OJSC Dixy Group

International Financial Reporting Standards

Consolidated financial statements and Auditors' report

For the year ended 31 December 2010

OJSC Dixy Group

International Financial Reporting Standards

Consolidated financial statements and Auditors' report

For the year ended 31 December 2010

Contents

Independent auditors' report 1

Financial statements

Consolidated statement of financial position 3
Consolidated statement of comprehensive income 4
Consolidated statement of cash flows 5
Consolidated statement of changes in equity 7

Notes to the consolidated financial statements 8

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the Shareholders and the Board of Directors of OJSC Dixy Group

We have audited the accompanying consolidated financial statements of OJSC Dixy Group and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Ernst & Young LLC

28 April 2011

OJSC Dixy Group

Consolidated statement of financial position at 31 December 2010

(in thousands Russian roubles, unless otherwise indicated)

	Note	2010	2009
Assets			
Non-current assets			
Property, plant and equipment	5	12,835,446	12,740,752
Capital advances		942,112	526,539
Goodwill	6	358,478	404,603
Other intangible assets	7	298,851	431,758
Initial lease costs		144,205	287,694
Loans		5,047	17,750
Trade and other receivables	10	2,724	25,804
Deferred tax asset	21	397,482	250,592
		14,984,345	**14,685,492**
Current assets			
Inventories	9	3,873,123	3,320,969
Trade and other receivables	10	1,514,900	1,401,365
Taxes recoverable and prepayments	8	1,113,736	939,513
Loans		134,066	135,652
Initial lease costs		45,446	86,785
Cash and cash equivalents	11	1,596,680	1,331,856
		8,277,951	**7,216,140**
Total assets		**23,262,296**	**21,901,632**
Equity and liabilities			
Equity attributable to equity holders of the Parent			
Share capital	12	860	860
Additional paid-in capital	12	4,111,405	4,119,422
Retained earnings		1,916,147	1,652,342
		6,028,412	**5,772,624**
Non-controlling interest		**-**	**11,797**
Total equity		**6,028,412**	**5,784,421**
Non-current liabilities			
Borrowings	14	6,038,938	-
Bonds	13	-	3,000,000
Finance leases	15	242,377	241,975
Deferred tax liability	21	234,733	263,120
		6,516,048	**3,505,095**
Current liabilities			
Trade and other payables	16	7,208,994	6,360,162
Borrowings	14	6,442	5,669,995
Current portion of Bonds	13	2,929,452	79,823
Finance leases	15	161,878	128,314
Advances from customers		69,270	137,967
Tax liability, other than income taxes	17	278,217	183,311
Income taxes payable		62,375	45,059
Provisions for liabilities and charges	23	1,208	7,485
		10,717,836	**12,612,116**
		17,233,884	**16,117,211**
Total equity and liabilities		**23,262,296**	**21,901,632**

Signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 28 April 2011

Fedor Rybasov,
General Director

Irina Kobyakina,
Head of IFRS Reporting

The accompanying notes on pages 8 to 49 are an integral part of these consolidated financial statements.

OJSC Dixy Group

Consolidated statement of comprehensive income

For the year ended 31 December 2010

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2010	2009
Revenue	18	64,799,114	54,261,541
Cost of sales		(47,688,479)	(39,717,538)
Gross profit		**17,110,635**	**14,544,003**
Selling, general and administrative expenses	19	(15,423,219)	(13,239,881)
Operating profit		**1,687,416**	**1,304,122**
Finance income	20	26,520	25,578
Finance costs	20	(738,551)	(845,188)
Foreign exchange loss, net		(104,162)	(175,551)
Profit before income tax		**871,223**	**308,961**
Income tax expense	21	(613,380)	(421,346)
Profit/(loss) for the year		**257,843**	**(112,385)**
Total comprehensive income/(loss) for the year		**257,843**	**(112,385)**
Attributable to:			
Equity holders of the Parent		257,666	(111,856)
Equity holders of the non-controlling interest		177	(529)
		257,843	**(112,385)**
Profit/(Loss) per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)	22	**3.07**	**(1.33)**

The accompanying notes on pages 8 to 49 are an integral part of these consolidated financial statements.

