneider G.
Schneider G.
Member of Administrative Board

Geiben C.
Geiben C.
Member of Administrative Board

Pryanikov D.N.
Pryanikov D.N.
Financial Director

The accompanying notes are an integral part of these consolidated financial statements.

DORINDA HOLDING S.A. GROUP
CONSOLIDATED INCOME STATEMENT

	<u>Note</u>	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Revenue	21	51,142,680	30,532,560
Cost of goods sold		<u>(40,381,622)</u>	<u>(24,064,671)</u>
Gross profit		10,761,058	6,467,889
General, selling and administrative expenses	22	(7,381,061)	(5,097,277)
Other operating income and expenses	23	<u>(3,831,712)</u>	<u>(325,351)</u>
Operating profit/(loss)		(451,715)	1,045,261
Interest income		33,698	21,714
Finance costs	24	(1,036,560)	(948,917)
Foreign exchange gains/(losses)	25	<u>(1,820,809)</u>	<u>656,456</u>
Profit/(loss) before income tax		(3,275,386)	774,514
Income tax benefit/(expense)	26	343,698	(435,020)
Profit/(loss) for the year		<u>(2,931,688)</u>	<u>339,494</u>

The accompanying notes are an integral part of these consolidated financial statements.

DORINDA HOLDING S.A. GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital '000 RUR	Legal reserve '000 RUR	Additional paid-in capital '000 RUR	Hedging reserve '000 RUR	Retained earnings '000 RUR	Revaluation reserve '000 RUR	Translation reserve '000 RUR	Total equity '000 RUR
Balance at 31 December									
2006		1,027	111	2,786,764	—	1,566,234	3,028,323	102,815	7,485,274
Profit for the year		—	—	—	—	339,494	—	—	339,494
Revaluation of property, plant and equipment	17	—	—	—	—	—	2,066,149	—	2,066,149
Currency translation differences		—	—	—	—	—	—	(2,971)	(2,971)
Total recognised income and expenses		—	—	—	—	339,494	2,066,149	(2,971)	2,402,672
Contributions from shareholders	17	—	—	136,371	—	—	—	—	136,371
Distributions to shareholders		—	—	—	—	(76,037)	—	—	(76,037)
Balance at 31 December									
2007		1,027	111	2,923,135	—	1,829,691	5,094,472	99,844	9,948,280
Loss for the year		—	—	—	—	(2,931,688)	—	—	(2,931,688)
Change in fair value of hedges		—	—	—	(122,940)	—	—	—	(122,940)
Revaluation of property, plant and equipment	17	—	—	—	—	—	(1,321,112)	—	(1,321,112)
Currency translation differences		—	—	—	—	—	—	(23,471)	(23,471)
Total recognised income and expenses		—	—	—	(122,940)	(2,931,688)	(1,321,112)	(23,471)	(4,399,211)
Contributions from shareholders	17	—	—	740,461	—	—	—	—	740,461
Balance at 31 December									
2008		1,027	111	3,663,596	(122,940)	(1,101,997)	3,773,360	76,373	6,289,530

The accompanying notes are an integral part of these consolidated financial statements.

DORINDA HOLDING S.A. GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Cash flows from operating activities		
Profit/(loss) before income tax	(3,275,386)	774,514
<i>Adjustments for:</i>		
Depreciation and amortization	1,128,353	833,877
Gain on disposal of property, plant and equipment, investment property and assets held for sale	(148,513)	(10,512)
Loss/(profit) from revaluation of investment property	789,185	(466,428)
Impairment of property, plant and equipment	469,000	—
Revaluation of property, plant and equipment	2,591,741	766,638
Interest income	(33,698)	(21,714)
Finance costs	1,036,560	948,917
Foreign exchange losses less gains	1,796,141	(647,069)
Operating cash flow before working capital changes	4,353,383	2,178,223
Decrease in net trade and other receivables	689,756	29,770
Increase in carrying values of inventories	(1,326,724)	(1,059,533)
Increase in trade and other payables	3,223,910	3,027,829
Decrease/(increase) in deferred income	(16,033)	17,980
Cash generated from operations	6,924,292	4,194,269
Interest received	33,698	14,143
Interest paid	(1,431,160)	(1,326,366)
Income taxes paid	(908,491)	(314,149)
Net cash from operating activities	4,618,339	2,567,897
Cash flows from investing activities		
Purchase of property, plant and equipment and initial cost of land lease	(4,599,208)	(5,259,709)
Purchase of intangible assets	(54,722)	(53,249)
Proceeds from sales of property, plant and equipment and investment property	186,101	134,708
Issue of loans	—	(525,099)
Proceeds from repayment of loans issued	69,140	522,234
Acquisition of subsidiaries	(588,944)	—
Net cash used in investing activities	(4,987,633)	(5,181,115)
Cash flows from financing activities		
Proceeds from borrowings	11,399,452	11,582,073
Repayment of borrowings	(10,901,521)	(8,585,395)
Repayment of finance lease payables	(51,850)	(70,104)
Net cash from financing activities	446,081	2,926,574
Net increase in cash and cash equivalents	76,787	313,356
Effect of exchange rate changes on cash and cash equivalents	39,223	(73,034)
Cash and cash equivalents at the beginning of the year	1,557,456	1,317,134
Cash and cash equivalents at the end of the year	1,673,466	1,557,456

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The DORINDA HOLDING S.A. Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) for the year ended 31 December 2008 for Dorinda Holding S.A. (the “Company”) and its subsidiaries (together referred to as the “Group”).

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

The Group is ultimately controlled by three individuals, Mr. Korzhev, Mr. Troitckii and Mr. Volchek (“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. Related party transactions are detailed in Note 8.

The Group’s principal business activity is operation of retail chain in Russia under brand name “O’Key”. At 31 December 2008 the Group operated 37 stores (31 December 2007: 24 stores).

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

Business environment. The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. 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.

The consolidated financial statements were authorised for issue by the Board of Directors on 10 July 2009.

2. Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss and financial investments classified as available-for-sale are stated at fair value.

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, which is the Company’s presentation currency. In previous years the Group’s consolidated financial statements were presented in US Dollars. Management believes that it is more appropriate to use the Rouble as the Group’s presentation currency in the current environment. All amounts in these consolidated financial statements are presented in thousands of Russian Roubles, unless otherwise stated.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

In preparing the comparatives and opening IFRS balance at 31 December 2007 in Russian Roubles the Group has applied the following approach. The Group's IFRS transition date was 1 January 2005. The Group has elected to set the previous cumulative currency translation reserve to zero at 1 January 2005. This exemption has been applied to all subsidiaries in accordance with IFRS 1. In preparing comparatives related to equity statement in Russian Roubles the Group has applied historical values.

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 balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUR 29.3804; Euro 1 = RUR 41.4411 (2007: USD 1 = RUR 24.5462; Euro 1 = RUR 35.9332).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Investments in Joint Ventures. Joint ventures are jointly controlled entities, whereby the Company and other parties undertake an economic activity that is subject to joint control. In accordance with the revised IAS 31 "Interests in Joint Ventures" jointly controlled entities are accounted for using proportionate consolidation method, whereby the Company's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Company's financial statements. Where a sale of assets to joint ventures occurred, and these assets were retained by the joint venture, the Company recognised only that portion of the gain or loss that is attributable to the interests of the other venturers. When a purchase of assets from joint ventures occurred, the Company's share in the profits from this transaction is not recognised until the assets are resold.

Property, plant and equipment. Property, plant and equipment are stated at cost for equipment and other fixed assets and stated at revalued amounts for land and buildings, as described below, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is recognised either on the retirement or disposal of the asset.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are recognised and the replaced part is retired.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated income statement.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts over their estimated useful lives. The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

	Useful lives in years
Buildings	30
Machinery and equipment, auxiliary facilities	2 to 20
Motor vehicles	5 to 10
Leasehold improvements	over the term of the underlying lease

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 is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value. 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. The revaluation gain or loss is recognised in consolidated income statement.

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 consolidated income statement on a straight-line basis over the period of the lease. When assets are leased out under

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are recognised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. 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 accounts payable (long-term accounts payable for amounts due over 12 months). The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life.

Goodwill. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the consolidated income statement.

Goodwill is measured at cost less accumulated impairment losses.

Other intangible assets. All of the Group's intangible assets have definite useful lives and 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.

External development costs that are directly associated with identifiable and unique software controlled by the Group are added to the cost of the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Amortisation on intangible assets is calculated using the straight-line method to allocate the cost over their estimated useful lives. The Group applies the useful lives from 3 to 7 years.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Financial instruments.

Non-derivative financial instruments

The Group's financial assets and liabilities are initially recorded at fair value plus/(less) transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

The Group classifies its financial assets as loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

The Group derecognises financial assets when the assets are redeemed or the rights to cash flows from the assets have otherwise expired or the Group has transferred substantially all the risks and rewards of ownership of the assets or otherwise has lost control.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

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

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

Income taxes. 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. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to the taxation authorities in respect of taxable profits for the current period. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only in case of immaterial amounts and only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the immediate weighted average basis. 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 cost of completion and selling expenses.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Deposits which are included in cash and cash equivalents are carried at amortised cost using the effective interest method.

Value added tax. Input VAT is generally reclaimable against sales VAT upon payment for purchases. 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 balance sheet on a gross basis and disclosed separately as an asset and liability.

Capital and reserves. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

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.

Translation differences resulting from the translation of financial position and results of the Group entities to presentation currency are recognised as translation reserve in equity.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Foreign currency translation. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Revenue recognition. 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. Sales of services are recognised in the accounting period in which the services are rendered, by

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

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 the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

3. Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to Note 26.

Impairment of goodwill. The Company performs annual impairment testing of goodwill. The impairment analysis requires significant management judgment involving the estimation of future profitability of cash generating units related to goodwill. Refer to Note 10.

Impairment of long-term assets. The recoverable amount of long-term assets is determined as the higher of fair value less costs to sell and value in use. The details are set out in Note 9 and 12.

Revenue recognition. The Group has recognised revenue amounting to RUR 50,274 million for sales of goods during 2008. According to the Group's policy customers has 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 income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on the expectations of future income that are believed to be reasonable under the circumstances.

Assumptions in revaluing land and buildings and investment properties. Fair value of the Group's land and buildings and investment property is determined by registered independent appraisers with appropriate recognised professional qualification and recent experience in the location and type of the property valued. The detailed approaches are outlined in Note 9.

Going concern. Management believes that the Group has sufficient financial arrangements to continue as a going concern. In making this judgement management considered current intentions and financial position of the Group and does not believe that there are material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The main details of management's analysis are outlined in Note 30 *Financial Risk Management*.

4. Adoption of IFRS

The Group early adopted the following new standards:

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The early adoption of this standard has affected the individual financial statements of some of the Group's subsidiaries.

5. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The amended IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is,

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. New Accounting Pronouncements (Continued)

therefore, required to capitalise such borrowing costs as part of the cost of the asset. The amended standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This new pronouncement will not significantly influence the consolidated financial statements of the Group as the Group applied allowed alternative treatment (i.e. to capitalise interest into the cost of qualifying assets) under previously effective standard.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 39 Financial Instruments: Recognition and Measurement (Amendment—“Eligible Hedged Item”)—Eligible Hedged Items clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group’s 2010 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.

IAS 39 (Amendment) “Financial Instruments: Recognition and Measurement” and IFRS 7 (Amendment) “Financial Instruments: Disclosures”. These amendments permit the reclassification of some financial instruments. The Group does not expect any significant impact from application of this amendment.

IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment is not expected to have any effect on consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquirer’s identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. New Accounting Pronouncements (Continued)

net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group expects the revised IFRS 3 to affect the recognition of business combination which will take place in future.

IFRS 8, Operating Segments (issued November 2006; effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The standard is not expected to have any effect on consolidated financial statements.

IFRS 2 (Amendment) “Share-based Payment—Vesting Conditions and Cancellations” (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not expected to have any effect on consolidated financial statements.

IFRIC 13 Customer loyalty programme. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. There would be no implication of the Group’s financial statements as a result of these interpretations.

IFRIC 15 Agreements for the Construction of Real Estate addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Group’s 2009 consolidated financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. becomes mandatory for the Group’s 2009 consolidated financial statements). The IFRIC is not expected to have any effect on consolidated financial statements.

IFRIC 17 Distributions of Non-cash Assets to Owners addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. New Accounting Pronouncements (Continued)

beginning on or after 1 July 2009. Retrospective application of this IFRIC is not permitted, consequently the IFRIC will have impact on the measurement of the distributions, which the Group could potentially make to its shareholders in the future. This IFRIC will result in future distributions to be measured at fair value, rather than carrying amount of the assets being distributed.

IFRIC 18 Transfers of Assets from Customers applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. The IFRIC 18 is not expected to have any effect on consolidated financial statements.

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 purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

6. Business Combinations

During 2008 the Group acquired two stores in Volgograd (15 and 30 September 2008) and one store in Murmansk (4 September 2008) for RUR 345,392 thousand. Total superficies of these stores is 13,516 sq. m.

In the period after acquisition the stores contributed revenue of RUR 301,185 thousand and had loss of RUR 41,065 thousand. The loss for 2008 was caused by the fact that there were one-off expenses in 2008 connected to the re-branding of the stores. Such expenses are not expected to be incurred in the future. If the acquisition had occurred on 1 January 2008, management estimates that consolidated revenue would have been RUR 1,400 million and consolidated profit for the period would have been RUR 20 million.

The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired at the acquisition date:

	Pre-acquisition carrying amounts '000 RUR	Fair value adjustments '000 RUR	At the acquisition dates '000 RUR
<i>Identifiable assets acquired</i>			
Property, plant and equipment	84,796	(30,599)	54,197
Intangible assets (lease rights)	—	20,800	20,800
Inventory	7,314	—	7,314
Deferred income tax asset	—	53,309	53,309
Total	92,110	43,510	135,620
<i>Consideration transferred</i>	—	—	345,392
<i>Goodwill</i>	—	—	209,772

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Business Combinations (Continued)

Goodwill recognised on the acquisitions in amount of RUR 209,772 thousand reflects primarily the premium paid by the Group for strengthening its positions in these regions and to a minor extent for the workforce and existing processes, which are not separately recognised in these consolidated financial statements.

The values of assets acquired and liabilities assumed have been valued at the acquisition date, using fair values. Fair value of lease rights and property, plant and equipment acquired in business combinations is determined by the independent valuation specialists.

In addition, the Group prepaid in 2008 acquisitions for an amount of RUR 243,552 (see note 32).

7. Segment Information

The Group has only one reportable business segment, which is retail trade, and one geographical segment: Russian Federation. Thus management believes that information presented in consolidated financial statements of the Group is sufficient and it has not presented segment information in a separate note.

8. Balances and Transactions with Related Parties

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2008 and 31 December 2007 are detailed below.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Balances and Transactions with Related Parties (Continued)

At 31 December 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

	Entities under common control of the ultimate shareholders	
	31 December 2008	31 December 2007
	'000 RUR	'000 RUR
Trade and other receivables: Trade receivables	861	884
Trade and other receivables: Prepayments	886	884
Trade and other receivables: Other receivables	741	2,356
Other non-current assets: Receivables from shareholders	—	138,146
Short-term investments: Loans issued	588	29,946
Long-term borrowings	(1,621,183)	(714,515)
Short-term borrowings	(832,602)	(2,432,504)
Trade and other payables: Trade payables	—	(25)
Trade and other payables: Prepayments	(61)	(74)

The income and expense items with related parties for the years 2008 and 2007 were as follows:

	Entities under common control of the ultimate shareholders	
	2008	2007
	'000 RUR	'000 RUR
Revenue from rent of premises	2,717	11,126
Other rental income	47	460
Operating leases	—	10,691
Other operating income and expense	37	—
General, selling and administrative expenses: repairs and maintenance costs	(345)	—
Consulting fees re purchase of land plot	(40,437)	—
Finance costs	(222,980)	(232,127)

In the table above finance costs do not include RUR 27,277 thousand of interest costs, which were capitalised and thus increased initial cost of the Group's property, plant and equipment and investment property (2007: RUR 73,940 thousand).

During 2008 shareholders made contributions in kind disclosed in Additional paid in capital. This contribution included land plot located in Moscow region. Fair value of the land plot at 31 December 2008 comprises RUR 947,000 thousand. In 2007 shareholders made contributions to the Group to compensate for the Group's loss from disposal of a land plot in 2006.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Balances and Transactions with Related Parties (Continued)

During 2007 as a result of the increase in the interest rates in the loan agreements with the related parties (companies under the control of the Group's ultimate shareholders), the fair value of the respective loans has increased. The loss from these operations has been recognised directly in equity as a distribution to the shareholders. The amount of this distribution was equal to RUR 76,037 thousand.

In 2008 the key management received remuneration in the form of wages and salaries amounting to RUR 86,669 thousand (2007: RUR 94,047 thousand).

9. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land '000 RUR	Buildings '000 RUR	Leasehold improvements '000 RUR	Auxiliary facilities '000 RUR	Machinery and equipment '000 RUR	Other fixed assets '000 RUR	Construction in progress '000 RUR	Total '000 RUR
Deemed cost/Revalued amount								
Balance at 1 January								
2007	3,759,738	8,680,257	—	15,378	565,776	369,952	1,782,668	15,173,769
Additions	686,628	1,552,922	—	15,395	708,500	426,170	1,321,432	4,711,047
Transfers	—	657,787	—	—	621,776	21,407	(1,300,970)	—
Transfers to Investment property	(949,019)	—	—	—	—	—	—	(949,019)
Revaluation	2,946,497	(1,299,588)	—	—	—	—	—	1,646,909
Disposals	—	—	—	(563)	(16,343)	(4,757)	(30,128)	(51,791)
Transfer to assets held for sale	—	—	—	—	—	—	(51,356)	(51,356)
Balance at 31 December 2007	6,443,844	9,591,378	—	30,210	1,879,709	812,772	1,721,646	20,479,559
Balance at 1 January 2008	6,443,844	9,591,378	—	30,210	1,879,709	812,772	1,721,646	20,479,559
Acquisitions through business combinations	—	—	—	—	54,197	—	—	54,197
Additions	1,059,383	1,556,232	201,496	3,210	492,449	251,828	1,223,026	4,787,624
Transfers	—	750,598	—	2,490	76,706	(3,966)	(825,828)	—
Transfers from Investment Property	702,477	—	—	—	—	—	—	702,477
Transfers from initial cost of land lease	129,535	—	—	—	—	—	—	129,535
Revaluation	(1,578,328)	(3,341,629)	—	—	—	—	—	(4,919,957)
Disposals	(251,546)	(13,152)	—	(4,964)	(2,681)	(8,151)	(171,837)	(452,331)
Balance at 31 December 2008	6,505,365	8,543,427	201,496	30,946	2,500,380	1,052,483	1,947,007	20,781,104

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Property, Plant and Equipment (Continued)

	Land '000 RUR	Buildings '000 RUR	Leasehold improvements '000 RUR	Auxiliary facilities '000 RUR	Machinery and equipment '000 RUR	Other fixed assets '000 RUR	Construction in progress '000 RUR	Total '000 RUR
Depreciation								
Balance at 1 January 2007	—	—	—	(5,529)	(229,923)	(117,279)	—	(352,731)
Depreciation charge	—	(303,918)	—	(5,806)	(275,376)	(187,420)	—	(772,520)
Revaluation	—	303,918	—	—	—	—	—	303,918
Disposals	—	—	—	26	1,969	2,660	—	4,655
Balance at 31 December 2007	—	—	—	(11,309)	(503,330)	(302,039)	—	(816,678)
Balance at 1 January 2008	—	—	—	(11,309)	(503,330)	(302,039)	—	(816,678)
Depreciation charge	—	(342,146)	(1,169)	(4,048)	(432,897)	(246,056)	—	(1,026,316)
Revaluation	—	342,146	—	—	—	—	—	342,146
Impairment losses	—	—	—	—	—	—	(300,000)	(300,000)
Transfers	—	—	—	(1,364)	—	1,364	—	—
Disposals	—	—	—	1,165	2,340	338	—	3,843
Balance at 31 December 2008	—	—	(1,169)	(15,556)	(933,887)	(546,393)	(300,000)	(1,797,005)
Net book value								
At 31 December 2006	3,759,738	8,680,257	—	9,849	335,853	252,673	1,782,668	14,821,038
At 31 December 2007	6,443,844	9,591,378	—	18,901	1,376,379	510,733	1,721,646	19,662,881
At 31 December 2008	6,505,365	8,543,427	200,327	15,390	1,566,493	506,090	1,647,007	18,984,099

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

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

The market approach considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the nature, conditions and locations of the appraised property relative to the market comparative. In the income approach, an estimate is made of annual net operating income for 5 years, which is mainly based on annual net rent rate varying from RUR 4,600 to RUR 6,500 per sq. m. and full occupancy. The annual net operating income is assumed to grow by 5% from year 6 to perpetuity. Discount rates from 17.5% to 19.5% were applied in the income based approach, dependent on local risk factors.

At 31 December 2008 property, plant and equipment carried at RUR 6,666,158 thousand (2007: RUR 9,375,863 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 16.

Included in Machinery and equipment are assets held under finance leases with a carrying value of RUR 110,556 thousand (2007: RUR 147,710 thousand). Included in Other fixed assets are assets held under finance leases with a carrying value of RUR 2,000 thousand (2007: RUR 7,636 thousand). Refer to Note 18.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Property, Plant and Equipment (Continued)

Depreciation expense of RUR 1,026,316 thousand has been charged to selling, general and administrative expenses (2007: RUR 772,520 thousand).

Impairment loss

During the last quarter of 2008 the market for investment property and property, plant and equipment deteriorated which resulted in loss from revaluation of investment property and property, plant and equipment for the Group. The management believes that the deterioration on the property market indicates that the market value of construction in progress is also declining, which is an impairment indicator. The Group therefore assessed the recoverable amount of construction in progress as of 31 December 2008. Construction in progress consists of retail stores and shopping centres under construction.

The recoverable amount was determined as higher of fair value less costs to sell and value in use as at 31 December 2008 based on future discounted cash flows. Based on this assessment, management determined that the recoverable amount of construction in progress was RUR 300,000 thousand lower than its carrying amount, and recognised an impairment loss. This impairment loss relates to one specific hypermarket and two specific shopping centres.

The estimate of value in use was determined using discount rates varying from 19% to 23%.

The impairment loss was recognised in other operating expenses.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Intangible Assets

Movements in the carrying amount of intangible assets were as follows:

	<u>Goodwill</u> <u>'000 RUR</u>	<u>Software</u> <u>'000 RUR</u>	<u>Lease rights</u> <u>'000 RUR</u>	<u>Total</u> <u>'000 RUR</u>
Cost				
Balance at 1 January 2007	—	15,302	—	15,302
Additions	—	60,504	—	60,504
Disposals	—	(1,462)	—	(1,462)
Balance at 31 December 2007	—	74,344	—	74,344
Balance at 1 January 2008	—	74,344	—	74,344
Acquisitions through business combinations (Note 6)	209,772	—	20,800	230,572
Additions	—	43,558	—	43,558
Disposals	—	—	—	—
Balance at 31 December 2008	209,772	117,902	20,800	348,474
Amortisation and impairment losses				
Balance at 1 January 2007	—	(4,296)	—	(4,296)
Amortisation charge	—	(15,850)	—	(15,850)
Impairment losses	—	—	—	—
Disposals	—	—	—	—
Balance at 31 December 2007	—	(20,146)	—	(20,146)
Balance at 1 January 2008	—	(20,146)	—	(20,146)
Amortisation charge	—	(44,392)	—	(44,392)
Impairment losses	—	—	—	—
Disposals	—	—	—	—
Balance at 31 December 2008	—	(64,538)	—	(64,538)
Net book value				
At 1 January 2007	—	11,006	—	11,006
At 31 December 2007	—	54,198	—	54,198
At 31 December 2008	209,772	53,364	20,800	283,936

Amortisation of RUR 44,392 thousand has been charged to selling, general and administrative expenses (2007: RUR 15,850 thousand).

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Intangible Assets (Continued)

Impairment testing of goodwill

For the purposes of impairment testing, goodwill is allocated to the stores acquired in business combinations. The aggregate carrying amounts of goodwill allocated to each store are as follows:

	Allocated goodwill 2008 '000 RUR	Impairment 2008 '000 RUR
Murmansk	94,165	—
Volgograd 1	81,982	—
Volgograd 2	33,625	—
	<u>209,772</u>	<u>—</u>

The recoverable amount of each store represents value in use as determined by discounting the future cash flows generated from the continuing use of the stores. The following key assumptions were used in determining the recoverable amounts of the respective stores:

- Cash flows were projected based on estimated operating results and the seven-year business plan.
- Total sales of the stores were projected at about RUR 1,734,700 thousand in the first year of the business plan growing to RUR 3,153,092 thousand in 2010 due to finalisation of the re-branding in 2009. The anticipated annual sales growth included in the cash flow projections was 3% (not taking into account inflation rate of 12%) for the years 2011 to 2015.
- The annual net operating income is assumed to grow by 3% from year 8 to perpetuity.
- A discount rate of 21.8% (post-tax) was applied in determining the recoverable amount of the stores.

The values assigned to the key assumptions represent management's assessment of future trends in retail industry and are based on both external sources and internal sources.

Although no impairment loss was recognised in respect of goodwill allocated to the stores, the determination of recoverable amount is sensitive to the rate at which the stores achieve their planned growth in sales.

The above estimates are particularly sensitive in the following areas:

- An increase of 10 percentage point in the discount rate used would have resulted in impairment loss of RUR 5,000 thousand.
- A 10% decrease in future planned revenues would have resulted in impairment loss of RUR 19,000 thousand.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Investment Property

	Note	2008 '000 RUR	2007 '000 RUR
Investment properties at fair value as at 1 January		2,534,444	1,020,225
Transfers from property, plant and equipment	9	—	949,019
Expenditure on subsequent improvements		1,389	98,772
Transfers to property, plant and equipment	9	(702,477)	—
Disposals		(2,529)	—
Fair value gain/loss	23	(789,185)	466,428
Investment properties at fair value as at 31 December		1,041,642	2,534,444

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued. Refer to Note 9.

During 2008 the Group has reconsidered the initially planned use of one particular land plot. Instead of initial plans of using this land plot for trading centre, the Group has determined that it would be used for hypermarket. Consequently, that resulted in the reclassification of this land plot from investment property to property, plant and equipment.

At 31 December 2008 investment property carried at RUR 956,642 thousand (2007: RUR 2,534,444 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 16.

12. Other Non-Current Assets

	2008 '000 RUR	2007 '000 RUR
Prepayments for non-current assets	654,085	730,078
Initial cost of land lease	2,963,874	2,751,801
Prepayment for acquisition	243,552	—
Deferred bank commissions	67,298	—
Long term receivables from shareholders	—	138,145
Long-term deposits to lessors	71,035	—
Total other non-current assets	3,999,844	3,620,024

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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other Non-Current Assets (Continued)

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

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Cost		
Balance at 1 January	2,869,254	2,424,331
Additions	571,651	573,770
Transfers to property, plant and equipment	(129,535)	—
Disposals	(12,253)	(128,847)
Balance at 31 December	3,299,117	2,869,254
Accumulated amortization		
Balance at 1 January	(117,454)	(68,618)
Amortisation charge	(57,645)	(49,694)
Impairment losses	(169,000)	—
Disposals	8,856	859
Balance at 31 December	(335,243)	(117,453)
Net book value	2,963,874	2,751,801

During the last quarter of 2008 the market for investment property deteriorated which resulted in loss from revaluation of investment property for the Group. The Group therefore assessed the recoverable amount of initial cost of land lease as of 31 December 2008 as higher of fair value less costs to sell and value in use as at 31 December 2008 based on future discounted cash flows. Based on this assessment, management determined that the recoverable amount of initial cost of land lease was RUR 169,000 thousand lower than its carrying amount, and recognised an impairment loss. This impairment loss relates to several rented land plots.

The fair value less costs to sell was determined by the registered independent appraisers who also appraised the Group's investment property. The estimate of value in use was determined using discount rates varying from 19% to 23%.

The impairment loss was recognised in other operating expenses.

At 31 December 2008 initial cost of land lease carried at RUR 315,186 thousand (2007: RUR 119,270 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 16.

13. Inventories

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Goods for resale	3,831,070	2,479,166
Raw materials and consumable	242,177	126,659
Write-down to net realisable value	(132,643)	—
Total inventories	3,940,604	2,605,825

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Inventories (Continued)

Due to 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 a loss of RUR 132,643 thousand for 2008. In 2007 there was no write-down of inventories.

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

14. Trade and Other Receivables

	2008 '000 RUR	2007 '000 RUR
Trade receivables	511,869	241,313
VAT receivable	737,317	774,624
Prepaid taxes	151,308	60,315
Discounts receivable from suppliers	—	421,655
Other receivables	131,018	149,634
Total trade and other receivables	<u>1,531,512</u>	<u>1,647,541</u>

Taxes prepaid include RUR 147,939 thousand of prepaid income tax (2007: RUR 51,007 thousand).

The Group's exposure to credit risk and impairment losses related to trade and other receivables are discussed in the Note 30.

15. Cash and Cash Equivalents

	2008 '000 RUR	2007 '000 RUR
Cash on hand	111,330	65,071
RUR denominated bank current account	472,838	461,591
USD denominated bank current account	15,816	169,492
RUR term deposits (interest rate: 7.7% p.a.)	530,766	—
Cash in transit	542,716	861,302
Total cash and cash equivalents	<u>1,673,466</u>	<u>1,557,456</u>

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 and Uralsib bank.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Borrowings

Long-term borrowings:

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Secured bank loans	2,704,329	5,035,187
Unsecured loans from Related parties	1,621,183	714,515
Total borrowings	<u>4,325,512</u>	<u>5,749,702</u>

Short-term borrowings:

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Secured bank loans	7,821,835	4,564,538
Unsecured loans from Related parties	832,602	2,432,504
Unsecured bank facilities	2,113,332	32,499
Total borrowings	<u>10,767,769</u>	<u>7,029,541</u>

The following table shows the period in which the Group's borrowings reprice:

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Repricing		
within 6 months	11,502,587	10,197,007
between 6 and 12 months	1,969,511	1,867,426
between 1 and 5 years	1,621,183	714,810
Total borrowings	<u>15,093,281</u>	<u>12,779,243</u>

The effective interest rates at the balance sheet date were as follows:

		<u>31 December</u> <u>2008</u> <u>In % per annum</u>	<u>31 December</u> <u>2007</u> <u>In % per annum</u>
Secured bank loans	Fixed rate	9.28%	9.3%
Secured bank loans	Variable rate	LIBOR + (3.2%-5%)	—
Unsecured loans from Related parties	Fixed rate	9.85%	8.8%
Unsecured bank facilities	Fixed rate	9.19%	9.4%
Unsecured bank facilities	Variable rate	LIBOR + 4.3%	—

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of RUR 7,937,986 thousand (2007: RUR 12,029,577 thousand). Refer to Notes 9, 11, 12.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Equity

As at 31 December 2008 the Group's subscribed capital of RUR 1,027 thousands (EUR 31 thousands, 2007: EUR 31 thousands) is represented by 3,100 shares with a par value of EUR 10 each. The Rouble value of the subscribed capital is determined with application of exchange rate as at 1 January 2005.

The Group's authorized capital is set up at RUR 10,360 thousands (EUR 250 thousands; 2007: EUR 250 thousands)

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

	Revaluation reserve for property, plant and equipment '000 RUR	Additional paid-in capital '000 RUR	Total '000 RUR
At 1 January 2007	3,028,323	2,786,764	5,815,087
Revaluation gain	2,717,465	—	2,717,465
Income tax effect	(651,316)	—	(651,316)
Receipt of compensation for loss from sale of land plot . .	—	136,371	136,371
At 31 December 2007	5,094,472	2,923,135	8,017,607
Revaluation loss	(1,986,070)	—	(1,986,070)
Income tax effect	397,214	—	397,214
Income tax effect due to change in tax rate	267,744	—	267,744
Contribution from shareholders in kind (land plot)	—	740,461	740,461
At 31 December 2008	3,773,360	3,663,596	7,436,956

18. Finance Leases

Minimum lease payments under finance leases and their present values are as follows:

	Due within 1 year '000 RUR	Due between 2 and 5 years '000 RUR	Total '000 RUR
Minimum lease payments at 31 December 2007	7,830	74,596	82,426
Less future finance charges	(1,424)	(13,672)	(15,096)
Present value of minimum lease payments at 31 December 2007	6,406	60,924	67,330
Minimum lease payments at 31 December 2008	49,877	28,446	78,323
Less future finance charges	(5,860)	(2,051)	(7,911)
Present value of minimum lease payments at 31 December 2008	44,017	26,395	70,412

There are no lease payments under finance leases due after 5 years. Finance leases are included under other non-current liabilities and under trade and other payables.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Operating Leases

Leases as lessee. The Group leases land plots under operating leases. Lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 50 years. The Group has non-cancellable leases. The Group has no contingent rent arrangements and subleases. The Group has also a few premises under operating leases. These leases typically run for 10 years.

During the year ended 31 December 2008 RUR 351,638 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUR 57,645 thousand) in the consolidated income statement in respect of operating leases (2007: RUR 184,735 thousand).

Non-cancellable operating lease rentals are payable as follows:

	2008
	'000 RUR
Less than one year	261,969
Between one and five years	426,000
More than five years	2,426,223
	<u>3,114,192</u>

Leases as lessor. The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2008 RUR 589,070 thousand was recognised as rental income in the consolidated income statement (2007: 551,877 thousand). The Group has no non-cancellable leases.

20. Trade and Other Payables

	2008	2007
	'000 RUR	'000 RUR
Trade payables	8,803,565	6,525,485
Advances received	517,804	212,398
Taxes payable (other than Income tax)	193,712	132,108
Payables to staff	399,705	237,632
Interest rate swap liabilities	153,675	—
Other current payables	39,797	28,719
Finance lease liability (Note 18)	44,017	6,406
Trade and other payables	<u>10,152,275</u>	<u>7,142,748</u>

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Analysis of Revenue by Category

	2008 '000 RUR	2007 '000 RUR
Sales of trading stock	47,083,930	27,899,751
Sales of self-produced catering products	3,189,654	1,973,181
Rental income	589,070	551,877
Revenue from advertising services	280,026	107,751
Total revenue	51,142,680	30,532,560

22. General, Selling and Administrative Expenses

	Note	2008 '000 RUR	2007 '000 RUR
Labour costs		(3,644,078)	(2,303,544)
Depreciation and amortization		(1,128,353)	(833,877)
Advertising and marketing		(281,530)	(198,546)
Operating leases	19	(293,993)	(135,041)
Repairs and maintenance costs		(184,198)	(123,634)
Communication and utilities		(750,547)	(625,305)
Materials and supplies		(54,780)	(87,879)
Security expenses		(314,838)	(231,436)
Insurance and bank commission		(181,785)	(93,633)
Legal and professional expenses		(87,526)	(81,357)
Operating taxes		(317,607)	(293,049)
Other costs		(141,826)	(89,976)
Total general, selling and administrative expenses		(7,381,061)	(5,097,277)

Labour costs are presented gross, including related taxes. The amount of labour costs includes:

	2008 '000 RUR	2007 '000 RUR
Wages and salaries	(1,753,242)	(1,196,261)
Payroll taxes	(966,045)	(624,563)
Employee benefits	(872,392)	(466,914)
Other	(52,399)	(15,806)
Total labour costs	(3,644,078)	(2,303,544)

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Other Operating Income and Expenses

	2008 '000 RUR	2007 '000 RUR
Gain from sale of fixed assets	53,267	10,512
Profit from disposal of assets held for sale	95,246	—
Loss from write-off of receivables	(12,181)	(9,005)
Impairment of receivables	(158,320)	(22,888)
Gain/(loss) from revaluation of Investment Property	(789,185)	466,428
Loss from revaluation of Property, Plant and Equipment	(2,591,741)	(766,638)
Loss from impairment of non-current assets	(469,000)	—
Sundry income and expenses	40,202	(3,760)
Total other operating income and expenses	(3,831,712)	(325,351)

24. Finance Costs

	2008 '000 RUR	2007 '000 RUR
Interest accrued on loans and borrowings	(1,011,708)	(908,175)
Finance leasing costs	(4,031)	(16,548)
Other finance costs	(20,821)	(24,194)
Total finance costs recognised in the income statement	(1,036,560)	(948,917)

During 2008 the Group has capitalised interests in the value of property, plant and equipment and investment property. The amount of capitalised interest represents RUR 284,574 thousand (2007: 246,296 thousand).

25. Foreign exchange loss

During 2008 the Group had significant borrowings denominated in US dollars. The substantial devaluation of Russian Rouble during the last quarter of 2008 has resulted in foreign exchange loss for the year amounting to RUR 1,820,809 thousand (2007: income 656,456 thousand). In 2008 the Group has not used hedging instruments to hedge foreign exchange risks.

26. Income Taxes

Income tax expense comprises the following:

	2008 '000 RUR	2007 '000 RUR
Current tax	(796,126)	(410,697)
Deferred tax	1,139,824	(24,323)
Income tax benefit/(expense) for the year	343,698	(435,020)

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Income Taxes (Continued)

The Group's applicable tax rate is the income tax rate of 24% for Russian companies (2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation between the expected and the actual taxation charge is provided below.

	2008	2007
	'000 RUR	'000 RUR
(Loss)/profit before tax	(3,275,386)	774,514
Theoretical tax charge at statutory Russian rate (2008: 24%; 2007: 24%) . .	786,093	(185,885)
Effect of income taxable at rates different from standard statutory rates . . .	(5,424)	5,831
Tax effect of items which are not deductible or assessable for taxation purposes:		
—Inventory shrinkage expenses	(192,659)	(132,918)
—Various other non-deductible expenses	(71,969)	(122,048)
Effect of changing tax rate	(172,343)	—
Income tax benefit/(expense) for the year	343,698	(435,020)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2007: 24%).