OJSC Dixy Group

Consolidated statement of cash flows

For the year ended 31 December 2010

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2010	2009
Cash flows from operating activities:			
Profit before income tax		871,223	308,961
Adjustments for:			
Depreciation of property, plant and equipment	5	1,646,004	1,424,827
Amortisation of intangible assets	7	104,970	78,655
Amortisation of initial lease costs	19	193,609	99,100
Gains less losses on disposals of property, plant and equipment and intangible assets		4,883	89,655
Increase in provision for impairment of taxes recoverable and prepayments	19	107,247	37,868
Increase in provision for impairment of trade and other receivables	10, 19	22,446	31,851
Write down/(reversal of write-down) of inventory to net realizable value	19	9,671	(544)
Decrease in provision for liabilities and charges	23	(6,277)	(25,519)
Decrease in income tax provision	23	(8,738)	(2,091)
Finance costs	20	738,551	845,188
Finance income	20	(26,520)	(25,578)
Impairment of goodwill	6, 19	46,125	-
Unrealised foreign exchange losses on borrowings		104,162	175,551
Operating cash flows before working capital changes		**3,807,356**	**3,037,924**
Increase in trade and other receivables		(118,956)	(492,145)
Increase in inventories		(561,825)	(47,597)
(Increase)/decrease in taxes recoverable and prepayments		(366,746)	219,413
Increase in trade and other payables		848,830	640,225
Increase in tax liability other than income tax		94,907	68,550
(Decrease)/increase in advances from customers		(68,697)	50,427
Cash generated from operations		**3,634,869**	**3,476,797**
Income tax paid		(762,435)	(570,946)
Interest paid		(887,517)	(843,281)
Net cash from operating activities		**1,984,917**	**2,062,570**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(1,883,923)	(1,557,413)
Proceeds from sale of property, plant and equipment		70,167	64,311
Purchase of non-controlling interest in subsidiary	12	(5,835)	-
Initial Lease costs paid		(8,781)	(8,569)
Loans repaid		585,634	429,593
Disbursement of loans		(562,935)	(401,114)
Interest received		13,720	4,505
Purchases of intangible assets		(24,276)	(31,401)
Sale of non-controlling interest in subsidiary		-	2,328
Net cash used in investing activities		**(1,816,229)**	**(1,497,760)**

The accompanying notes on pages 8 to 49 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Note	2010	2009
Cash flows from financing activities:			
Proceeds from loans and borrowings		7,667,456	4,334,988
Repayment of loans and borrowings		(7,263,319)	(4,604,663)
Buy-out of bonds	13	(147,671)	-
Buy-out of shares	12	(8,017)	-
Finance lease payments		(152,313)	(253,078)
Net cash from/(used in) financing activities		**96,136**	**(522,753)**
Net increase in cash and cash equivalents		**264,824**	**42,057**
Cash and cash equivalents at the beginning of the year	11	**1,331,856**	**1,289,799**
Cash and cash equivalents at the end of the year	11	**1,596,680**	**1,331,856**

The following non-cash investing and financing activities were excluded from the above consolidated statement of cash flows for the year ended 31 December 2010:

- acquisition of property, plant and equipment of 110,926 (in 2009: 1,374) through finance lease.

The accompanying notes on pages 8 to 49 are an integral part of these consolidated financial statements.

OJSC Dixy Group

Consolidated statement of changes in equity

For the year ended 31 December 2010

(in thousands of Russian roubles, unless otherwise indicated)

	Note	Attributable to equity holders of the Parent Share capital	Additional paid-in capital	Retained earnings	Total	Non-controlling interest	Total equity
At 31 December 2008		860	4,119,422	1,770,766	5,891,048	3,430	5,894,478
Total comprehensive loss for the year		-	-	(111,856)	(111,856)	(529)	(112,385)
Sale of non-controlling interest in subsidiary	12	-	-	(6,568)	(6,568)	8,896	2,328
At 31 December 2009		860	4,119,422	1,652,342	5,772,624	11,797	5,784,421
Total comprehensive income for the year		-	-	257,666	257,666	177	257,843
Buy-out of non-controlling interest in subsidiary	12	-	-	6,139	6,139	(11,974)	(5,835)
Buy-out of shares	12	-	(8,017)	-	(8,017)	-	(8,017)
At 31 December 2010		860	4,111,405	1,916,147	6,028,412	-	6,028,412

The accompanying notes on pages 8 to 49 are an integral part of these consolidated financial statements.

1 Corporate information

CJSC "Company Uniland Holding" (the "Company") was incorporated in January 2003 in Moscow, Russian Federation for the purpose of consolidation and reorganization of entities under common control. In March 2007, the Company was reorganized into an Open Joint Stock Company and renamed to "Dixy Group".