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR	'000 RUR
Investment property	16,026	—	—	(141,803)	16,026	(141,803)
Property, plant and equipment . .	—	—	(788,874)	(1,884,460)	(788,874)	(1,884,460)
Construction in progress	102,057	—	(49,026)	(36,965)	53,031	(36,965)
Intangibles	—	—	(4,533)	—	(4,533)	—
Investments	4,490	4,639	—	—	4,490	4,639
Other non-current assets	96,042	—	(5,836)	(24,473)	90,206	(24,473)
Inventories	85,329	38,341	—	—	85,329	38,341
Trade and other receivables . . .	17,820	14,654	—	—	17,820	14,654
Borrowings	—	—	—	(810)	—	(810)
Deferred income	754	2,136	—	—	754	2,136
Trade and other payables	128,880	52,281	—	—	128,880	52,281
Tax losses carry-forwards	322,787	13,550	—	—	322,787	13,550
Tax assets/(liabilities)	774,185	125,601	(848,269)	(2,088,511)	(74,084)	(1,962,910)
Set off of tax	(597,959)	(57,853)	597,959	57,853	—	—
Net tax assets/(liabilities)	176,226	67,748	(250,310)	(2,030,658)	(74,084)	(1,962,910)

Tax losses carry-forwards expire in 2018. The related deferred tax asset has been recognised as management believes, based on budgets and actual performance for 2009, that it is probable that future taxable profit will be available against which the Group can utilise these tax losses before expiry.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Income taxes (continued)

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	Balance 1 January 2007 '000 RUR	Recognised in profit or loss '000 RUR	Recognised in revaluation reserve '000 RUR	Balance 31 December 2007 '000 RUR	Recognised in profit or loss '000 RUR	Recognised in hedging reserve '000 RUR	Recognised in revaluation reserve (note 17) '000 RUR	Acquired in business combination (note 6) '000 RUR	Balance 31 December 2008 '000 RUR
Investment property	(15,746)	(126,057)	—	(141,803)	157,829	—	—	—	16,026
Property, plant and equipment	(1,249,143)	15,999	(651,316)	(1,884,460)	424,507	—	664,958	6,121	(788,874)
Construction in progress . .	120,914	(157,879)	—	(36,965)	89,996	—	—	—	53,031
Intangible assets	—	—	—	—	(373)	—	—	(4,160)	(4,533)
Investments	16,062	(11,423)	—	4,639	(149)	—	—	—	4,490
Other non-current assets . .	(172,390)	147,917	—	(24,473)	63,331	—	—	51,348	90,206
Inventories	19,037	19,304	—	38,341	46,988	—	—	—	85,329
Trade and other receivables	2,738	11,916	—	14,654	3,166	—	—	—	17,820
Borrowings	(1,843)	1,033	—	(810)	810	—	—	—	—
Deferred income	3,424	(1,288)	—	2,136	(1,382)	—	—	—	754
Trade and other payables .	(10,324)	62,605	—	52,281	45,864	30,735	—	—	128,880
Tax loss carry-forwards . . .	—	13,550	—	13,550	309,237	—	—	—	322,787
Net tax assets/(liabilities) .	(1,287,271)	(24,323)	(651,316)	(1,962,910)	1,139,824	30,735	664,958	53,309	(74,084)

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2008 are as follows:

	<u>Country of incorporation</u>	<u>Ownership/ voting</u>	
		<u>2008</u>	<u>2007</u>
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Stoxx Investments Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	100%	100%
Dextenco Co. Limited	Cyprus	100%	100%
Filorus Limited	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	100%
Lonmax Limited	Cyprus	100%	100%
Marcopia Limited	Cyprus	100%	100%
Naviline Limited	Cyprus	100%	100%
Nivanex Limited	Cyprus	—	100%
Ricandano Co. Limited	Cyprus	100%	100%
LLC Dorinda Invest	Russian Federation	100%	100%
LLC Premium	Russian Federation	100%	100%
LLC Elart	Russian Federation	100%	100%
LLC Legion	Russian Federation	100%	100%
LLC Dorinda Development	Russian Federation	—	100%
LLC O'Key Group Management	Russian Federation	100%	100%
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor (Special Purpose Entity)	Russian Federation	100%	—
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	100%	100%
LLC Dorinda-Murmansk	Russian Federation	100%	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Baltyisky prostor	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Dunaiskoe	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Krona-1	Russian Federation	100%	100%
LLC Reiki	Russian Federation	100%	100%
LLC Severnoe	Russian Federation	100%	100%

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Subsidiaries (Continued)

	<u>Country of incorporation</u>	<u>Ownership/ voting</u>	
		<u>2008</u>	<u>2007</u>
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroymarket	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	100%
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC N.E.F.-Saint-Petersburg	Russian Federation	100%	100%
LLC Sinopskaya naberezhnaya	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	—
LLC Photon	Russian Federation	100%	—
LLC Tagar	Russian Federation	100%	—
LLC Tagar-City	Russian Federation	100%	—
LLC Region	Russian Federation	100%	—

28. Assets held for sale

Assets and liabilities of LLC Soyuz (joint-venture of the Group) were presented as at 31 December 2007 as a disposal group held for sale following the commitment of the Group's management to sell this entity to third party buyer.

In 2008 the Group sold LLC Soyuz to third party with a gain of RUR 95,246 thousands (Note 23).

29. Contingencies, Commitments and Operating Risks

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.

Tax legislation. The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 position in their interpretation and enforcement of tax legislation.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Contingencies, Commitments and Operating Risks (Continued)

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.

Assets pledged and restricted. At 31 December 2008 the Group has the following assets pledged as collateral:

	Notes	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Fixed assets (carrying value)	9	6,666,158	9,375,863
Investment property (carrying value)	10	956,642	2,534,444
Initial cost of land lease (carrying value)	12	315,186	119,270
Total		<u>7,937,986</u>	<u>12,029,577</u>

Commitments. The Group has capital commitments to acquire property, plant and equipment amounting to RUR 1,965,076 thousand as at 31 December 2008 (2007: RUR 1,863,965 thousand).

30. Financial Risk Management

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, including the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. It also provides quantitative disclosures concerning those risks.

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.

Following tables contain quantitative disclosures regarding the Group's exposure to financial risks.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Financial Risk Management (Continued)

Financial income and expense

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Recognised in profit or loss		
Interest income on bank deposits	2,397	1,611
Interest income on loans issued	30,830	12,507
Other financial income	471	7,596
Net foreign exchange gain	—	656,456
Financial income	33,698	678,170
Interest expense on financial liabilities measured at amortised cost	(1,036,560)	(948,917)
Net foreign exchange loss	(1,820,809)	—
Net finance costs	(2,823,671)	(270,747)

The above financial income and expenses include the following in respect of assets (liabilities) not at fair value through profit or loss:

	<u>2008</u> <u>'000 RUR</u>	<u>2007</u> <u>'000 RUR</u>
Total interest income on financial assets	33,698	21,714
Total interest expense on financial liabilities	(1,036,560)	(948,917)

Credit risk

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

Trade receivables 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 regularly reviews its accounts receivable balances for doubtful accounts receivable. Provision is established to cover material doubtful debts.

Investments

The only investments of the Group are insignificant loans issued to the related parties, consequently credit risk is considered to be remote.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Financial Risk Management (Continued)

Exposure to credit risk

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 customers are considered to be remote, as there are only few foreign customers and they were properly assessed for creditability.

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

	Gross '000 RUR	Net of allowance for impairment '000 RUR
Past due less than 90 days	589,252	576,736
Past due 90-180 days	21,679	19,930
Past due 180-360 days	15,526	6,487
More than 360 days	<u>196,351</u>	<u>39,734</u>
Total	<u>822,808</u>	<u>642,887</u>

In 2008 the Group has recognised an impairment loss in amount of RUR 158,321 thousand.

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

	2008 '000 RUR
Balance at 1 January 2008	21,600
Impairment loss	<u>158,321</u>
Balance at 31 December 2008	<u>179,921</u>

There was only one individually significant debt, which was fully impaired (the balance of this debt comprised RUR 118,579 thousand). The management has performed thorough analysis of the recoverability of the receivables and mainly impaired the balance outstanding for more than 1 year. However based on the analysis of individual customers some debts outstanding less than 1 year (180 – 360 days) have been also impaired. Based on the past experience the management believes that normally the balances outstanding less than 180 days should not be impaired, however when performing the impairment analysis the management identified several doubtful debts outstanding less than 180 days and included them in the allowance for impairment.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Financial Risk Management (Continued)

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. In accordance with the liquidity risk management policy the responsibilities of the Group's Treasury are:

- making payments only according to the approved budget;
- following the borrowing strategy described in the liquidity risk management policy;
- building effective relationships with banks and other credit institutions.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including the balance of interest payable:

31 December 2008

	<u>Carrying amount '000 RUR</u>	<u>Contractual cash flows '000 RUR</u>	<u>6 months or less '000 RUR</u>	<u>6-12 months '000 RUR</u>	<u>1-5 years '000 RUR</u>	<u>More than 5 years '000 RUR</u>
Non-derivative						
financial liabilities						
Secured bank facilities	10,526,164	(10,526,164)	(4,814,520)	(3,007,315)	(2,704,329)	—
Finance lease liabilities	70,412	(70,412)	(23,533)	(20,484)	(26,395)	—
Unsecured bank facilities	2,113,332	(2,113,332)	(1,671,067)	(442,265)	—	—
Unsecured loans from related parties	2,453,785	(2,453,785)	(717,713)	(114,889)	(1,621,183)	—
Trade and other payables	9,560,303	(9,560,303)	(9,560,303)	—	—	—
Derivative financial liabilities						
Interest rate swap liability	153,675	(153,675)	(51,225)	(51,225)	(51,225)	—
Total	<u>24,877,671</u>	<u>24,877,671</u>	<u>16,838,361</u>	<u>3,636,178</u>	<u>4,403,132</u>	<u>—</u>

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Financial Risk Management (Continued)

31 December 2007

	<u>Carrying amount '000 RUR</u>	<u>Contractual cash flows '000 RUR</u>	<u>6 months or less '000 RUR</u>	<u>6-12 months '000 RUR</u>	<u>1-5 years '000 RUR</u>	<u>More than 5 years '000 RUR</u>
Non-derivative financial liabilities						
Secured bank facilities	9,599,725	(9,599,725)	(3,583,623)	(980,915)	(3,801,961)	(1,233,226)
Finance lease liabilities	67,330	(67,330)	—	(6,407)	(60,923)	—
Unsecured loans from other companies	32,499	(32,499)	(565)	(31,934)	—	—
Unsecured loans from related parties	3,147,019	(3,147,019)	(75,210)	(2,357,294)	(714,515)	—
Trade and other payables	<u>7,068,840</u>	<u>(7,068,840)</u>	<u>(7,068,840)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>19,915,413</u>	<u>(19,915,413)</u>	<u>(10,728,238)</u>	<u>(3,376,550)</u>	<u>(4,577,399)</u>	<u>(1,233,226)</u>

The Group monitors compliance with the banks covenants on 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.

However, as of 31 December 2008 the Group did not comply with one covenant of one loan, which triggered 4 breaches of cross-covenants as detailed below:

	<u>Carrying amount</u>		<u>Original maturity</u>	<u>Breached covenant</u>
	<u>Total '000 RUR</u>	<u>Long-term portion '000 RUR</u>		
European bank for reconstruction and development	2,650,284	2,644,235	2010-2015	Cross-covenant Negative net assets of as at 31 December 2008 according to statutory financial statements of borrower
Sberbank	1,480,481	1,421,507	2009-2014	
Sberbank	751,511	484,777	2009-2011	Cross-covenant
Sberbank	718,316	533,050	2009-2012	Cross-covenant
Sberbank	<u>507,497</u>	<u>448,110</u>	2009-2011	Cross-covenant
Total	<u>6,108,089</u>	<u>5,531,679</u>		

The Group obtained waiver letters from the banks after 31 December 2008, confirming that the banks shall not use its right to demand early redemption. Consequently, management does not believe that there is material uncertainty about the entities ability to continue as going concern due to these loan arrangements. However, in accordance with the requirements of IFRS, these loans have been reclassified as current liabilities as at 31 December 2008.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Financial Risk Management (Continued)

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 the market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return of risk.

Currency risk

The Group holds majority of its business in Russian Federation and collects receivables nominated mainly in Russian Roubles. However financial liabilities of the Group are also nominated in other currencies, such as Euro and 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 liabilities and amounts of foreign exchange rate gains or losses. In the end of 2008 the dynamics of currency exchange rates were showing upwards tendency, which resulted in material foreign exchange loss for the Group.

Exposure to currency risk

The Groups balances denominated in foreign currencies were as follows:

	2008		2007	
	Euro	USD	Euro	USD
Trade and other receivables	—	33,245	687	—
Secured bank facilities	—	(7,872,353)	—	(5,034,573)
Unsecured bank facilities	—	(442,265)	—	—
Unsecured loans from related parties	—	(2,453,792)	—	(1,055,487)
Trade and other payables	(14,320)	(81,933)	(9,720)	(11,218)
Finance lease liabilities	—	(70,397)	—	(67,330)
Interest rate swap liabilities	—	(153,675)	—	—
Gross balance sheet exposure	(14,320)	(11,041,170)	(9,033)	(6,168,608)

The following exchange rates applied during the year:

RUR equals	Average rate		Reporting date rate	
	2008	2007	2008	2007
USD	24.8553	25.5759	29.3804	24.5462
Euro	36.4291	35.0143	41.4411	35.9332

Sensitivity analysis

A 10 percent strengthening of the Russian Rouble against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Financial Risk Management (Continued)

below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	<u>Equity</u> <u>Effect in 000, RUR</u>	<u>Profit or loss</u> <u>Effect in 000, RUR</u>
31 December 2008		
USD	15,368	1,088,750
Euro	—	1,432
31 December 2007		
USD	—	816,269
Euro	—	(69)

A 10 percent weakening of the Russian Rouble against the above currencies at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all variables remain constant.

Interest rate risk

The Group has material exposure to interest rate risk. At the reporting date 76% of the Group's financial liabilities were subject to repricing within 6 months after the balance sheet date.

The Group also uses interest rate swaps to hedge its exposure to variability of interest rates. As at 31 December 2008 the Group has entered into several agreements with Morgan Stanley & Co. International Plc. Under these agreements the Group swaps LIBOR rate for fixed rate varying from 3.9% to 4.1%. At inception, swaps had maturity of two years. The Group hedged 86% of its borrowings with variable rate applying these hedges.

Exposure to interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was mainly represented by the bank loans and loans from related parties (refer to Note 16). The Group uses hedging instruments to hedge such debt.

	<u>Carrying</u> <u>amount</u> <u>2008</u> <u>'000 RUR</u>	<u>Carrying</u> <u>amount</u> <u>2007</u> <u>'000 RUR</u>
Fixed rate instruments		
Financial assets	84,830	208,962
Financial liabilities	<u>(10,327,693)</u>	<u>(10,817,314)</u>
Variable rate instruments		
Financial liabilities	(4,835,985)	(2,029,259)

Fixed rate financial liabilities include bank loans with interest rate, conditional to a certain level of activity on the bank accounts of two entities of the Group. Carrying amount of such loans as at 31 December 2008 amounted to RUR 3,457,805 thousand (2007: RUR 3,186,106 thousand).

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Financial Risk Management (Continued)

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. The analysis assumes that all other variables remain constant. Cash flow was calculated for the one year period ignoring the capitalization of interests.

	Profit or loss		Equity	
	100 bp increase '000 RUR	100 bp decrease '000 RUR	100 bp increase '000 RUR	100 bp decrease '000 RUR
31 December 2008				
Variable rate instruments	(48,227)	48,227	—	—
Interest rate swap	—	—	41,470	(41,470)
Cash flow sensitivity (net)	(48,227)	48,227	41,470	(41,470)
31 December 2007				
Variable rate instruments	(21,049)	21,049	—	—
Cash flow sensitivity (net)	(21,049)	21,049	—	—

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. There were no changes in the Group's approach to capital management during the year. Some of the bank covenants impose capital requirements on the Group. As at 31 December 2008 the Group was in breach of some of the capital requirements as imposed by loan covenants. The corresponding long-term liabilities for such loans have been classified as short-term in these financial statements.

31. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. Carrying amounts of trade receivables and loans issued approximate fair values.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Fair Value of Financial Instruments (Continued)

Liabilities carried at amortised cost. The fair value of the Group's liabilities carried at amortised cost does not differ materially from its carrying amount as the majority of Group's long-term loans have variable interest rate.

32. Events Subsequent to the Balance Sheet Date

Subsequent to the balance sheet date the Group has entered into loan agreement totalling RUR 4,890,628 thousand.

The Group has acquired one store in Volzhsky (13 January 2009); one store in Krasnoyarsk (20 January 2009), one store in Stavropol (3 February 2009) with a cost amounting to RUR 249,638 thousand (including the amount of RUR 243,552 thousand prepaid in 2008). Total square of these stores is 11,990 sq.m. The determination of the fair values of assets acquired and liabilities assumed have not been finalized yet.

Subsequent to the balance sheet date the Group has acquired retail store from third party. Purchase price of the transaction amounted to RUR 445,410 thousand.

Subsequent to the balance sheet date the Group has pledged property, plant and equipment and other non-current assets for security of the Group's obligations. Fair value of property, plant and equipment amounted to RUR 1,269,000 thousand and carrying amount of other non current assets amounted to RUR 164,324 thousand.

DORINDA HOLDING S.A. Group

**International Financial Reporting Standards
Consolidated Financial Statements
31 December 2007**



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REPORT OF THE REVISEUR D'ENTREPRISES

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dorinda Holding S.A., which comprise the consolidated balance sheet as at December 31, 2007 and the consolidated income statement, 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 notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

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 by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, 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 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.

Basis for Qualified Opinion

At the end of 2005 the Group was in the process of upgrading its inventory management system. During the upgrade phase, the Group could not adequately maintain accounting records with regard to inventory quantities. As a result, we were unable to investigate differences between actual inventory quantities and quantities recorded in the accounting records observed when counting the inventories stated at USD 23,234 thousand as at January 1, 2006. It was not practicable to satisfy ourselves as to these inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended December 31, 2006.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

Luxembourg, November 6, 2008

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

Thierry Ravasio

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DORINDA HOLDING S.A. GROUP
CONSOLIDATED BALANCE SHEET

	Note	31 December 2007 \$'000	31 December 2006 \$'000
ASSETS			
Non-current assets			
Investment property	9	103,252	38,746
Property, plant and equipment	8	730,917	495,170
Construction in progress	8	70,139	67,702
Intangible assets		2,208	418
Long-term loans issued		1,587	1,924
Deferred income tax asset	23	2,760	373
Other non-current assets	10	147,478	130,214
Total non-current assets		1,058,341	734,547
Current assets			
Inventories	11	106,160	58,711
Trade and other receivables	12	80,017	77,804
Short-term loans issued		1,296	847
Cash and cash equivalents	13	63,450	50,022
Assets held for sale	25	2,204	—
Total current assets		253,127	187,384
TOTAL ASSETS		1,311,468	921,931
EQUITY	15	405,288	284,275
LIABILITIES			
Non-current liabilities			
Borrowings	14	234,240	365,217
Deferred income tax liability	23	82,728	49,319
Deferred income		362	338
Other non-current liabilities	16	2,482	1,661
Total non-current liabilities		319,812	416,535
Current liabilities			
Borrowings	14	286,380	41,021
Trade and other payables	18	290,992	178,282
Current income tax payable		5,903	1,616
Deferred income		880	202
Liabilities held for sale	25	2,213	—
Total current liabilities		586,368	221,121
TOTAL LIABILITIES		906,180	637,656
TOTAL LIABILITIES AND EQUITY		1,311,468	921,931

Approved for issue and signed on 06 November 2008.

Schneider G.	Schaeffer N.	Pryanikov D.N.
Schneider G.	Schaeffer N.	Pryanikov D.N.
Member of Administrative Board	Member of Administrative Board	Financial Director

The accompanying notes are an integral part of these consolidated financial statements

DORINDA HOLDING S.A. GROUP
CONSOLIDATED INCOME STATEMENT

	<u>Note</u>	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Revenue	19	1,193,802	614,300
Cost of goods sold		(940,912)	(488,478)
Gross profit		252,890	125,822
General, selling and administrative expenses	20	(199,300)	(84,899)
Other operating income and expenses	21	(12,721)	754
Operating profit		40,869	41,677
Interest income		849	304
Finance costs	22	(37,102)	(24,214)
Foreign exchange gains		25,668	22,729
Profit before income tax		30,284	40,496
Income tax expense	23	(17,009)	(17,681)
Profit for the year		13,275	22,815

The accompanying notes are an integral part of these consolidated financial statements.

DORINDA HOLDING S.A. GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital \$'000	Legal reserve \$'000	Additional paid-in capital \$'000	Retained earnings \$'000	Revaluation reserve \$'000	Translation reserve \$'000	Total equity \$'000
Balance at 31 December 2005		37	4	45,237	67,340	81,640	(6,076)	188,182
Profit for the year		—	—	—	22,815	—	—	22,815
Revaluation of property, plant and equipment . .	15	—	—	—	—	33,471	—	33,471
Transfer of revaluation reserve (•)	15	—	—	—	7,022•	(7,022)•	—	—
Currency translation differences		—	—	—	—	—	21,141	21,141
Total recognized income and expenses		—	—	—	29,837•	26,449•	21,141	77,427
Contributions from shareholders	15	—	—	55,919	—	—	—	55,919
Distributions to shareholders		—	—	—	(37,253)	—	—	(37,253)
Balance at 31 December 2006		37	4	101,156	59,924•	108,089•	15,065	284,275
Profit for the year		—	—	—	13,275	—	—	13,275
Revaluation of property, plant and equipment . .	15	—	—	—	—	80,785	—	80,785
Currency translation differences		—	—	—	—	—	24,594	24,594
Total recognized income and expenses		—	—	—	13,275	80,785	24,594	118,654
Contributions from shareholders	15	—	—	5,332	—	—	—	5,332
Distributions to shareholders		—	—	—	(2,973)	—	—	(2,973)
Balance at 31 December 2007		37	4	106,488	70,226	188,874	39,659	405,288

• Restated — refer to the Note 15 for details.

The accompanying notes are an integral part of these consolidated financial statements

DORINDA HOLDING S.A. GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS

	2007	2006
	\$'000	\$'000
Cash flows from operating activities		
Profit before income tax	30,284	40,496
<i>Adjustments for:</i>		
Depreciation and amortization	32,604	12,838
Gain on disposal of property, plant and equipment and investment property	(411)	(194)
Profit from revaluation of investment property	(18,237)	(2,726)
Impairment of property, plant and equipment	29,975	—
Loss from write-off of receivables	1,247	1,213
Interest income	(849)	(304)
Finance costs	37,102	24,214
Foreign exchange losses less gains	(25,668)	(22,017)
Operating cash flow before working capital changes	86,047	53,520
Increase in trade and other receivables	(83)	(31,207)
Increase in inventories	(41,427)	(32,266)
Increase in trade and other payables	118,753	75,335
Decrease/(increase) in deferred income	703	(140)
Cash generated from operations	163,993	65,242
Interest received	553	—
Interest paid	(51,860)	(19,652)
Income taxes paid	(12,283)	(18,720)
Net cash from operating activities	100,403	26,870
Cash flows from investing activities		
Purchase of property, plant and equipment and initial cost of land lease	(201,789)	(253,567)
Expenditures on investment property	(3,862)	(2,595)
Purchase of intangible assets	(2,082)	(204)
Proceeds from sale of property, plant and equipment	5,267	19,796
Net change in loans issued	(112)	(1,772)
Net cash used in investing activities	(202,578)	(238,342)
Cash flows from financing activities		
Receipt of contributions from shareholders	—	8,907
Proceeds from borrowings	452,851	305,891
Distributions to shareholders	—	(4,329)
Repayment of borrowings	(335,683)	(60,868)
Repayment of finance lease payables	(2,741)	(1,246)
Net cash from financing activities	114,427	248,355
Net increase in cash and cash equivalents	12,252	36,883
Effect of exchange rate changes on cash and cash equivalents	1,176	137
Cash and cash equivalents at the beginning of the year	50,022	13,002
Cash and cash equivalents at the end of the year	63,450	50,022

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The DORINDA HOLDING S.A. Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the year ended 31 December 2007 for Dorinda Holding S.A. (the “Company”) and its subsidiaries (together referred to as the “Group”).

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

The Group is ultimately controlled by three individuals, Mr. Korzhev, Mr. Troitckii and Mr. Volchek (“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. Related party transactions are detailed in Note 7.

The Group’s principal business activity is operation of retail chain in Russia under brand name “O’Key”. At 31 December 2007 the Group operated twenty four stores, with further 1 store opened shortly after the reporting date (31 December 2006: 12 stores).

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

Business environment. The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. 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. Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and investment property are stated at fair value and that lands and buildings are subject to revaluation on a regular basis. The carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

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 US Dollars, which is the Company’s presentation currency as management believes it is the most useful currency to adopt for users of these consolidated financial statements. All amounts in these financial statements are presented in thousands of US Dollars (“\$ thousands”), unless otherwise stated.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

The results and financial position of all the Group entities are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates and
- all resulting exchange differences are recognized as translation reserve in equity.

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUR 24.5462 (2006: USD 1 = RUR 26.3311).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Investments in Joint Ventures. Joint ventures are jointly controlled entities, whereby the Company and other parties undertake an economic activity that is subject to joint control. In accordance with the revised IAS 31 "Interests in Joint Ventures" jointly controlled entities are accounted for using proportionate consolidation method, whereby the Company's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Company's financial statements. Where a sale of assets to joint ventures occurred, and these assets were retained by the joint venture, the Company recognized only that portion of the gain or loss that is attributable to the interests of the other venturers. When a purchase of assets from joint ventures occurred, the Company's share in the profits from this transaction is not recognized until the assets are resold.

Property, plant and equipment. Property, plant and equipment are stated at cost for equipment and other fixed assets and stated at revalued amounts for land and buildings, as described below, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of land and buildings are credited to Revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is recognized either on the retirement or disposal of the asset.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are recognized and the replaced part is retired.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts over their estimated useful lives. The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

	Useful lives in years
Buildings	30
Machinery and equipment, auxiliary facilities	2 to 20
Motor vehicles	5 to 10
Leasehold improvements	over the term of the underlying lease

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 is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value. Fair value of the Group's investment property is determined by independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The revaluation gain or loss is recognized in profit and loss account.

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. When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are recognized in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. 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 accounts payable (long-term accounts payable for amounts due over

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

12 months). The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life.

Intangible assets. All of the Group's intangible assets have definite useful lives and primarily include recognized computer software, patents and licenses. Acquired computer software, licenses and patents are recognized on the basis of the costs incurred to acquire and bring them to use.

External development costs that are directly associated with identifiable and unique software controlled by the Group are added to the cost of the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Amortization on intangible assets is calculated using the straight-line method to allocate the cost over their estimated useful lives. The Group applies the useful lives from 3 to 7 years.

Initial recognition of financial instruments. The Group's financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

Classification of financial assets. The Group classifies its financial assets as loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Derecognition of financial assets. The Group derecognizes financial assets when the assets are redeemed or the rights to cash flows from the assets have otherwise expired or the Group has transferred substantially all the risks and rewards of ownership of the assets or otherwise has lost control.

Income taxes. 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. The income tax charge comprises current tax and deferred tax and is recognized in the consolidated income statement unless it relates to transactions that are recognized, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to the taxation authorities in respect of taxable profits for the current period. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only in case of immaterial amounts and only within the individual companies of the Group.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Inventories. Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the immediate weighted average basis. The cost of goods for resale includes its purchase price and related transportation costs, as well as other related logistic costs. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortized cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Deposits which are included in cash and cash equivalents are carried at amortized cost using the effective interest method.

Value added tax. Input VAT is generally reclaimable against sales VAT upon payment for purchases. 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 recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability.

Capital and reserves. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

The dividends paid to the shareholders are recognized 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 recognized directly in equity as distributions to the shareholders.

Translation differences resulting from the translation of financial position and results of the Group entities to presentation currency are recognized as translation reserve in equity.

Borrowings. Borrowings are carried at amortized cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Foreign currency translation. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Revenue recognition. Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register. Sales of services are recognized in the accounting period in which 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 recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

Sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognized on a time-proportion basis using the effective interest method.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to Note 26.

Revenue recognition. The Group has recognised revenue amounting to \$1,168,011 thousand for sales of goods during 2007. According to the Group's policy customers has the right to return the goods if they are dissatisfied. The Group believes that, based on past

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

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

Assumptions in revaluing of land and buildings and investment properties. Fair value of the Group's land and buildings and investment property is determined by registered independent appraisers with appropriate recognized professional qualification and recent experience in the location and type of the property valued. The detailed approaches are outlined in Note 8.

4. Adoption of IFRS

Certain new standards and interpretations became effective for the Group from 1 January 2007. Except for IFRS 7 Financial Instruments, other new standards and interpretations do not significantly affect the Group's consolidated financial statements.

- **IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures).** The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Group added required disclosures to comply with IFRS 7 in these consolidated financial statements.
- **IFRIC 7, Applying the Restatement Approach under IAS 29 (effective from 1 January 2007).** The Interpretation clarifies the application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation under with IAS 29.
- **IFRIC 8, Scope of IFRS 2 (effective from 1 January 2007).** The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- **IFRIC 9, Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006 that is from 1 January 2007).** The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contact.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Adoption of IFRS (Continued)

- **IFRIC 10 “Financial Reporting and Impairment” (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007).** The interpretation clarifies that an entity should not reverse an impairment loss recognised in previous periods in respect of goodwill or an investment in a financial asset carried at cost. The interpretation is applicable for interim periods.

5. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of property, plant and equipment. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This new pronouncement will not significantly influence financial statements of the Group as the Group applied allowed alternative treatment (i.e. to capitalise interest into the cost of qualifying assets) under previously effective standard.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquirer's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. There would be no implication of the Group's financial statements as a result of these interpretations.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. There would be no implication of the Group's financial statements as a result of these interpretations.

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. There would be no implication of the Group's financial statements as a result of these interpretations.

IFRIC 11 IFRS 2—Group and Treasury Share Transactions (issued in November 2006; effective for annual periods beginning on or after 1 March 2007). IFRIC 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements. However, this interpretation will have no impact on consolidated financial statements.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IFRIC 12 Service Concession Arrangements (issued in November 2006; effective for annual periods beginning on or after 1 January 2008). IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (issued in July 2007; effective for annual periods beginning on or after 1 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements. However, this interpretation will have no impact on consolidated financial statements.

6. Segment Information

The Group has only one reportable business segment, which is retail trade, and one geographical segment: Russian Federation. Thus management believes that information presented in consolidated financial statements of the Group is sufficient and it has not presented segment information in a separate note.

7. Balances and Transactions with Related Parties

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 and 31 December 2006 are detailed below.

At 31 December 2007 and 31 December 2006, the outstanding balances with related parties were as follows:

	Entities under common control of the ultimate shareholders	
	31 December 2007	31 December 2006
	\$'000	\$'000
Trade and other receivables: Trade receivables	36	1,101
Trade and other receivables: Prepayments	36	36
Trade and other receivables: Other receivables	96	25
Other non-current assets: Receivables from shareholders	5,628	—
Short-term investments: Loans issued	1,220	—
Long-term borrowings	29,109	135,226
Short-term borrowings	99,099	—
Trade and other payables: Trade payables	1	25,014
Trade and other payables: Prepayments	3	1,051

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the years 2007 and 2006 were as follows:

	Entities under common control of the ultimate shareholders	
	2007 \$'000	2006 \$'000
Revenue from rent of premises	435	183
Other rental income	18	—
Operating leases	418	421
Finance costs	9,076	11,334

In the table above finance costs do not include \$2,891 thousand of interest costs, which were capitalized and thus increased initial cost of the Group's property, plant and equipment and investment property (2006: \$2,056 thousand).

Property, plant and equipment amounting to \$384 thousand were purchased from other related parties during the year ended 31 December 2007.

During 2007, shareholders made contributions disclosed in Additional paid in capital and detailed in note 15. 2007 contributions include compensation for the Group's loss from disposal of a land plot in 2006.

During 2007 and 2006 as a result of the increase in the interest rates in the loan agreements with the related parties (companies under the control of the Group's ultimate shareholders), the fair value of the respective loans has increased. The loss from these operations has been recognized directly in equity as a distribution to the shareholders. The amount of this distribution was equal to \$2,973 thousand (2006: \$14,387 thousand).

During 2006 the Group has disposed land plot to a related party (a company under the control of the Group's ultimate shareholders). The loss from this disposal has been recognized directly in equity as a distribution to the shareholders. The amount of this distribution (net of related taxes) was equal to \$22,428 thousand.

In 2007 the key management received remuneration in the form of wages and salaries amounting to \$3,677 thousand (2006: \$2,198 thousand).

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land \$'000	Buildings \$'000	Auxiliary facilities \$'000	Machinery and equipment \$'000	Other fixed assets \$'000	Construction in progress \$'000	Total \$'000
Deemed cost/Revalued amount							
Balance at 1 January 2006	149,827	133,645	507	13,801	5,724	42,754	346,258
Additions	2,765	98,252	72	2,139	8,249	88,053	199,530
Transfers	—	59,634	76	6,250	743	(66,703)	—
Revaluation	19,232	19,754	—	—	—	—	38,986
Disposals	(42,087)	—	(118)	(2,647)	(1,434)	(319)	(46,605)
Translation to presentation currency . .	13,050	18,373	47	1,944	768	3,919	38,099
Balance at 31 December 2006	142,787	329,658	584	21,487	14,050	67,702	576,268
Balance at 1 January 2007	142,787	329,658	584	21,487	14,050	67,702	576,268
Additions	26,846	60,719	608	27,254	16,672	52,295	184,394
Transfers	—	25,719	—	24,311	837	(50,867)	—
Transfers to Investment property	(37,106)	—	—	—	—	—	(37,106)
Revaluation	115,206	(50,813)	—	—	—	—	64,393
Disposals	—	—	(22)	(639)	(186)	(1,178)	(2,025)
Transfer to assets held for sale	—	—	—	—	—	(2,008)	(2,008)
Translation to presentation currency . .	14,786	25,465	67	4,167	1,742	4,195	50,422
Balance at 31 December 2007	262,519	390,748	1,237	76,580	33,115	70,139	834,338
Depreciation							
Balance at 1 January 2006	—	—	(148)	(4,463)	(1,884)	—	(6,495)
Depreciation charge	—	(4,884)	(107)	(3,924)	(2,454)	—	(11,369)
Revaluation	—	4,884	—	—	—	—	4,884
Disposals	—	—	60	191	129	—	380
Translation to presentation currency . .	—	—	(15)	(536)	(245)	—	(796)
Balance at 31 December 2006	—	—	(210)	(8,732)	(4,454)	—	(13,396)
Balance at 1 January 2007	—	—	(210)	(8,732)	(4,454)	—	(13,396)
Depreciation charge	—	(11,883)	(227)	(10,767)	(7,328)	—	(30,205)
Revaluation	—	11,883	—	—	—	—	11,883
Disposals	—	—	1	77	104	—	182
Translation to presentation currency . .	—	—	(31)	(1,085)	(630)	—	(1,746)
Balance at 31 December 2007	—	—	(467)	(20,507)	(12,308)	—	(33,282)
Net book value							
At 31 December 2005	149,827	133,645	359	9,338	3,840	42,754	339,763
At 31 December 2006	142,787	329,658	374	12,755	9,596	67,702	562,872
At 31 December 2007	262,519	390,748	770	56,073	20,807	70,139	801,056

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Property, Plant and Equipment (Continued)

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

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

The market approach considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the nature, conditions and locations of the appraised property relative to the market comparative. In the income approach, an estimate is made of annual net operating income, which is assumed to be constant in perpetuity. Discount rates from 8% to 10% were applied in the income based approach, dependent on local risk factors.

At 31 December 2007 property, plant and equipment carried at \$381,968 thousand (2006: \$293,428 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 14.

Included in Machinery and equipment are assets held under finance leases with a carrying value of \$6,018 thousand (2006: \$2,925 thousand). Included in Other fixed assets are assets held under finance leases with a carrying value of \$312 thousand (2006: \$507 thousand). Refer to Note 16.

9. Investment Property

	Note	2007 \$'000	2006 \$'000
Investment properties at fair value as at 1 January		38,746	30,421
Transfers from property, plant and equipment		37,106	—
Expenditure on subsequent improvements		3,862	2,595
Fair value gain	21	18,237	2,726
Effect of translation to presentation currency		5,301	3,004
Investment properties at fair value as at 31 December		103,252	38,746

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognized professional qualification and recent experience in the location and type of the property being valued. Refer to Note 8.

At 31 December 2007 investment property carried at \$103,252 thousand (2006: \$38,746 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 14.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Other Non-Current Assets

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Prepayments for non-current assets	29,743	40,749
Initial cost of land lease	112,107	89,465
Long term receivables from shareholders	5,628	—
Total other non-current assets	<u>147,478</u>	<u>130,214</u>

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

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

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Cost		
Balance at 1 January	92,071	44,405
Additions	22,434	42,164
Disposals	(5,039)	—
Translation to presentation currency	7,426	5,502
Balance at 31 December	116,892	92,071
Accumulated amortization and depreciation charge		
Balance at 1 January	(2,606)	(1,145)
Amortization charge	(1,943)	(1,314)
Disposals	36	—
Translation to presentation currency	(272)	(147)
Balance at 31 December	<u>(4,785)</u>	<u>(2,606)</u>
Net book value	112,107	89,465

At 31 December 2007 initial cost of land lease carried at \$4,859 thousand (2006: \$3,849 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 14.

11. Inventories

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Goods for resale	101,000	56,255
Raw materials and consumable	5,160	2,456
Total inventories	<u>106,160</u>	<u>58,711</u>

The balances of inventories are presented net of write-down. In 2007 there was no write-down of inventories (2006: \$297 thousand). The write-down and reversal are included in cost of goods sold.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Trade and Other Receivables

	2007	2006
	\$'000	\$'000
Trade receivables	9,831	29,225
Input VAT	16,458	23,640
Prepayments	12,897	5,351
Prepaid taxes and recoverable VAT	17,557	16,407
Discounts receivable from suppliers	17,178	708
Other receivables	6,096	2,473
Total trade and other receivables	80,017	77,804

13. Cash and Cash Equivalents

	2007	2006
	\$'000	\$'000
Cash on hand	2,651	1,140
RR denominated bank current account	18,805	12,774
USD denominated bank current account	6,905	298
RR term deposits (interest rate: 5% p.a.)	—	17,090
RR term deposits (interest rate: 6.5% p.a.)	—	5,218
Cash in transit	35,089	13,502
Total cash and cash equivalents	63,450	50,022

Term deposits had original maturities of less than three months.

14. Borrowings

Long-term borrowings:

	2007	2006
	\$'000	\$'000
Secured bank Loans	205,131	229,172
Unsecured loans from Related parties	29,109	135,226
Unsecured loans from Other companies	—	819
Total borrowings	234,240	365,217

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Borrowings (Continued)

Short-term borrowings:

	2007	2006
	\$'000	\$'000
Secured bank Loans	185,957	39,043
Unsecured loans from Related parties	99,099	—
Unsecured loans from Other companies	1,324	1,978
Total borrowings	<u>286,380</u>	<u>41,021</u>

The following table shows the period in which the Group's borrowings reprice:

	2007	2006
	\$'000	\$'000
Repricing		
within 6 months	415,421	190,898
between 6 and 12 months	76,078	11,013
between 1 and 5 years	29,121	204,327
Total borrowings	<u>520,620</u>	<u>406,238</u>

The effective interest rates at the balance sheet date were as follows:

	31 December	31 December
	2007	2006
	In % per annum	In % per annum
Secured bank loans	9.3%	9.8%
Unsecured loans from Related parties	8.8%	9.0%
Unsecured loans from Other companies	9.4%	0.1%

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of \$490,079 thousand (2006: \$336,023 thousand). Refer to Notes 8, 9 and 10.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Revaluation reserves and Additional Paid-in Capital

Movements in the other reserves and additional paid-in capital were as follows:

	Revaluation reserve for property, plant and equipment \$'000	Additional paid-in capital \$'000	Total \$'000
At 1 January 2006	81,640	45,237	126,877
Revaluation gain	43,870	—	43,870
Income tax effect	(10,399)	—	(10,399)
Transfer to retained earnings(*)	(7,022)	—	(7,022)
Salaries paid from shareholders funds	—	2,016	2,016
Receipt of zero-interest loans from shareholders	—	1,951	1,951
Forgiveness of loan by shareholders	—	51,952	51,952
At 31 December 2006	108,089	101,156	209,245
Revaluation gain	106,251	—	106,251
Income tax effect	(25,466)	—	(25,466)
Receipt of compensation for loss from sale of land plot	—	5,332	5,332
At 31 December 2007	188,874	106,488	295,362

* In accordance with the accounting policy the Group transfers portion of the revaluation reserve to retained earnings in case of disposal or retirement of the previously revalued item of property, plant and equipment. In the financial statements for the year ended 31 December 2006 the Group has disclosed such transfer in the amount of \$ 27,534 thousand. Subsequent to 31 December 2006 the Group has performed the proper calculation of the transfer for 2006 and came to the amount of \$ 7,022. The Group has decided to change the prior year presentation in relation to this issue.

As at December 31, 2007, the Group's subscribed capital of USD 37 thousands (EUR 31 thousands, 2006: EUR 31 thousands) is represented by 3,100 shares with a par value of EUR 10 each.