Since 24 May 2007 shares of OJSC Dixy Group are listed on the Russian Stock Exchange.

As of 31 December 2010 and 2009 the Group is controlled by Dixy Holding Limied (Cyprus), which as of 31 December 2010 and 2009 owns 61.09% in OJSC Dixy Group.

As of 31 December 2010 and 2009 Dixy Holding Limited (Cyprus) was 100% owned by Dixy Retail Limited (BVI), which is in its turn was 100% owned by Closed Joint-Stock Company "Trade Company Megapolis". Closed Joint-Stock Company "Trade Company Megapolis" is a part of the Mercury Group. Mercury Group is ultimately controlled by Mr. Igor Kesaev.

These consolidated financial statements of the Company were signed and authorized for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 28 April 2011.

2.1 Basis of preparation

The Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular Group company is resident. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The functional currency of Group companies was determined on an entity by entity basis. In 2010 and 2009 the functional currency of all of the Group's operating companies was determined to be Russian Roubles.

The consolidated financial statements are presented in Russian Rouble and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.1 Basis of preparation (continued)

Basis of consolidation

Basis of consolidation from 1 January 2009

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2009

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated profit or loss and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests, prior to 1 January 2009, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these Losses prior to 1 January 2009 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2009 have not been restated.

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in these financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

As at 31 December 2010 and 31 December 2009 the principal operating and holding consolidated subsidiaries of OJSC Dixy Group were:

Company	Country	Nature of operations	Ownership (%) 2010	2009
Timefield Trading & Investments Ltd	Cyprus	Financial company	100%	100%
Lexavart Holding Ltd	BVI	Holder of trademarks	100%	100%
CJSC Discount Centre	Russia	Retailing	100%	100%
CJSC DIXY Yug	Russia	Retailing	100%	100%
CJSC DIXY - Logistics	Russia	Transportation	100%	100%
CJSC Regionalnyje magaziny	Russia	Managing of Group's assets	100%	100%
CJSC Spayder Ekaterinburg	Russia	Managing of Group's assets	100%	100%
LLC Yaroslavskie magaziny	Russia	Retailing	100%	100%
LLC Denver	Russia	Retailing	100%	100%
LLC Stroyregioninvest	Russia	Real estate	100%	100%
LLC Interfinance	Russia	Retailing	*	100%
LLC Kalitniki	Russia	Real estate	100%	100%
LLC D-Vostok	Russia	Retailing	100%	100%
LLC Kostromatorg	Russia	Real estate	100%	100%
LLC Kaluzhskie magaziny	Russia	Retailing	100%	100%
CJSC DIXY - St Petersburg	Russia	Retailing	100%	100%
CJSC Megamart - Severo-Zapad	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
LLC Severo-Zapad	Russia	Holding company	100%	100%
LLC Sankt-Petersburgkie magaziny	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
CJSC Megamart	Russia	Retailing	100%	100%
LLC SPb-Leasing	Russia	Real estate	100%	100%
LLC DIXY Chelyabinsk	Russia	Retailing	100%	100%
LLC Dixy-Snezhinsk	Russia	Real estate	100%	100%
OJSC YarTorgOdezhda	Russia	Retailing, Real estate	100%	84.8%
LLC Dixy Finance	Russia	Financing company	0%	0%

* LLC Interfinance were merged into LLC Kaluzhskie magaziny in 2010.

LLC Dixy Finance satisfied the criteria of SIC 12 "Consolidation - Special Purpose Entities" and accordingly is consolidated in these financial statements (refer to Note 2.3).

2.2 Changes in accounting policy and disclosures

Certain comparative information presented in the 2009 consolidated financial statements has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements. Such reclassifications were not significant and, therefore, are not disclosed separately.

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009

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

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

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

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

2.2 Changes in accounting policy and disclosures (continued)

Improvements to IFRSs

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

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

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

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

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

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

The impact of adoption of these Standards and Interpretations (except for IFRS 1 amendment) in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements

Recognition of revenue for services rendered to vendors

Revenue from services provided to vendors generates a significant portion of the Group income from operating activities. Because these service contracts are closely related to core purchase contracts it is often a matter of judgement to distinguish whether proceeds for services rendered should be recognised as revenue or whether they should be recognised as discounts provided, as a deduction from cost of goods purchased.

Consolidation of a special purpose entity

In 2005 the immediate shareholder of the Company founded a wholly-owned subsidiary LLC Dixy Finance. The objective of LLC Dixy Finance is to obtain external financing and provide loans to operating companies of the Group and to pay a remuneration to the Group's management. Having analysed the criteria set out in SIC-12 *Consolidation - Special Purpose Entities*, management concluded that in substance LLC Dixy Finance represents a special purpose entity controlled by the Group and is therefore consolidated in these financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. The assets subject to such assessment are primarily property, plant and equipment, goodwill, initial lease costs and other intangible assets. Goodwill (refer to Note 6) and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

2.3 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Impairment of non-financial assets (continued)

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets.

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any non-financial assets impairment.

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In 2010, there were no change in estimates of useful lives of property, plant and equipment.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgement in forecasting future cash flows and developing other assumptions.

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers and contractors to make required payments or rendered services. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2010, allowances for doubtful accounts have been created in the amount of 257,252 (2009: 127,559).

2.3 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Inventory provision

The Group determines the provisions for obsolete or slow moving items of inventories based on their expected future use and realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of sale or distribution. Selling prices and costs to sale are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 23.

Deferred tax assets

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss. More details are provided in Note 21.

2.4 Summary of significant accounting policies

Property, plant and equipment

The Group's property, plant and equipment, except for assets acquired prior to 1 January 2003, are stated at historical cost less accumulated depreciation and any impairment in value. Property, plant and equipment acquired before 1 January 2003 is stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002, less accumulated depreciation and any impairment in value.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Group companies 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 difference is recognized as an expense (impairment loss) in profit or loss. An impairment loss recognized for an asset in previous years is reversed if there is any indication that impairment loss may no longer exist or may have decreased.

After initial recognition property, plant and equipment is measured at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated using the straight-line basis over the useful life of the asset as follows:

	Useful lives in years
Buildings	30
Renovation of stores	5
Equipment	3 - 5

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is derecognised.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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.

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 initial lease costs) 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 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 capitalised 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 interest cost is charged to the profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of their useful life or lease term.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually.These calculations require the use of estimates as further detailed in Note 6. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.4 Summary of significant accounting policies (continued)

Other intangible assets

All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, trademarks and favourable operating lease agreements.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licenses	5 - 10
Favourable lease agreements - over the lease term	5 - 10

Amortization periods and methods for intangible assets with finite useful lives are reviewed at least annually at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset.

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.

Capital advances

Capital advances include amounts prepaid for property, plant and equipment and are measured at cost. Payments for purchases of property, plant and equipment are presented net of VAT in the cash flow statement.

Initial lease costs

Initial lease costs include lump sum amounts paid to the lessors under operating leases of stores and warehouses either for the right to conclude the lease or to finance construction and repairs works on the leased assets. Initial lease costs are capitalised and charged to profit or loss on a straight-line basis over the period of lease.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

2.4 Summary of significant accounting policies (continued)

Income taxes (continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. A liability is also recorded for any taxes that are payable but not declared in the tax accounts of the Group entities. This liability is released to profit or lossafter three years. A provision for taxes, other than on income, is set up and recorded within selling, general and administrative 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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill, which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting 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 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.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Loans receivables

Loans receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade and other accounts receivable

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. Trade receivables mainly comprise receivables from vendors for rebates and returns.

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

2.4 Summary of significant accounting policies (continued)

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. Cash transferred from stores to bank but not yet credited to bank accounts as of the reporting date is recorded as cash in transit.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction from the proceeds.

Additional paid-in capital

Additional paid-in capital represents accumulated contributions made by shareholders and share premium for new shares issue transactions. Additional contributions of shareholders other than proceeds from issue of the Company's equity instruments are recorded at the fair value of the contributions received.

Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders. Movements in treasury shares are included into additional paid-in capital.

2.4 Summary of significant accounting policies (continued)

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable upon collection of documents required for tax deduction.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings

Borrowings are recognized initially at fair value (which is the present value of the proceeds received determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognized as interest expense over the period of the borrowings. The borrowing costs incurred on qualifying assets are capitalized and amortized over useful life of qualifying asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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 for liabilities and charges

Provisions for liabilities and charges 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.

If the effect of the time value of money is material, 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2.4 Summary of significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles (RUB), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recognized in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

All resulting differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At 31 December 2010 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 30.4769 (2009: US$ 1 = RR 30.2442) and EURO 1 = RR 40.3331 (2009: EURO = RR 43.3883).