The Group's authorized capital is set up at EUR 250,000 (2006: EUR 250,000)

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Financial Leases

Minimum lease payments under finance leases and their present values are as follows:

	Due within 1 year \$'000	Due between 2 and 5 years \$'000	Total \$'000
Minimum lease payments at 31 December 2006	1,303	1,852	3,155
Less future finance charges	(259)	(191)	(450)
Present value of minimum lease payments at 31 December 2006	1,044	1,661	2,705
Minimum lease payments at 31 December 2007	319	3,039	3,358
Less future finance charges	(58)	(557)	(615)
Present value of minimum lease payments at 31 December 2007	261	2,482	2,743

There are no lease payments under finance leases due after 5 years.

17. Operating Leases

Leases as lessee. The Group leases a number of land plots under operating leases. The leases typically run for 49 years, with an option to renew the lease after that date. The lessor for these leases is normally local state authorities. Lease payments are regularly reviewed following the decision of the authorities. The Group has no non-cancellable leases, subleases or contingent rent arrangements. The Group has also a few premises under operating leases. These leases typically run for 10 years.

During the year ended 31 December 2007 \$7,223 thousand was recognized as an expense in the income statement in respect of operating leases (2006: \$4,372 thousand). The expense includes the amortization of initial cost of land lease.

Leases as lessor. The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2007 \$21,578 thousand was recognized as rental income in the income statement (2006: \$15,014 thousand). The Group has no non-cancellable leases.

18. Trade and Other Payables

	2007 \$'000	2006 \$'000
Trade payables	265,845	167,881
Advances received	8,653	2,175
Taxes payable (other than Income tax)	5,382	2,968
Payables to staff	9,681	4,049
Other current payables	1,170	165
Finance lease liability (Note 16)	261	1,044
Trade and other payables	290,992	178,282

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Analysis of Revenue by Category

	2007 \$'000	2006 \$'000
Sales of trading stock	1,090,861	559,129
Sales of self-produced catering products	77,150	38,641
Rental income	21,578	15,014
Revenue from advertising services	4,213	1,516
Total revenue	<u>1,193,802</u>	<u>614,300</u>

20. General, Selling and Administrative Expenses

	2007 \$'000	2006 \$'000
Labour costs	(90,067)	(35,254)
Depreciation and amortization	(32,604)	(12,838)
Advertising and marketing	(7,763)	(4,346)
Operating leases	(5,280)	(3,058)
Repairs and maintenance costs	(4,834)	(4,080)
Communication and utilities	(24,449)	(10,485)
Materials and supplies	(3,436)	(1,503)
Security expenses	(9,049)	(4,057)
Insurance and bank commission	(3,661)	(1,928)
Legal and professional expenses	(3,181)	(1,793)
Operating taxes	(11,458)	(3,004)
Other costs	(3,518)	(2,553)
Total general, selling and administrative expenses	<u>(199,300)</u>	<u>(84,899)</u>

Labour costs are presented gross, including related taxes. The amount of labour costs includes:

	2007 \$'000	2006 \$'000
Wages and salaries	(46,773)	(24,387)
Payroll taxes	(24,420)	(6,481)
Employee benefits	(18,256)	(4,191)
Other operating income and expenses	(618)	(195)
Total labour costs	<u>(90,067)</u>	<u>(35,254)</u>

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Other Operating Income and Expenses

	2007	2006
	\$'000	\$'000
Profit/(loss) from sale of fixed assets	(371)	194
Profit/(loss) from sale of other assets	782	(400)
Loss from write-off of receivables	(1,247)	(1,213)
Gain from revaluation of Investment Property	18,237	2,726
Loss from revaluation of Property, Plant and Equipment	(29,975)	—
Other operating income and expenses	(147)	(553)
Total other operating income and expenses	(12,721)	754

Revaluation of property, plant and equipment performed as at 31 December 2007 resulted in an impairment loss for some of the items, mainly buildings in the amount of \$29,975 thousand. This loss has been presented in the Note above as loss from impairment of property, plant and equipment.

22. Finance Costs

	2007	2006
	\$'000	\$'000
Interest accrued on loans and borrowings	(35,509)	(23,455)
Finance leasing costs	(647)	(133)
Other finance costs	(946)	(626)
Total finance costs recognized in the income statement	(37,102)	(24,214)

During 2007 the Group has capitalized interests in the value of property, plant and equipment and investment property. The amount of capitalized interest represents \$9,630 thousand (2006: \$5,792 thousand).

23. Income Taxes

Income tax expense comprises the following:

	2007	2006
	\$'000	\$'000
Current tax	16,058	14,415
Deferred tax	951	3,266
Income tax expense for the year	17,009	17,681

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Income Taxes (Continued)

A reconciliation between the expected and the actual taxation charge is provided below.

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
IFRS profit before tax	30,284	40,496
Theoretical tax charge at statutory Russian rate (2007: 24%; 2006: 24%)	7,268	9,720
Effect of income taxable at rates different from standard statutory rates	(228)	(1,006)
Tax effect of items which are not deductible or assessable for taxation purposes:		
—Inventory shrinkage expenses	5,197	4,355
—Various other non-deductible expenses	4,772	4,612
Income tax expense for the year	17,009	17,681

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2006: 24%).

Recognized deferred tax assets and liabilities are attributable to the following:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Investment property	—	—	(5,777)	(598)	(5,777)	(598)
Property, plant and equipment	—	2,338	(76,772)	(49,836)	(76,772)	(47,498)
Construction in progress	—	4,592	(1,506)	—	(1,506)	4,592
Investments	189	610	—	—	189	610
Other non-current assets	—	—	(997)	(6,547)	(997)	(6,547)
Inventories	1,562	723	—	—	1,562	723
Trade and other receivables	597	104	—	—	597	104
Borrowings	—	—	(33)	(70)	(33)	(70)
Deferred income	87	130	—	—	87	130
Trade and other payables	2,130	—	—	(392)	2,130	(392)
Tax losses carry-forwards	552	—	—	—	552	—
Tax assets/(liabilities)	5,117	8,497	(85,085)	(57,443)	(79,968)	(48,946)
Set off of tax	(2,357)	(8,124)	2,357	8,124	—	—
Net tax assets/(liabilities)	2,760	373	(82,728)	(49,319)	(79,968)	(48,946)

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Income taxes (continued)

	Balance 1 January 2006 \$'000	Recognised in profit or loss \$'000	Recognised in revaluation reserve \$'000	Recognised in equity \$'000	Translation difference \$'000	Balance 31 December 2006 \$'000	Recognised in profit or loss \$'000	Recognised in revaluation reserve \$'000	Translation difference \$'000	Balance 31 December 2007 \$'000
Investment property	74	(654)	—	—	(18)	(598)	(4,377)	—	(802)	(5,777)
Property, plant and equipment	(38,055)	486	(10,399)	4,195	(3,725)	(47,498)	133	(25,466)	(3,941)	(76,772)
Construction in progress	3,927	290	—	—	375	4,592	(6,173)	—	75	(1,506)
Investments	652	(99)	—	—	57	610	(446)	—	25	189
Other non-current assets	(3,259)	(2,891)	—	—	(397)	(6,547)	5,783	—	(233)	(997)
Inventories	114	579	—	—	30	723	705	—	134	1,562
Trade and other receivables	(359)	481	—	—	(18)	104	467	—	26	597
Borrowings	(93)	31	—	—	(8)	(70)	40	—	(3)	(33)
Deferred income	163	(47)	—	—	14	130	(50)	—	7	87
Trade and other payables	(79)	(296)	—	—	(17)	(392)	2,437	—	85	2,130
Tax loss carry- forwards	1,082	(1,146)	—	—	64	—	530	—	22	552
Net tax assets/ (liabilities)	(35,833)	(3,266)	(10,399)	4,195	(3,643)	(48,946)	(951)	(25,466)	(4,605)	(79,968)

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DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2007 are as follows:

	<u>Country of incorporation</u>	<u>Ownership/ voting</u>	
		<u>2007</u>	<u>2006</u>
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Stoxx Investments Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	100%	—
Dextenco Co. Limited	Cyprus	100%	—
Filorus Limited	Cyprus	100%	—
Legondia Co. Limited	Cyprus	100%	—
Lonmax Limited	Cyprus	100%	—
Marcopia Limited	Cyprus	100%	—
Naviline Limited	Cyprus	100%	—
Nivanex Limited	Cyprus	100%	—
Ricandano Co. Limited	Cyprus	100%	—
LLC Dorinda Invest	Russian Federation	100%	—
LLC Premium	Russian Federation	100%	—
LLC Elart	Russian Federation	100%	—
LLC Legion	Russian Federation	100%	—
LLC Dorinda Development	Russian Federation	100%	100%
LLC O'Key Group Management	Russian Federation	100%	—
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor (Special Purpose Entity)	Russian Federation	—	—
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	100%	100%
LLC Dorinda-Murmansk	Russian Federation	100%	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Baltyisky prostor	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Dunaiskoe	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Krona-1	Russian Federation	100%	100%
LLC Reiki	Russian Federation	100%	100%
LLC Severnoe	Russian Federation	100%	100%

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Subsidiaries (Continued)

	Country of incorporation	Ownership/ voting	
		2007	2006
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroymarket	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%	—
LLC Donskaya Zvezda	Russian Federation	100%	—
LLC N.E.F.-Saint-Petersburg	Russian Federation	100%	—
LLC Sinopskaya naberezhnaya	Russian Federation	100%	—

25. Non-current assets held for sale

Assets and liabilities of LLC Soyuz (joint-venture of the Group) are presented as a disposal group held for sale following the commitment of the Group's management to sell this entity to third party buyer. The expected consideration exceeds the net assets of the disposed entity.

	2007 \$'000
Construction in progress	2,008
Prepayments	160
VAT receivable	4
Cash and bank	32
	2,204
Short-term borrowings	2,028
Other accounts payable	185
	2,213

26. Contingencies, Commitments and Operating Risks

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.

Tax legislation. The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Contingencies, Commitments and Operating Risks (Continued)

circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive 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.

Assets pledged and restricted. At 31 December 2007 the Group has the following assets pledged as collateral:

	Notes	31 December 2007 \$'000	31 December 2006 \$'000
Fixed assets (carrying value)	8	381,968	293,428
Investment property (carrying value)	9	103,252	38,746
Initial cost of land lease (carrying value)	10	4,859	3,849
Total		490,079	336,023

Commitments. The Group has capital commitments to acquire property, plant and equipment amounting to \$75,937 thousand as at 31 December 2007 (2006: \$84,245 thousand).

27. Financial Risk Management

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. It also provides quantitative disclosures concerning those risks.

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.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management (Continued)

Credit risk

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

Trade receivables 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 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. Trade receivables also include receivables from wholesales and providing of rent services, but their share in total trade receivables is not significant.

Other receivables mainly include bonuses from suppliers which are to be paid in cash. Bonuses are received from suppliers of the Group thus the credit risk is mostly managed through procedures for selection of suppliers.

The Group regularly reviews its accounts receivable balances for doubtful accounts receivable. Provision is established to cover material doubtful debts.

Investments

The only investments of the Group are loans mainly issued to the related parties, consequently credit risk is considered to be remote.

Guarantees

The Group usually provides financial guarantees only to related parties. Providing financial guarantees to parties other than companies under common control of the ultimate shareholders requires authorization of the shareholders.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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. In accordance with the liquidity risk management policy the responsibilities of the Group's Treasury are:

- making payments only according to the approved budget
- following the borrowing strategy described in the liquidity risk management policy
- building effective relationships with banks and other credit institutions.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management (Continued)

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 the market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return of risk.

Currency risk

The Group holds majority of its business in Russian Federation and collects receivables nominated mainly in Russian Roubles. However financial liabilities of the Group are also nominated in other currencies, such as Euro, US Dollar, etc. 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 liabilities and amounts on foreign exchange rate gains or losses. In 2007 the dynamics of currency exchange rates were showing downwards tendency, which resulted in foreign exchange gain for the Group. For 2008 the Group's management intends to use hedging instruments to secure its financial liabilities nominated in foreign currencies, especially in US dollars.

Interest rate risk

The Group has material exposure to interest rate risk. At the reporting date 80% of the Group's financial liabilities were subject to repricing within 6 months after the balance sheet date. The Group manages this risk through thorough analysis of the sufficiency of the funds to repay the debts, when they fall due and re-financing of the current borrowing through EBRD loan (refer to the Note 29).

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. There were no changes in the Group's approach to capital management during the year. 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. Also some of the bank covenants impose capital requirements on the Group. The Group follows such requirements (the breaches of covenants are discussed further in the financial statements).

Following tables contain quantitative disclosures regarding the Group's exposure to financial risks.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management (Continued)

Financial income and expense

Recognised in profit or loss

	2007	2006
	\$'000	\$'000
Interest income on bank deposits	63	18
Interest income on loans issued	489	286
Other financial income	297	—
Net foreign exchange gain	<u>25,668</u>	<u>22,729</u>
Financial income	26,517	23,033
Interest expense on financial liabilities measured at amortised cost	<u>(37,102)</u>	<u>(24,214)</u>
Net finance costs	(10,585)	(1,181)

The above financial income and expenses include the following in respect of assets (liabilities) not at fair value through profit or loss:

	2007	2006
	\$'000	\$'000
Total interest income on financial assets	849	304
Total interest expense on financial liabilities	<u>(37,102)</u>	<u>(24,214)</u>

Credit risk

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 customers are considered to be remote, as there are only few foreign customers and they were properly assessed for creditability.

The aging of Trade and other receivables (including discounts receivable from suppliers) at the reporting date was:

	Gross	Net of allowance
	\$'000	for impairment
		\$'000
Less than 90 days old	21,411	21,221
Over 90 days old	502	502
Over 180 days old	17,137	16,804
Over 360 days old	563	206
Total	<u>39,613</u>	<u>38,733</u>

In 2007 the Group has recognised an impairment loss in amount of \$880 thousand.

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management (Continued)

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

	<u>2007</u> <u>\$'000</u>
Balance at 1 January 2007	—
Impairment loss	880
Balance at 31 December 2007	880

Liquidity risk

The following are the contractual maturities of financial liabilities, including the balance of interest payable:

31 December 2007

	<u>Carrying</u> <u>amount</u> <u>\$'000</u>	<u>Contractual</u> <u>cash flows</u> <u>\$'000</u>	<u>6 months</u> <u>or less</u> <u>\$'000</u>	<u>6-12 months</u> <u>\$'000</u>	<u>1-5 years</u> <u>\$'000</u>	<u>More than</u> <u>5 years</u> <u>\$'000</u>
Non-derivative						
financial liabilities						
Secured bank loans . . .	391,088	(391,088)	(145,995)	(39,962)	(154,890)	(50,241)
Finance lease liabilities .	2,743	(2,743)	—	(261)	(2,482)	—
Unsecured loans from other companies	1,324	(1,324)	(23)	(1,301)	—	—
Unsecured loans from related parties	128,208	(128,208)	(3,064)	(96,035)	(29,109)	—
Trade and other payables	287,981	(287,981)	(287,981)	—	—	—
Total	<u>811,344</u>	<u>(811,344)</u>	<u>(437,063)</u>	<u>(137,559)</u>	<u>(186,481)</u>	<u>(50,241)</u>

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management (Continued)

31 December 2006

	<u>Carrying amount \$'000</u>	<u>Contractual cash flows \$'000</u>	<u>6 months or less \$'000</u>	<u>6-12 months \$'000</u>	<u>1-5 years \$'000</u>	<u>More than 5 years \$'000</u>
Non-derivative financial liabilities						
Secured bank loans . . .	268,215	(268,215)	(10,335)	(28,708)	(223,362)	(5,810)
Finance lease liabilities .	2,705	(2,705)	(522)	(522)	(1,661)	—
Unsecured loans from other companies	2,797	(2,797)	(1,965)	(13)	(819)	—
Unsecured loans from related parties	135,226	(135,226)	—	—	(135,226)	—
Trade and other payables	176,679	(176,679)	(176,679)	—	—	—
Total	<u>585,622</u>	<u>(585,622)</u>	<u>(189,501)</u>	<u>(29,243)</u>	<u>(361,068)</u>	<u>(5,810)</u>

The Group constantly monitors compliance with the banks covenants. However in 2007 the Group did not comply with the covenants in two cases, which were unavoidable in the managements' view. In both cases the Group obtained letters from the banks subsequent to year-end, confirming that the banks shall not use its right to demand early redemption, but in accordance with IFRS, those have been reclassified as current liabilities as at December 31, 2007.

The Group has substantial financial assets (\$131,866 thousand as at 31 December 2007) for repayment of loans. In addition, subsequent to the balance sheet date the Group has entered into the agreement with EBRD to obtain a loan (refer to the Note 29), which is planned to be partly used to re-finance the short-term liabilities.

Currency risk

Exposure to currency risk

The Groups balances denominated in foreign currencies were as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Euro \$'000</u>	<u>USD \$'000</u>	<u>Euro \$'000</u>	<u>USD \$'000</u>
Trade and other receivables	28	—	—	—
Secured bank loans	—	(205,106)	—	(215,571)
Unsecured loans from related parties	—	(43,000)	—	(43,000)
Trade and other payables	(396)	(457)	—	—
Finance lease liabilities	—	(2,743)	—	(2,705)
Gross balance sheet exposure	<u>(368)</u>	<u>(251,306)</u>	<u>—</u>	<u>(261,276)</u>

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management (Continued)

The following exchange rates applied during the year:

US Dollar equals	Average rate		Reporting date rate	
	2007	2006	2007	2006
Russian Rouble	25.5762	27.1852	24.5462	26.3311
Euro	0.7304	0.7969	0.6831	0.7589

Sensitivity analysis

A 10 percent strengthening of the Russian Rouble against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2006.

	Profit or loss Effect in \$'000
31 December 2007	
USD	25,131
Euro	37
31 December 2006	
USD	26,128
Euro	—

A 10 percent weakening of the Russian Rouble against the above currencies at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all variables remain constant.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was mainly represented by the bank loans and loans from related parties (refer to Note 14). The Group does not have any derivatives to hedge interest rate risk.

	Carrying amount 2007 \$'000	Carrying amount 2006 \$'000
Fixed rate instruments		
Financial assets	8,513	2,771
Financial liabilities	440,692	328,840
Variable rate instruments		
Financial liabilities	82,671	80,103

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management (Continued)

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. The analysis assumes that all other variables remain constant. Cash flow was calculated for the one year period ignoring the capitalisation of interests.

	Profit or loss 2007		Profit or loss 2006	
	100 bp increase \$'000	100 bp decrease \$'000	100 bp increase \$'000	100 bp decrease \$'000
31 December 2007				
Variable rate instruments	(823)	823	(798)	798
Cash flow sensitivity	(823)	823	(798)	798

28. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of financial assets carried at amortised cost is normally their carrying amount. Carrying amounts of trade receivables and loans issued approximate fair values.

Liabilities carried at amortised cost. The fair value of the Group's liabilities carried at amortised cost does not differ materially from its carrying amount.

29. Events Subsequent to the Balance Sheet Date

Subsequent to the balance sheet date the Group has acquired a land plot with a cost of \$1,125 thousand and lease rights for two land plots amounting to \$13,683 thousand. Also the Group has acquired several retail outlets in Volgograd and Murmansk with a cost amounting to \$14,666 thousand.

Subsequent to the balance sheet date the Group has taken decisions:

- to enter into loan agreement with EBRD in respect of the long-term borrowings amounting to \$200,000 thousand. EBRD loan bears interest determined as LIBOR plus 3.15% and

DORINDA HOLDING S.A. Group
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Events Subsequent to the Balance Sheet Date (Continued)

should be repaid during 5 years from each tranche. The portion of EBRD loan in the amount of \$86,000 thousand will be used to re-finance short-term borrowings of the Group.

- to enter into several credit line agreements and loan agreements with exposure totalling \$199,173 thousand.
- to pledge assets for security of the Group's obligations amounting to \$124,858 thousand (at fair value of assets).

O'Key Group S.A.
(formerly named Dorinda Holding S.A.)

**Condensed Consolidated Interim
Financial Statements
for the six months ended 30 June 2010**

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To the Shareholders of
O'KEY Group S.A. (formerly Dorinda Holding S.A.)
23, rue Beaumont
L-1219 Luxembourg

Independent Auditors' Report on Review of the condensed consolidated interim financial information

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of O'KEY Group S.A. and its subsidiaries (the "Group") as at 30 June 2010 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows, and the notes thereto for the six-month period then ended (the "condensed consolidated interim financial information"). The Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2010 is not

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T.V.A. LU 20379877
Capital 25.000 €
R.C.S. Luxembourg B 103590



prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, 13 September 2010

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

A handwritten signature in black ink, consisting of a long horizontal stroke with a vertical stroke intersecting it near the left end, and a curved line above the horizontal stroke.

Thierry Ravasio

O'KEY GROUP S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Note	30 June 2010 '000 RUR	31 December 2009 '000 RUR
ASSETS			
Non-current assets			
Investment property	14	1,575,597	1,567,424
Property, plant and equipment	12	19,727,987	18,995,363
Construction in progress	12	1,038,341	974,042
Intangible assets	13	422,978	481,426
Long-term loans issued		1,543	9,362
Deferred tax asset	16	305,443	243,107
Other non-current assets	15	3,540,044	3,622,627
Total non-current assets		26,611,933	25,893,351
Current assets			
Inventories	17	4,508,043	5,145,489
Trade and other receivables	18	962,688	980,402
Prepayments for current assets		558,514	463,162
Short-term loans issued		7,872	1,724
Cash and cash equivalents		487,219	1,462,312
Total current assets		6,524,336	8,053,089
Total assets		33,136,269	33,946,440
EQUITY AND LIABILITIES			
Equity	19	8,069,314	7,135,792
Non-current liabilities			
Loans and borrowings	21	7,508,322	9,026,488
Deferred income tax liability	16	604,383	392,541
Deferred income		—	1,108
Total non-current liabilities		8,112,705	9,420,137
Current liabilities			
Loans and borrowings	21	8,100,867	6,439,677
Trade and other payables	22	8,790,910	10,800,614
Current income tax payable		62,473	150,220
Total current liabilities		16,954,250	17,390,511
Total liabilities		25,066,955	26,810,648
Total equity and liabilities		33,136,269	33,946,440

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages F-162 to F-182.

O'KEY GROUP S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2010

	Note	2010 '000 RUR	2009 '000 RUR
Revenue	7	38,254,168	31,487,861
Cost of goods sold		<u>(30,147,002)</u>	<u>(24,890,994)</u>
Gross profit		8,107,166	6,596,867
General, selling and administrative expenses	8	(5,728,577)	(4,984,378)
Other operating income and expenses	9	(97,160)	(205,974)
Operating profit		2,281,429	1,406,515
Finance income		2,278	13,010
Finance costs		(667,679)	(826,424)
Foreign exchange losses		<u>(278,619)</u>	<u>(679,868)</u>
Profit/(loss) before income tax		1,337,409	(86,767)
Income tax expense	11	(468,728)	(410,206)
Profit/(loss) for the period		868,681	(496,973)
Other comprehensive income			
Foreign currency translation differences for foreign operations		69	(22,812)
Change in fair value of hedges		80,965	(83,069)
Income tax on other comprehensive income	11	<u>(16,193)</u>	<u>16,614</u>
Other comprehensive income for the period, net of income tax		64,841	(89,267)
Total comprehensive income for the period		933,522	(586,240)
Earnings per share			
Basic and diluted earnings per share (RUR)	20	<u>3,432</u>	<u>(160,314)</u>

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages F-162 to F-182.

O'KEY GROUP S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2010

	Note	Share capital '000 RUR	Legal reserve '000 RUR	Additional paid-in capital '000 RUR	Hedging reserve '000 RUR	Retained earnings '000 RUR	Revaluation reserve '000 RUR	Translation reserve '000 RUR	Total equity '000 RUR
Balance at 1 January 2009		<u>1,027</u>	<u>111</u>	<u>3,663,596</u>	<u>(122,940)</u>	<u>(1,101,997)</u>	<u>3,773,360</u>	<u>76,373</u>	<u>6,289,530</u>
Total comprehensive income for the year									
Loss for the period		—	—	—	—	(496,973)	—	—	<u>(496,973)</u>
Other comprehensive income									
Foreign currency translation differences		—	—	—	—	—	—	(22,812)	<u>(22,812)</u>
Change in fair value of hedges		—	—	—	(83,069)	—	—	—	<u>(83,069)</u>
Income tax on other comprehensive income	11	—	—	—	16,614	—	—	—	<u>16,614</u>
Total other comprehensive income		—	—	—	<u>(66,455)</u>	—	—	<u>(22,812)</u>	<u>(89,267)</u>
Total comprehensive income for the period		—	—	—	<u>(66,455)</u>	<u>(496,973)</u>	—	<u>(22,812)</u>	<u>(586,240)</u>
Transactions with owners, recorded directly in equity		—	—	—	—	—	—	—	—
Contributions by and distributions to owners									
Total contributions by and distributions to owners		—	—	—	—	—	—	—	—
Balance at 30 June 2009		<u>1,027</u>	<u>111</u>	<u>3,663,596</u>	<u>(189,395)</u>	<u>(1,598,970)</u>	<u>3,773,360</u>	<u>53,561</u>	<u>5,703,290</u>

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages F-162 to F-182.

O'KEY GROUP S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (Continued)
for the six months ended 30 June 2010

	Note	Share capital '000 RUR	Legal reserve '000 RUR	Additional paid-in capital '000 RUR	Hedging reserve '000 RUR	Retained earnings '000 RUR	Revaluation reserve '000 RUR	Translation reserve '000 RUR	Total equity '000 RUR
Balance at 1 January 2010 . . .		109,815	111	3,676,612	(105,127)	(387,575)	3,735,520	106,436	7,135,792
Total comprehensive income for the period									
Profit for the period		—	—	—	—	868,681	—	—	868,681
Other comprehensive income									
Foreign currency translation differences		—	—	—	—	—	—	69	69
Change in fair value of hedges		—	—	—	80,965	—	—	—	80,965
Income tax on other comprehensive income	11	—	—	—	(16,193)	—	—	—	(16,193)
Total other comprehensive income		—	—	—	64,772	—	—	69	64,841
Total comprehensive income for the period		—	—	—	64,772	868,681	—	69	933,522
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Total contributions by and distributions to owners		—	—	—	—	—	—	—	—
Balance at 30 June 2010		109,815	111	3,676,612	(40,355)	481,106	3,735,520	106,505	8,069,314

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages F-162 to F-182.

O'KEY GROUP S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
for the six months ended 30 June 2010

	<u>Note</u>	<u>2010</u> <u>'000 RUR</u>	<u>2009</u> <u>'000 RUR</u>
Cash flows from operating activities			
Profit/(loss) before income tax		1,337,409	(86,767)
<i>Adjustments for:</i>			
Depreciation and amortisation	12, 13, 15	736,866	646,950
Loss on disposal of non-current assets		57,689	22,602
Loss from revaluation of investment property	14	—	57,320
Impairment of intangible assets and other non-current assets	12, 13, 15	—	122,723
Finance income		(2,278)	(13,010)
Finance costs		667,679	826,424
Foreign exchange losses less gains		278,619	673,225
		<u>3,075,984</u>	<u>2,249,467</u>
Cash from operating activities before changes in working capital and provisions			
Change in trade and other receivables		(91,119)	464,989
Change in inventories		637,446	(42,910)
Change in trade and other payables		(1,774,838)	(2,973,260)
Change in deferred income		(1,108)	(12,015)
		<u>1,846,365</u>	<u>(313,729)</u>
Cash flows from operations before income taxes and interest paid			
Interest paid		(708,374)	(868,783)
Income tax paid		(418,563)	(277,309)
		<u>719,428</u>	<u>(1,459,821)</u>
Net cash from/(used in) operating activities			

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages F-162 to F-182.

O'KEY GROUP S.A.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (Continued)
for the six months ended 30 June 2010

	<u>2010</u> <u>'000 RUR</u>	<u>2009</u> <u>'000 RUR</u>
Cash flows from investing activities		
Purchase of property, plant and equipment and initial cost of land lease	(1,586,562)	(2,054,974)
Purchase of lease rights	—	(46,624)
Purchase of other intangible assets	(13,052)	(27,606)
Proceeds from sales of property, plant and equipment	40,204	—
Interest received	3,949	6,975
Net cash used in investing activities	<u>(1,555,461)</u>	<u>(2,122,229)</u>
Cash flows from financing activities		
Proceeds from borrowings	11,740,000	8,822,589
Repayment of borrowings	(11,878,033)	(5,436,168)
Repayment of finance lease payables	(19,444)	(13,817)
Net cash from/(used in) financing activities	<u>(157,477)</u>	<u>3,372,604</u>
Net decrease in cash and cash equivalents	<u>(993,510)</u>	<u>(209,446)</u>
Cash and cash equivalents at beginning of the period	1,462,312	1,673,466
Effect of exchange rate fluctuations on cash and cash equivalents	18,417	(96,880)
Cash and cash equivalents at end of the period	<u>487,219</u>	<u>1,367,140</u>

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages F-162 to F-182.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the six months ended 30 June 2010

1. Background

(a) Organisation and operations

The O'Key Group S. A. (the "Company"), formerly named Dorinda Holding S.A., is incorporated and domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The main part of the Group is located and conducts its business in the Russian Federation.

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

The Group is ultimately controlled by four individuals, Mr.Korzhev, Mr.Troitckii, 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. Related party transactions are detailed in Note 26.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'Key". At 30 June 2010 the Group operated 52 stores (31 December 2009: 46 stores).

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

(b) Business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These condensed consolidated interim 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.

(c) Seasonality

The Group experiences seasonal fluctuations in its operations, such as an increase in sales during December, prior to Christmas and the New Year period, and May holidays and a decrease in sales in August, September and February, which follow the summer and winter holiday seasons, respectively. The sale of seasonal products, such as school-related non-food products in August, New Year decorations and gifts in December, household appliances for summer houses from April to September affects the Group's interim results. In the spring months the Group borrowings increase due to the need to cover payments to suppliers for large winter season purchases.

2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim financial reporting*. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

2. Statement of compliance (Continued)

statements of the Group as at and for the year ended 31 December 2009 which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 13 September 2010.

3. Significant accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2009, except as described below:

(i) Classification of leases of land

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

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

The reassessment did not result in reclassification. As at 30 June 2010 the Group classifies all long-term land leases as operating leases.

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2009 with the exception of revaluation of property, plant and equipment (see note 12) and revaluation of investment property (see note 14).

5. 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. In these condensed consolidated interim financial statements the fair values have been determined based on the principles, which are consistent with those applied in the consolidated financial statements for the year ended 31 December 2009.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

6. Operating segments

The Group is engaged in management of retail stores located in Russia and has identified retail operations as a single reportable segment.

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

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

The segment represents Group's retail business including advertising and rent income.

Within the segment all business components demonstrate similar economic characteristics:

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

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

The accounting policies used for the segment are the same as accounting policies applied for these condensed consolidated interim financial statements.

The segment information for the six months ended 30 June is as follows:

	2010	2009
	'000 RUR	'000 RUR
Revenue	<u>38,254,168</u>	<u>31,487,861</u>
EBITDA	<u>3,153,535</u>	<u>2,261,590</u>

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

6. Operating segments (Continued)

A reconciliation of EBITDA to profit/(loss) for the period is as follows:

	For six months ended 30 June	
	2010 '000 RUR	2009 '000 RUR
EBITDA	3,153,535	2,261,590
Revaluation loss	—	(57,320)
Loss from disposal of non-current assets	(57,689)	(22,602)
Loss from write-off of receivables	(9,230)	—
Impairment of receivables	(68,321)	(5,480)
Depreciation and amortisation	(736,866)	(646,950)
Impairment losses	—	(122,723)
Finance income	2,278	13,010
Finance costs	(667,679)	(826,424)
Foreign exchange losses	(278,619)	(679,868)
Profit/(loss) before income tax	1,337,409	(86,767)
Income tax	(468,728)	(410,206)
Profit/(loss) for the period	868,681	(496,973)

7. Revenue

	For six months ended 30 June	
	2010 '000 RUR	2009 '000 RUR
Sales of trading stock	35,958,027	29,399,193
Sales of self-produced catering products	1,835,318	1,656,192
Rental income	345,111	347,395
Revenue from advertising services	115,712	85,081
	38,254,168	31,487,861

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

8. General, selling and administrative expenses

	Note	For six months ended 30 June	
		2010 '000 RUR	2009 '000 RUR
Personnel costs	10	(2,786,890)	(2,701,685)
Depreciation and amortization		(736,866)	(646,950)
Advertising and marketing		(192,316)	(138,939)
Operating leases		(464,985)	(288,634)
Repairs and maintenance costs		(113,169)	(95,462)
Communication and utilities		(539,627)	(415,967)
Materials and supplies		(119,128)	(86,927)
Security expenses		(230,610)	(190,861)
Insurance and bank commission		(147,864)	(120,858)
Legal and professional expenses		(79,997)	(44,176)
Operating taxes		(202,744)	(177,327)
Other costs		(114,381)	(76,592)
		(5,728,577)	(4,984,378)

9. Other operating income and expenses

	For six months ended 30 June	
	2010 '000 RUR	2009 '000 RUR
Loss from disposal of non-current assets	(57,689)	(22,602)
Loss from write-off of receivables	(9,230)	—
Impairment of receivables	(68,321)	(5,480)
Loss from revaluation of investment property	—	(57,320)
Loss from impairment of intangible assets and other non-current assets . . .	—	(122,723)
Sundry income	38,080	2,151
	(97,160)	(205,974)

Sundry income mainly includes penalties (received and paid) on the settlements with suppliers.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

10. Personnel costs

	For six months ended 30 June	
	2010 '000 RUR	2009 '000 RUR
Wages and salaries	(1,781,150)	(1,602,495)
Contributions to state pension fund	(519,911)	(484,840)
Employee benefits	(471,153)	(603,807)
Other	(14,676)	(10,543)
Total personnel costs	(2,786,890)	(2,701,685)

11. Income tax expense

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

	For six months ended 30 June	
	2010 '000 RUR	2009 '000 RUR
Current tax expense	(335,415)	(328,365)
Deferred tax expense	(133,313)	(81,841)
Total income tax expense	(468,728)	(410,206)

Income tax recognised directly in other comprehensive income

	For six months ended 30 June					
	2010			2009		
	Before tax '000 RUR	Tax '000 RUR	Net of tax '000 RUR	Before tax '000 RUR	Tax '000 RUR	Net of tax '000 RUR
Foreign currency translation differences for foreign operations . .	69	—	69	(22,812)	—	(22,812)
Change in fair value of hedges	80,965	(16,193)	64,772	(83,069)	16,614	(66,455)
	81,034	(16,193)	64,841	(105,881)	16,614	(89,267)

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

11. Income tax expense (Continued)

Reconciliation of effective tax rate:

	For six months ended 30 June	
	2010 '000 RUR	2009 '000 RUR
Profit/(loss) before income tax	1,337,409	(86,767)
Income tax at applicable tax rate (20%)	(267,482)	17,353
Effect of income taxed at different rates	(35,617)	(8,779)
Tax effect of items which are not deductible or assessable for taxation purposes:		
—Inventory shrinkage expenses	(135,338)	(128,911)
—Other non-deductible expenses	(18,700)	(29,940)
Write-off of deferred tax asset of tax losses carried forward	(10,258)	(223,304)
Adjustments to current income tax for previous periods	(1,333)	(36,625)
Income tax expense for the year	(468,728)	(410,206)

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

for the six months ended 30 June 2010

12. Property, plant and equipment

	Land '000 RUR	Buildings '000 RUR	Leasehold improvements '000 RUR	Auxiliary facilities '000 RUR	Machinery and equipment '000 RUR	Other fixed assets '000 RUR	Construction in progress '000 RUR	Total '000 RUR
Cost or deemed cost/								
Revalued amount								
Balance at 1 January 2009	6,505,365	8,543,427	201,496	30,946	2,500,380	1,052,483	1,947,007	20,781,104
Additions	92,000	892,151	142,289	433	178,410	139,729	283,362	1,728,374
Transfers	—	659,585	—	—	26,826	—	(686,411)	—
Transfers to Investment								
Property	—	—	—	—	—	—	(547,503)	(547,503)
Disposals	—	—	—	(2,313)	(1,760)	(1,166)	(7,086)	(12,325)
Balance at 30 June 2009 . .	6,597,365	10,095,163	343,785	29,066	2,703,856	1,191,046	989,369	21,949,650
Balance at 1 January 2010	6,100,379	10,098,051	695,855	29,627	3,099,213	1,295,536	974,042	22,292,703
Additions	—	176,496	334,360	1,630	481,864	230,376	254,639	1,479,365
Transfers	(74,924)	74,924	62,803	—	(207,659)	306,308	(161,452)	—
Disposals	—	—	—	—	(1,853)	(19,103)	(28,888)	(49,844)
Balance at 30 June 2010 . .	6,025,455	10,349,471	1,093,018	31,257	3,371,565	1,813,117	1,038,341	23,722,224
Depreciation and								
impairment losses								
Balance at 1 January 2009	—	—	(1,169)	(15,556)	(933,887)	(546,393)	(300,000)	(1,797,005)
Depreciation for the period	—	(145,928)	(17,000)	(579)	(239,573)	(157,001)	—	(560,081)
Transfers to investment								
property	—	—	—	—	—	—	300,000	300,000
Disposals	—	—	—	1,639	169	1,091	—	2,899
Balance at 30 June 2009 . .	—	(145,928)	(18,169)	(14,496)	(1,173,291)	(702,303)	—	(2,054,187)
Balance at 1 January 2010	—	—	(42,522)	(16,026)	(1,460,668)	(804,082)	—	(2,323,298)
Depreciation for the period	—	(169,565)	(46,498)	(1,056)	(292,401)	(127,523)	—	(637,043)
Disposals	—	—	—	—	706	3,739	—	4,445
Balance at 31 December 2010	—	(169,565)	(89,020)	(17,082)	(1,752,363)	(927,866)	—	(2,955,896)
Net book value								
At 1 January 2009	6,505,365	8,543,427	200,327	15,390	1,566,493	506,090	1,647,007	18,984,099
At 30 June 2009	6,597,365	9,949,235	325,616	14,570	1,530,565	488,743	989,369	19,895,463
At 1 January 2010	6,100,379	10,098,051	653,333	13,601	1,638,545	491,454	974,042	19,969,405
At 30 June 2010	6,025,455	10,179,906	1,003,998	14,175	1,619,202	885,251	1,038,341	20,766,328

The Group believes that fair value of land and buildings has not changed significantly as at 30 June 2010 as compared to 31 December 2009 and as at 30 June 2009 as compared to 31 December 2008. Therefore, revaluation of land and buildings was not performed as at 30 June 2009 and 30 June 2010.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

for the six months ended 30 June 2010

12. Property, plant and equipment (Continued)

As at 30 June 2010 the Group performed reclassification of property, plant and equipment with cost of RUR 292,395 thousand from machinery and equipment to other fixed assets. The Group believes that such presentation is more appropriate.

Depreciation expense of RUR 637,043 thousand has been charged to selling, general and administrative expenses (six months ended 30 June 2009: RUR 560,081 thousand).

13. Intangible assets

	Software '000 RUR	Lease rights '000 RUR	Total '000 RUR
Cost			
Balance at 1 January 2009	117,902	230,572	348,474
Additions	27,606	208,460	236,066
Transfer from other assets	—	52,443	52,443
Balance at 30 June 2009	145,508	491,475	636,983
Balance at 1 January 2010	200,002	491,475	691,477
Additions	13,052	—	13,052
Balance at 30 June 2010	213,054	491,475	704,529
Amortisation and impairment losses			
Balance at 1 January 2009	(64,538)	—	(64,538)
Amortisation for the period	(20,682)	(37,464)	(58,146)
Impairment losses	—	(11,723)	(11,723)
Balance at 30 June 2009	(85,220)	(49,187)	(134,407)
Balance at 1 January 2010	(116,637)	(93,414)	(210,051)
Amortisation for the period	(39,832)	(31,668)	(71,500)
Balance at 30 June 2010	(156,469)	(125,082)	(281,551)
Carrying amounts			
At 1 January 2009	53,364	230,572	283,936
At 30 June 2009	60,288	442,288	502,576
At 1 January 2010	83,365	398,061	481,426
At 30 June 2010	56,585	366,393	422,978

Amortisation and impairment charge

Amortisation of RUR 71,500 thousand has been charged to selling, general and administrative expenses (6 months ended 30 June 2009: RUR 58,146 thousand).

Impairment losses for six months ended 30 June 2009 have been included in other operating expenses in the amount of RUR 11,723 thousand.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

14. Investment property

	Investment property '000 RUR	Investment property under construction '000 RUR	Total investment property '000 RUR
Investment properties at fair value as at 1 January 2009	1,041,642	—	1,041,642
Additions	—	41,463	41,463
Transfers from property, plant and equipment	—	247,503	247,503
Expenditure on subsequent improvements	424	—	424
Fair value gain/(loss)	(173,954)	116,634	(57,320)
Investment properties at fair value as at 30 June 2009	868,112	405,600	1,273,712
Investment properties at fair value as at 1 January 2010	1,161,824	405,600	1,567,424
Additions	—	5,470	5,470
Expenditure on subsequent improvements	2,703	—	2,703
Investment properties at fair value as at 30 June 2010	1,164,527	411,070	1,575,597

As at 31 December 2008 and 2009 the fair value of investment property has been determined by independent appraisers. The fair value of investment properties as at 30 June 2010 and 30 June 2009 was updated by the Group applying income approach.

An estimate was made for 5 years, which is mainly based on annual net rent rate varying from RUR 6,900 to RUR 11,100 per sq.m. (30 June 2009: from RUR 6,900 to RUR 11,100 per sq.m.) and full occupancy. The annual net operating income is assumed to be constant from year 6 to perpetuity. Discount rates from 19.4% to 20.8% (30 June 2009: from 19.4% to 20.8%) were applied, dependent on local risk factors.

Fair value of investment properties as at 30 June 2010 did not significantly change as compared to 31 December 2009. Therefore, no fair value gain/(loss) was recognized as at 30 June 2010 (30 June 2009: loss RUR 57,320 thousand).

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

15. Other non-current assets

	30 June 2010 '000 RUR	31 December 2009 '000 RUR
Prepayments for non-current assets	446,335	688,768
Initial cost of land lease	2,954,383	2,787,467
Long-term deposits to lessors	104,241	95,359
Deferred bank commissions	35,085	51,033
	<u>3,540,044</u>	<u>3,622,627</u>

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

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

	2010 '000 RUR	2009 '000 RUR
Cost		
Balance at 1 January	3,290,913	3,299,117
Additions	247,733	16,557
Disposals	<u>(56,334)</u>	<u>(6,740)</u>
Balance at 30 June	<u>3,482,312</u>	<u>3,308,934</u>
Amortization and impairment losses		
Balance at 1 January	(503,446)	(335,243)
Amortization charge	(28,323)	(28,723)
Impairment losses	—	(111,000)
Disposals	<u>3,840</u>	<u>1,029</u>
Balance at 30 June	<u>(527,929)</u>	<u>(473,937)</u>
Net book value	<u>2,954,383</u>	<u>2,834,997</u>

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

16. 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	
	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 RUR	31 December 2009 '000 RUR	30 June 2010 '000 RUR	31 December 2009 '000 RUR
Investment property	—	—	(91,436)	(89,166)	(91,436)	(89,166)
Property, plant and equipment	—	—	(652,590)	(595,414)	(652,590)	(595,414)
Construction in progress	—	—	(23,287)	(26,838)	(23,287)	(26,838)
Intangible assets	—	—	(7,810)	(123)	(7,810)	(123)
Investments	11,240	3,327	—	—	11,240	3,327
Other non-current assets	47,539	59,028	—	—	47,539	59,028
Inventories	107,757	117,199	—	(905)	107,757	116,294
Trade and other receivables	43,071	18,768	—	(1,821)	43,071	16,947
Borrowings	3,114	—	—	—	3,114	—
Trade and other payables	160,014	252,805	—	—	160,014	252,805
Tax losses carry-forwards	103,448	113,706	—	—	103,448	113,706
Tax assets/ (liabilities)	476,183	564,833	(775,123)	(714,267)	(298,940)	(149,434)
Set off of tax	(170,740)	(321,726)	170,740	321,726	—	—
Net tax assets/ (liabilities)	305,443	243,107	(604,383)	(392,541)	(298,940)	(149,434)

Tax losses carry-forwards expire in 2018. The related deferred tax asset has been recognised as management believes, based on budgets and actual performance, that it is probable that future taxable profit will be available against which the Group can utilise these tax losses before expiry.

(b) Unrecognised deferred tax liability

As at 30 June 2010 a temporary difference of RUR 6,758,237 thousand (31 December 2009: RUR 6,214,166 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

17. Inventories

	30 June 2010	31 December 2009
	'000 RUR	'000 RUR
Goods for resale	4,494,095	4,997,712
Raw materials and consumable	241,458	313,387
Write-down to net realisable value	(227,510)	(165,610)
	<u>4,508,043</u>	<u>5,145,489</u>

Due to 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. The amount of write-down as at 30 June 2010 was RUR 227,510 thousand (31 December 2009: RUR 165,610 thousand). The write down to net realisable value was determined applying the percentages of discount on sales 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.

18. Trade and other receivables

	30 June 2010	31 December 2009
	'000 RUR	'000 RUR
Trade receivables	128,881	85,293
VAT receivable	401,975	517,069
Prepaid taxes	60,697	46,763
Other receivables	371,135	331,277
	<u>962,688</u>	<u>980,402</u>

Taxes prepaid include RUR 44,555 thousand of prepaid Income tax (31 December 2009: RUR 40,144 thousand).

Other receivables include RUR 290,912 thousand of bonuses receivable from suppliers (31 December 2009: RUR 302,527 thousand).

19. Equity

As at 30 June 2010 the Group's subscribed share capital of RUR 109,815 thousand (EUR 2,531 thousand, 31 December 2009: EUR 2,531 thousand) is represented by 253,100 shares (31 December 2009: 253,100 shares) with a par value of 10 EUR each.

There were no movements in Revaluation reserves and additional paid-in capital in 6 months period ended 30 June 2009 and 30 June 2010.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

20. Earnings per share

The calculation of basic earnings per share for six months ended 30 June 2010 was based on the profit attributable to ordinary shareholders of RUR 868,681 thousand (six months ended 30 June 2009: loss RUR 496,973 thousand), and a weighted average number of ordinary shares outstanding of 253,100 (six months ended 30 June 2009: 3,100), calculated as shown below. The Company has no dilutive potential ordinary shares.

	For six months ended 30 June	
	2010	2009
	Number of shares	Number of shares
Issued shares at 1 January	253,100	3,100
Effect of shares issued	—	—
Weighted average number of shares for the year ended 30 June	253,100	3,100

21. Loans and borrowings

	30 June 2010	31 December 2009
	'000 RUR	'000 RUR
<i>Non-current liabilities</i>		
Secured bank loans	6,873,336	7,677,614
Unsecured loans from Related parties	634,224	1,348,874
Unsecured loans from third parties	762	—
	7,508,322	9,026,488
<i>Current liabilities</i>		
Secured bank loans	7,520,969	5,622,922
Unsecured loans from Related parties	576,016	813,884
Unsecured loans from third parties	3,882	2,871
	8,100,867	6,439,677

The Group has a number of revolving credit line agreements with local banks. Net increase of borrowings under these agreements amounted to RUR 1,725,000 thousand for six months ended 30 June 2010.

During six months ended 30 June 2010 the Group also repaid RUR 873,831 thousand of other secured bank loans and RUR 989,203 thousand of loans from related parties. Net increase of loans from third parties amounted to RUR 1,773 thousand for six months ended 30 June 2010.

Other changes of loans and borrowings for six months ended 30 June 2010 comprised interest charges and the effect of exchange rate fluctuations and resulted in increase of loans and borrowings of RUR 279,285 thousand.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

21. Loans and borrowings (Continued)

During six months ended 30 June 2010 the Group negotiated with one of the banks earlier repayment of long-term loans. This resulted in reclassification of loans in amount of RUR 1,528,940 thousand from long-term to short-term as at 30 June 2010.

As of 31 December 2009 the Group did not comply with one covenant of one loan, which triggered 3 breaches of cross-covenants. Accordingly, long-term portion of four loans in the amount of RUR 2,020,367 thousand was reclassified from long-term to short-term as at 31 December 2009.

As at and during six months ended 30 June 2010 the Group complied with the covenant described in the paragraph above and with all other covenants.

22. Trade and other payables

	30 June 2010 '000 RUR	31 December 2009 '000 RUR
Trade payables	7,618,852	9,625,067
Advances received	88,846	117,996
Taxes payable (other than Income tax)	421,425	318,711
Payables to staff	503,489	564,081
Interest rate swap liabilities	60,238	131,409
Finance lease liability	19,782	39,226
Other current payables	78,278	4,124
	<u>8,790,910</u>	<u>10,800,614</u>

23. Non-cancellable operating leases

During six months ended 30 June 2010 the Group entered into several non-cancellable operating leases of land plots.

Non-cancellable operating lease rentals are payable as follows:

	30 June 2010 '000 RUR	31 December 2009 '000 RUR
Less than one year	365,866	485,781
Between one and five years	1,198,317	1,152,053
More than five years	4,189,703	3,659,317
	<u>5,753,886</u>	<u>5,297,151</u>

24. Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUR 688,928 thousand as at 30 June 2010 (31 December 2009: RUR 886,566 thousand).

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

25. 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 is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 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 condensed consolidated interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

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

26. Related party transactions

(a) Control relationships

The Group is controlled by four individuals Mr. Korzhev, Mr. Troitckii, Mr. Volchek and Mr. Teder ("the shareholder group").

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

26. Related party transactions (Continued)

(b) Transactions with management

(i) Management remuneration

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

	For the six months ended 30 June	
	2010	2009
	'000 RUR	'000 RUR
Salaries and bonuses	47,653	40,989
Contributions to State pension fund	946	1,482
Long-service bonus	7,808	109,309
	<u>56,407</u>	<u>151,780</u>

(c) Transactions with other related parties

Other related parties are entities which belong to the Group's ultimate shareholders.

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

(i) Revenue

	<u>Transaction value</u>	<u>Transaction value</u>	<u>Outstanding</u>	<u>Outstanding</u>
	<u>Six months ended</u>	<u>Six months ended</u>	<u>balance</u>	<u>balance</u>
	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>	<u>31 December</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>'000 RUR</u>	<u>'000 RUR</u>	<u>'000 RUR</u>	<u>'000 RUR</u>
Services provided:				
Other related parties . . .	2,067	12,409	(47)	4,374
	<u>2,067</u>	<u>12,409</u>	<u>(47)</u>	<u>4,374</u>

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.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

26. Related party transactions (Continued)

(ii) Expenses

	<u>Transaction value</u> <u>Six months ended</u> <u>30 June</u> <u>2010</u> <u>'000 RUR</u>	<u>Transaction value</u> <u>Six months ended</u> <u>30 June</u> <u>2009</u> <u>'000 RUR</u>	<u>Outstanding</u> <u>balance</u> <u>30 June</u> <u>2010</u> <u>'000 RUR</u>	<u>Outstanding</u> <u>balance</u> <u>31 December</u> <u>2009</u> <u>'000 RUR</u>
Services received:				
Other related parties .	(10,835)	(10,782)	4,652	(71)
Finance costs:				
Other related parties .	(80,202)	(130,304)	—	—
	<u>(91,037)</u>	<u>(141,086)</u>	<u>4,652</u>	<u>(71)</u>

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.

Interest costs on loans from related parties amounted to RUR 80,202 thousand for six months ended 30 June 2010 (six months ended 30 June 2009: RUR 130,304 thousand) and were recorded as finance costs in profit or loss.

(iii) Loans

	<u>For six months ended 30 June</u>		<u>Outstanding balance</u>	<u>Outstanding balance</u>
	<u>Amount loaned</u>	<u>Amount loaned</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
	<u>2010</u>	<u>2009</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
	<u>'000 RUR</u>	<u>'000 RUR</u>	<u>'000 RUR</u>	<u>'000 RUR</u>
Loans received:				
Other related parties	—	—	(1,210,240)	(2,162,758)

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

for the six months ended 30 June 2010

27. Subsidiaries

Subsidiary	Country of incorporation	Ownership/voting	
		30 June 2010	31 December 2009
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Stoxx Investments Ltd	BVI	—	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	100%	100%
Dextenco Co. Limited	Cyprus	100%	100%
Filorus Limited	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	100%
Lonmax Limited	Cyprus	100%	100%
Marcopia Limited	Cyprus	100%	100%
Naviline Limited	Cyprus	100%	100%
Ricandano Co. Limited	Cyprus	100%	100%
Gelarous Co Limited	Cyprus	100%	—
Lefkosan Co Limited	Cyprus	100%	—
Silton Holdings Limited	Cyprus	100%	—
LLC Dorinda Invest	Russian Federation	100%	100%
LLC Premium	Russian Federation	100%	100%
LLC Elart	Russian Federation	100%	100%
LLC Legion	Russian Federation	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 Dorinda-Murmansk	Russian Federation	100%	100%
JSC Olips D	Russian Federation	100%	—
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)

for the six months ended 30 June 2010

27. Subsidiaries (Continued)

Subsidiary	Country of incorporation	Ownership/voting	
		30 June 2010	31 December 2009
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	100%
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC N.E.F.-Saint-Petersburg	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	100%	100%
LLC Tagar-City	Russian Federation	100%	100%
LLC Region	Russian Federation	100%	100%
LLC Tandem Group	Russian Federation	—	100%

During six months ended 30 June 2010 the Group liquidated two subsidiaries: LLC Tandem Group and Stox Investments Ltd. The contribution of these subsidiaries to Group's profit and the effect of liquidation of the subsidiaries on the Group's assets and liabilities were not significant.

During six months ended 30 June 2010 the Group established three subsidiaries: Gelarous Co Limited, Lefkosan Co Limited and Siltan Holdings Limited. These entities were established for the purpose of disposition of the assets from the Group in second half 2010. For more details on disposition refer to note 28 below.

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

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 and effect on Group's assets and liabilities is not significant.

28. Events subsequent to the reporting date

Subsequent to the reporting date the Group has entered into bank loan agreement totaling RUR 1,000,000 thousand. The agreement has maturity 1 year and bear interest at 8.2% per annum.

In July 2010 the Group has entered into foreign currency and interest rate swap agreement with local bank to hedge its foreign currency and interest rate exposure in relation to loan raised from EBRD. The swap agreement was concluded for 5 years. Notional amount per swap agreement is USD 200,000 thousand and is equal to principal amount of outstanding loan from EBRD as at 30 June 2010.

In July-August 2010 the Group repaid RUR 5,283,782 thousand of secured bank loans and raised secured bank loans for the total amount of RUR 7,220,000 thousand.

O'KEY GROUP S.A
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Continued)
for the six months ended 30 June 2010

28. Events subsequent to the reporting date (Continued)

Subsequent to the reporting date the Group initiated steps for an envisaged transaction with companies under common control of the ultimate shareholders of the Group. The transaction includes planned distribution of a number of subsidiaries, some of which own significant non-current assets.

The non-current assets to be distributed include three hypermarkets in Murmansk and Saint-Petersburg and non-core assets, composed of vacant land plots and trade centers in process of construction. The Group plans to lease back hypermarkets and nearby area, including parking and other related assets under long-term operating lease agreements. The Group believes that rent agreements will meet the definition of operating leases. Planned terms of the lease are such that the Group should pay rentals which would include reimbursement of all operating expenses related to these hypermarkets and nearby leased area and certain percentage of the Group's retail revenue from operation of these hypermarkets.

The Group plans to receive consideration which will be below the carrying amount of distributed assets and to use consideration received to make a rental prepayment to the new owner of the assets and to make an advance repayment of a number of its current borrowings.

The effect (loss) from distribution of non-current assets net of tax effect of the transaction is planned to be recorded in equity as distribution to owners as the transaction represents distribution of assets to entities under common control.

ANNEX A

O'KEY GROUP S.A.

**Unaudited Pro Forma Financial Information
for the Year Ended 31 December 2009 and as at and for the
Six-Month Period Ended 30 June 2010**

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information

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O'KEY GROUP S.A.
Unaudited Pro Forma Statement of Comprehensive Income
for the Year Ended 31 December 2009
(expressed in thousands of Russian Roubles)

	Historical financial information		Pro forma financial information 2009
	Pre- Distribution O'KEY GROUP S.A. 2009	Pro forma adjustments (note 3)	
Revenue	67 874 615		67 874 615
Cost of goods sold	(53 106 388)		(53 106 388)
Gross profit	14 768 227		14 768 227
General, selling and administrative expenses	(10 303 667)	(362 849)	(10 666 516)
Other operating income and expenses	(846 307)	(150 682)	(996 989)
Operating profit	3 618 253	(513 531)	3 104 722
Finance income	37 791	50 182	87 973
Finance costs	(1 683 931)	225 559	(1 458 372)
Foreign exchange losses	(320 812)		(320 812)
Profit before income tax	1 651 301	(237 790)	1 413 511
Income tax (expense)	(936 879)	61 157	(875 722)
Profit for the year	714 422	(176 633)	537 789
Other comprehensive income			
Foreign currency translation differences for foreign operations	30 063		30 063
Revaluation of property, plant and equipment	(47 300)	5 770	(41 530)
Change in fair value of hedging instruments	22 266		22 266
Income tax on other comprehensive income	5 007	(1 154)	3 853
Other comprehensive income for the year, net of income tax	10 036	4 616	14 652
Total comprehensive income for the year	724 458	(172 017)	552 441
Earnings per share	6 621		4 984
Basic and diluted earnings per share (RUR)			
EBITDA(*)	5 896 309	(424 448)	5 471 861

(*) EBITDA is determined following the principles outlined in the financial statements.

O'KEY GROUP S.A.
Unaudited Pro Forma Statement of Comprehensive Income
for the Six-Month Period Ended 30 June 2010
(expressed in thousands of Russian Roubles)

	Historical financial information		Pro forma financial information 6 months 2010
	Pre-Distribution O'KEY GROUP S.A. OKGroup S.A. 6 months 2010	Pro forma adjustments (note 3)	
Revenue	38 254 168		38 254 168
Cost of goods sold	(30 147 002)		(30 147 002)
Gross profit	8 107 166		8 107 166
General, selling and administrative expenses	(5 728 577)	(168 922)	(5 897 499)
Other operating income and expenses	(97 160)		(97 160)
Operating profit	2 281 429	(168 922)	2 112 507
Finance income	2 278	29 698	31 976
Finance costs	(667 679)	105 045	(562 634)
Foreign exchange losses	(278 619)		(278 619)
Profit before income tax	1 337 409	(34 179)	1 303 230
Income tax (expense)	(468 728)	17 079	(451 649)
Profit for the year	868 681	(17 100)	851 581
Other comprehensive income			
Foreign currency translation differences for foreign operations	69		69
Change in fair value of hedging instruments	80 965		80 965
Income tax on other comprehensive income	(16 193)		(16 193)
Other comprehensive income for the year, net of income tax	64 841		64 841
Total comprehensive income for the year	933 522	(17 100)	916 422
Earnings per share	3 432		3 364
Basic and diluted earnings per share (RUR)			
EBITDA(*)	3 153 535	(215 015)	2 954 794

(*) EBITDA is determined following the principles outlined in the financial statements.

O'KEY GROUP S.A.
Unaudited Pro Forma Statement of Financial Position as at 30 June 2010
(expressed in thousands of Russian Roubles)

	<u>Historical financial information</u>		
	<u>Pre- Distribution O'KEY GROUP S.A. 30 June 2010</u>	<u>Pro forma adjustments (note 3)</u>	<u>Pro forma financial information 30 June 2010</u>
Assets			
Non-current assets			
Investment Property	1 575 597	(1 066 894)	508 703
Property, plant and equipment	19 727 987	(4 050 953)	15 677 034
Construction in progress	1 038 341	(98 377)	939 964
Intangible assets	422 978		422 978
Long-term loans issued	1 543	646 081	647 624
Deferred tax asset	305 443		305 443
Other non-current assets	3 540 044	(447 999)	3 092 045
Total non-current assets	<u>26 611 933</u>	<u>(5 018 142)</u>	<u>21 593 791</u>
Current assets			
Inventories	4 508 043		4 508 043
Trade and other receivables	1 521 202	1 408 046	2 929 248
Short-term loans issued	7 872	1 186	9 058
Cash and cash equivalents	487 219		487 219
Total current assets	<u>6 524 336</u>	<u>1 409 232</u>	<u>7 933 568</u>
Total assets	<u>33 136 269</u>	<u>(3 608 910)</u>	<u>29 527 359</u>
Equity and liabilities			
Equity			
	<u>8 069 314</u>	<u>(2 415 447)</u>	<u>5 653 867</u>
Non-current liabilities			
Loans and borrowings	7 508 322		7 508 322
Deferred income tax liability	604 383	(170 541)	433 842
Deferred income			
Total non-current liabilities	<u>8 112 705</u>	<u>(170 541)</u>	<u>7 942 164</u>
Current liabilities			
Loans and borrowings	8 100 867	(1 621 900)	6 478 967
Trade and other payables	8 853 383	598 978	9 452 361
Total current liabilities	<u>16 954 250</u>	<u>(1 022 922)</u>	<u>15 931 328</u>
Total liabilities	<u>25 066 955</u>	<u>(1 193 463)</u>	<u>23 873 492</u>
Total equity and liabilities	<u>33 136 269</u>	<u>(3 608 910)</u>	<u>29 527 359</u>

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

1. Description of the transaction

Subsequent to 30 June 2010, the shareholders of O'KEY GROUP S.A., which includes O'KEY GROUP S.A. and its subsidiaries (the "Group"), developed a plan to distribute part of assets from O'KEY GROUP S.A. to Dorinda Estate Limited, an entity controlled by the existing shareholders of the Group ("Dorinda Estate"). The distribution will take place in two stages and is expected to be completed by the end of 2010. The first stage, which was completed in September 2010, involved the transfer of the assets to Russian subsidiaries of the Group which are controlled by Cyprus entities within the Group (the "Cyprus Entities") which are not involved in the Group's retail business. As part of the second stage, O'KEY GROUP S.A. has entered into a sale and purchase agreement with Dorinda Estate pursuant to which O'KEY GROUP S.A. has agreed to sell and Dorinda Estate has agreed to purchase, the entire issued share capital of the Cyprus Entities.

The distributed assets include three hypermarkets in Murmansk and Saint-Petersburg and non-core assets, like vacant land plots and trade centres in the process of construction.

The Group is going to lease back under long-term operating lease agreements signed on 1 and 8 October 2010 distributed hypermarkets and nearby areas, including parking space and other related assets.

The planned terms of lease are as follows:

- The lease will not transfer assets to the Group at the end of the lease.
- The Group will not have the option to purchase the assets.
- The lease term is not for the major part of the economic life of the assets and it is expected to be around 10 years.
- The leased assets are not of specialised nature.
- It is expected that at inception of the lease the present value of minimal lease payments will amount to at least substantially all of the fair value of leased assets, but as the rent rate is set between entities under common control the net present value of minimal lease payments is not a strong indication as to whether the contracts are finance leases.

Hence the Group plans to classify lease as operating lease.

The Group will continue to operate these hypermarkets. The rent rate will include the reimbursement of all operating expenses related to these hypermarkets and nearby leased area and certain percentage of the Group's retail revenue from operation of these hypermarkets.

The price set (consideration) for the distribution of the assets from the Group to entities under common control is expected to be below the carrying value of the same assets. As the consideration is determined between entities under common control, the effect from the distribution is planned to be recorded as distribution to shareholders in equity. There is no need to recognise an impairment for disposed assets prior to the distribution, as difference between the carrying value and the consideration received represents a distribution to shareholders.

From the consideration received for the distributed assets the Group plans to make a rental prepayment to the new owner of the hypermarkets and to partly use the proceeds for repayments of loans.

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

2. Basis of Preparation

(a) Pro forma financial information

This pro forma information comprises the pro forma statement of comprehensive income for the year ended 31 December 2009, the pro forma statement of comprehensive income for the six-month period ended 30 June 2010 and the pro forma statement of financial position as at 30 June 2010, and has been prepared to show the effect on the consolidated statement of financial position of O'KEY Group S.A. as if the dispositions summarised below had occurred on 30 June 2010 and to show the effect on the statements of comprehensive income for the year ended 31 December 2009 and for the six-month period ended 30 June 2010 as if the dispositions had occurred on 1 January 2009. This pro forma financial information was prepared in accordance with the guidance in the Commission Regulation (EC) No 809/2004.

This pro forma financial information has been prepared in a manner consistent with the accounting policies adopted by the Group in its consolidated financial statements for the year ended 31 December 2009 and six months ended 30 June 2010.

This pro forma information was prepared for illustrative purposes only, to provide information about how the distribution of nineteen 100% owned subsidiaries, some of which owning significant non-current assets, which is planned to be completed by the end of 2010, might have affected the financial information presented on the basis of the accounting policies adopted by the Group in its consolidated financial statements for the year ended 31 December 2009 and six months ended 30 June 2010. The pro forma financial information is based on a number of assumptions, estimates, uncertainties and currently available information.

Because of its nature, the pro forma financial information addresses a hypothetical situation and therefore does not represent the Group's actual financial results for the year ended 31 December 2009 and the six-month period ended 30 June 2010 had the distribution occurred on 1 January 2009 and does not represent the Group's actual financial position as at 30 June 2010 had the distribution occurred on 30 June 2010.

Further, the accompanying pro forma financial information does not purport to predict the Group's future financial results of operations.

(b) The sources of the underlying historical financial data

The pro forma financial information is prepared on the basis of the Group's IFRS financial statements for the year ended 31 December 2009 and six months ended 30 June 2010, adjusted in accordance with key pro forma financial information assumptions presented below as detailed in note 3 to this pro forma financial information.

The historical financial information of the Group for the year ended 31 December 2009 and six months ended 30 June 2010 has been derived by applying the pro forma adjustments to the consolidated financial statements of the Group as at and for the year ended 31 December 2009 and as at and for the six month period ended 30 June 2010 prepared in accordance with IFRS as adopted by the European Union, included elsewhere in this Prospectus.

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

2. Basis of Preparation (Continued)

(c) Key pro forma financial information assumptions

In preparing this pro forma financial information the management has made the following key assumptions.

1. In preparing this pro forma financial information the distribution was accounted for as if it had occurred on the hypothetical date of the distribution, which is 30 June 2010 to show the effect on the consolidated statement of financial position of O'KEY Group S.A. and 1 January 2009 to show the effect on statements of comprehensive income for the year ended 31 December 2009 and for the six-month period ended 30 June 2010.
2. In preparing the statement of financial position the carrying value of distributed assets as of 30 June 2010 was recorded in equity (as distributions to the shareholders) as the transaction represents the distribution of assets between entities under common control. The distributed assets also include initial cost of land lease in case the distributed land plots were rented. While the contracts on land leases are planned to be re-assigned in the course of the assets' distribution to the acquirer, the Group will continue to use these land plots through the lease back of hypermarkets under operating lease agreements.
3. Expenses directly attributable to the distributed assets (depreciation, administrative expenses and revaluation gain/loss) are deducted from general, selling and administrative expenses and other operating income and expenses in preparation of the statements of comprehensive income for the year ended 31 December 2009 and six months ended 30 June 2010.
4. In preparing the statement of financial position the consideration receivable for the distribution of the assets is debited to receivables and credited to equity net of VAT (thus reducing the distributions to the shareholders), VAT is credited to current payables.
5. The cash-generating part of the distributed assets (i.e. Hypermarkets) is planned to be immediately leased back under operating lease agreements by the Group. The Group does not adjust in the statements of comprehensive income revenue and cost of sales, as the Group will continue to operate hypermarkets.
6. The Group has recorded additional expenses expected to be incurred for the rent connected to hypermarkets to be leased back. The estimate of the rent is calculated by application of certain percentage to the revenue generated by the distributed hypermarkets for the year ended 31 December 2009 and six months ended 30 June 2010. The applied percentage was 4.5% for the revenue generated by hypermarkets and 85% of the rental income from trade galleries inside the hypermarkets. The level of percentages is based on the draft lease back agreements, which are expected to be concluded in the future.
7. The Group plans to use a certain amount of the consideration to be received from the distribution to pay off part of the loans taken in the past to finance the construction/acquisition of the distributed assets. The loans to be paid off and the interest expense related to the paid off loans were deducted from loans and borrowing and finance costs in preparation of the statement of financial position and the statements of comprehensive income respectively.

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

2. Basis of Preparation (Continued)

8. In preparing the statement of financial position the portion of the consideration receivable remaining after pay off of the loans was classified as prepayment for operating leases.
9. In preparing the statements of comprehensive income the administrative expenses incurred by one of the entities subject to distribution have been deducted from general, selling and administrative expenses in preparation of the statements of comprehensive income.
10. Current and deferred taxes, including tax consequences of the distribution, were recalculated for the purpose of statement of financial position and the statements of comprehensive income.

Pro forma adjustments are made to the underlying historical financial information in accordance with the above assumptions. A narrative description of the pro forma adjustments is summarised in the note 3 below.

(d) Presentation currency

Pro forma financial information is presented in thousands of Russian Roubles (“RUR”).

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

3. Pro Forma Adjustments

Below are detailed pro forma adjustments used in the preparation of the pro forma statement of comprehensive income for the year ended 31 December 2009.

	<u>Distribution of assets(a)</u>	<u>Administrative expenses(b)</u>	<u>Rent cost(c)</u>	<u>Interest expenses(d)</u>	<u>Total</u>
Revenue					
Cost of goods sold					
Gross profit					
General, selling and administrative expenses	61 599	69 512	(493 960)		(362 849)
Other operating income and expenses	<u>(150 682)</u>				<u>(150 682)</u>
Operating profit/(loss)	<u>(89 083)</u>	<u>69 512</u>	<u>(493 960)</u>		<u>(513 531)</u>
Finance income	50 182				50 182
Finance costs				225 559	225 559
Foreign exchange losses					
Profit/(loss) before income tax	<u>(38 901)</u>	<u>69 512</u>	<u>(493 960)</u>	<u>225 559</u>	<u>(237 790)</u>
Income tax (expense)/benefit	21 379	(13 902)	98 792	(45 112)	61 157
Profit/(loss) for the year	<u>(17 522)</u>	<u>55 610</u>	<u>(395 168)</u>	<u>180 447</u>	<u>(176 633)</u>
Other comprehensive income					
Foreign currency translation differences for foreign operations					
Revaluation of property, plant and equipment	5 770				5 770
Change in fair value of hedging instruments					
Income tax on other comprehensive income	<u>(1 154)</u>				<u>(1 154)</u>
Other comprehensive income for the year, net of income tax	<u>4 616</u>				<u>4 616</u>
Total comprehensive income for the year	<u>(12 906)</u>	<u>55 610</u>	<u>(395 168)</u>	<u>180 447</u>	<u>(172 017)</u>

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

3. Pro Forma Adjustments (Continued)

Below are detailed pro forma adjustments used in the preparation of the pro forma statement of comprehensive income for the six-month period ended 30 June 2010.

	<u>Distribution of assets(a)</u>	<u>Administrative expenses(b)</u>	<u>Rent cost(c)</u>	<u>Interest expenses(d)</u>	<u>Total</u>
Revenue					
Cost of goods sold					
Gross profit					
General, selling and administrative expenses	46 093	35 683	(250 698)		(168 922)
Other operating income and expenses					
Operating profit/(loss)	46 093	35 683	(250 698)		(168 922)
Finance income	29 698				29 698
Finance costs				105 045	105 045
Foreign exchange losses					
Profit/(loss) before income tax	75 791	35 683	(250 698)	105 045	(34 179)
Income tax (expense)/benefit	(4 915)	(7 137)	50 140	(21 009)	17 079
Profit/(loss) for the period	70 876	28 546	(200 558)	84 036	(17 100)
Other comprehensive income					
Foreign currency translation differences for foreign operations					
Revaluation of property plant and equipment					
Change in fair value of hedging instruments					
Income tax on other comprehensive income					
Other comprehensive income for the period, net of income tax					
Total comprehensive income for the period	70 876	28 546	(200 558)	84 036	(17 100)

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

3. Pro Forma Adjustments (Continued)

Below are detailed pro forma adjustments used in the preparation of the pro forma statement of financial position as at 30 June 2010.

	<u>Distribution of assets(a)</u>	<u>Loan Payback(d)</u>	<u>Total</u>
Assets			
Non-current assets			
Investment Property	(1 066 894)		(1 066 894)
Property, plant and equipment	(4 050 953)		(4 050 953)
Construction in progress	(98 377)		(98 377)
Long-term Investments	646 081		646 081
Other non-current assets	(447 999)		(447 999)
Total non-current assets	<u>(5 018 142)</u>		<u>(5 018 142)</u>
Current assets			
Inventories			
Trade and other receivables	3 029 946	(1 621 900)	1 408 046
Short-term Investments	1 186		1 186
Total current assets	<u>3 031 132</u>	<u>(1 621 900)</u>	<u>1 409 232</u>
Total assets	<u>(1 987 010)</u>	<u>(1 621 900)</u>	<u>(3 608 910)</u>
Equity	<u>(2 415 447)</u>		<u>(2 415 447)</u>
Non-current liabilities			
Deferred income tax liability	(170 541)		(170 541)
Total non-current liabilities	<u>(170 541)</u>		<u>(170 541)</u>
Current liabilities			
Loans and borrowings		(1 621 900)	(1 621 900)
Trade and other payables	598 978		598 978
Total current liabilities	<u>598 978</u>	<u>(1 621 900)</u>	<u>(1 022 922)</u>
Total liabilities	<u>428 437</u>	<u>(1 621 900)</u>	<u>(1 193 463)</u>
Total equity and liabilities	<u>(1 987 010)</u>	<u>(1 621 900)</u>	<u>(3 608 910)</u>

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

3. Pro Forma Adjustments (Continued)

The adjustments were calculated based on a plan approved by management, concluded agreements, draft agreements where no final documents were signed and data contained in accounting records.

(a) Distribution of assets

The following assets were assumed to be distributed for the purpose of pro forma information: Lonmax Ltd., Filorus Ltd., Ricandano Ltd., Gelarous Co Ltd., Denovex Ltd., Naviline Ltd., Dextenco Ltd., Lefkosan CO Ltd., Siltom Holdings Ltd, Markcopia Ltd, OOO Dorinda Invest, OOO Premium, OOO Business Centre "Okkervil", OOO Legion, OOO Elart, OOO DORINDA—Murmansk, OOO Rampage, OOO N.E.F—St.Petersburg, OOO Region the majority of which do not own any significant assets. Several subsidiaries own three vacant land plots in Moscow, Nizhny Novgorod and St.-Petersburg, one developed land plot on which an O'Key hypermarket is located, a trade center in St.Petersburg, the development of which has not been completed, a trade center in Murmansk, the development of which has not been completed and an O'key Hypermarket in St.-Petersburg. In particular,

- (1) Investment property in a form of a land plot and two trade centers in the process of construction with a total carrying value of RUR 1,066,894 thousand as at 30 June 2010.

Investment property includes land plot in the center of St.-Petersburg and a building of Trade Center, construction of which is not finished yet. Also it includes another Trade Center, which has not been fully constructed yet, located in Murmansk.

- (2) Property, Plant and Equipment, including three Hypermarkets and related equipment, land plots and other assets with total carrying value of RUR 4,050,953 thousand as at 30 June 2010.

Property, plant and equipment includes three vacant land plots: land plot in Moscow, land plot in Nizhny and a land plot in St.-Petersburg.

It also includes a developed land plot in the center of St.-Petersburg and a building of Hypermarket "Electrosila", building of Hypermarket "Ladojskaya", building of Hypermarket "Murmansk". Also it includes other assets, like freezing rooms or generators, which are directly attributable to these Hypermarkets.

- (3) Construction in progress, mostly including capitalized expenses, related to vacant land plots with a carrying value of RUR 98,377 thousand as at 30 June 2010.
- (4) Long-term loans issued to distributed companies in amount of RUR 646,081 thousand as at 30 June 2010 appear on the Group's Pro-forma Statement of Financial Position due to the fact that borrowers are no longer part of the Group.

In 2008 the Group issued long-term loans to two subsidiaries, which are now planned to be disposed of, with a maturity of approximately 2 and 4 years. This debt was still outstanding at 30 June 2010 in amount of RUR395,530 thousand. In 2010 the Group issued loans to another 3 subsidiaries, which are now planned to be disposed of, with a maturity of 3 years and an amount outstanding at 30 June 2010 of RUR250,551 thousand.

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

3. Pro Forma Adjustments (Continued)

- (5) Other non-current assets, which include initial cost of acquisition of lease rights for land plots with a carrying value of RUR 447,999 thousand as at 30 June 2010.

Other non-current assets represent the cost of acquisition of long-term land lease rights. They include rights in respect of a land plot under Hypermarket "Ladojskaya", rights in respect of a land plot under Hypermarket "Murmansk", rights in respect of a land plot in St.-Petersburg.

- (6) Short-term loans issued to distributed companies in amount of RUR 1,186 thousand as at 30 June 2010 appear on the Group's Pro-forma Statement of Financial Position due to the fact that borrowers are no longer part of the Group. For both long-term and short-term loans issued the finance income was reflected for the year 2009 and for the first 6 months of 2010.

The Group plans to receive consideration in the amount of RUR 3,029,946 thousand, including VAT of RUR 341,024 thousand, which is to be received in cash by 31 December 2010. However, for the purposes of these Pro forma financial statements the amount of consideration is presented in Trade and other receivables.

The effect of distribution on the Group's Statement of Comprehensive Income was reflected by deducting the directly attributed income and expenses, which are depreciation, administrative expenses and gains/(losses) from revaluation of distributed assets from general, selling and administrative expenses and other operating income and expenses.

- (7) The tax consequences of the assets' distribution (including VAT and current income tax) are recorded in Trade and other payables in the amount of RUR 598,978 thousand.

The adjustment is expected to have a continuing impact on the Group due to reduction of depreciation expense and effect from revaluation of distributed assets in the future, as there would be depreciation charge and revaluation effect had these assets not been distributed.

(b) Administrative expenses

One of the distributed entities has administrative expenses. The Group has reduced the administrative expenses recorded at this entity as if it would be not part of the Group. The adjustment is expected to have a continuing impact on the Group due to reduction of administrative expenses in the future.

(c) Rent costs

The Group plans to lease back the 3 sold Hypermarkets (Hypermarket "Ladojskaya", Hypermarket "Electrosila and Hypermarket "Murmansk") and nearby areas, including parking space and other related assets. 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 the Group's retail revenue from the operation of these hypermarkets.

The increase of the Group's rent costs was calculated based on figures of revenue and reimbursable expenses for the year ended 31 December 2009 and six months ended 30 June 2010.

The Group plans to make a prepayment for operating lease in the amount of RUR 1,408,046 thousand out of the proceeds from the distribution of assets.

O'KEY GROUP S.A.
Unaudited Pro Forma Financial Information
(expressed in thousands of Russian Roubles)

3. Pro Forma Adjustments (Continued)

The adjustment is expected to have a continuing impact on the Group due to increase in rent expenses in the future.

(d) Loan payback and related interest expenses

Using proceeds from the distribution of the assets the Group plans to make an advance repayment of its current borrowings in the amount of RUR 1,621,900 thousand. For the purpose of these Pro forma financial statements the impact of repayment of the loan on the Group's Statement of Financial Position and Statement of Comprehensive Income was reflected by reducing the amount of loans and exclusion of related financial costs.

The adjustment is expected to have a continuing impact on the Group due to reduction in interest expenses in the future.

The tax effect of the adjustments listed above was reflected accordingly in current and deferred taxes. Part of adjustment that relates to adjustments to statement of comprehensive income is expected to have a continuing impact on the Group.

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