Employee benefits

Employee benefits for the services provided during a reporting period are recognized as an expense in that reporting period. All employee benefit plans represent defined contribution plans.

State pension plan

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognized in the profit and loss as incurred.

Bonuses

For each year the Group's management establishes bonus programs for middle and senior management. Bonuses are generally dependent on the achievement of certain financial performance criteria of individual business units and the Group as a whole and are calculated and accrued in the period in which the related services are rendered.

Other costs

The Group incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to selling, general and administrative expenses.

Revenue recognition

Revenue is recognized when the title to goods and the risks of ownership are transferred to the customer, provided that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized net of value added tax and discounts.

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Marketing revenue is recognised in the period when the services are rendered and accepted by the customer by signing an acceptance act subject to a condition that there is a reasonable certainly that the respective accounts receivable will be repaid.

Rental income is recognised on a straight-line basis over the lease term.

Expense recognition

Expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the profit or loss in the period to which they relate.

Advertising costs

Advertising costs are expensed when incurred.

2.5 Going concern

These consolidated financial statements were prepared on the basis of accounting principles applicable to a going concern, which assumes that the Group will continue operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Group has a negative working capital of 2,439,885 and 5,395,976 as at 31 December 2010 and 2009, respectively.

In 2010 and 2009, the Group generated profit for the year of 257,843 and loss for the year of 112,385, respectively. Also in 2010 and 2009 the Group generated positive net cash from operating activities of 1,984,917 and 2,062,570, respectively. Management has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future.

3 Segment information

For management purposes, the group is organised into business units based on format of its stores and has four reportable operating segments as follows:

- Dixy - Moscow - representing retail sales through a chain of discounters, which are present in Central Region (comprising Moscow and Moscow region, Yaroslavl region, Ryazan region, Vladimir region, Smolensk region, Kostroma and Kaluga);
- Dixy - St.Petersburg - a chain of discounters, which are present in North-West Region (comprising Saint-Petersburg and neighbouring towns);
- Dixy - Chelyabinsk - representing retail sales through a chain of discounters, which are present in Chelyabinsk Region;
- Megamart - representing retail sales through a chains of compact hypermarkets and economy supermarkets (Minimart), which are present in Ural Region.

3 Segment information (continued)

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group financing (including finance costs and finance income), foreign exchange differences, corporate expenses and income taxes are managed on a group basis and are not allocated to operating segments. Corporate expenses include payroll of head office employees, rent of head office and other expenses related to general management of the Group.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2010 and 2009 is set out below:

	Dixy - Moscow	Dixy - St.Petersburg	Dixy - Chelyabinsk	Megamart	Adjustments	Group
2010						
Total segment revenue	33,954,007	18,267,094	3,034,546	9,543,467	-	64,799,114
Profit before taxation	239,182	1,168,949	9,185	1,008,479	(1,554,572) (A)	871,223
Depreciation and amortisation	1,149,259	347,419	84,835	169,461	-	1,750,974
Other Non-cash expenses:						
Amortisation of Initial Lease costs	182,702	9,897	561	449	-	193,609
Tax provision	(6,409)	-	-	-	-	(6,409)

(A) Segment profit before taxation does not include corporate expenses of 738,379, finance expense of 738,551, finance income of 26,520 and net foreign exchange loss of 104,162.

	Dixy - Moscow	Dixy - St.Petersburg	Dixy - Chelyabinsk	Megamart	Adjustments	Group
2009						
Total segment revenue	27,283,126	15,793,911	2,771,321	8,413,183	-	54,261,541
Profit before taxation	168,176	896,030	(62,308)	906,265	(1,599,202) (B)	308,961
Depreciation and amortisation	963,889	312,510	60,772	166,311	-	1,503,482
Other Non-cash expenses:						
Amortisation of Initial Lease costs	88,110	10,440	560	-	-	99,110
Tax provision	(11,063)	(4,119)	(5,251)	(5,086)	-	(25,519)

(B) Segment profit before taxation does not include corporate expenses of 604,041, finance expense of 845,188, finance income of 25,578 and net foreign exchange loss of 175,551.

4 Balances and transactions with related parties

Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify, account and properly disclose transactions with related parties.

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 2010 are detailed below. At 31 December 2010, the outstanding balances with related parties were as follows:

	Entities under common control	Key management personnel	Total
Trade receivables	15,059	-	15,059
Prepayments	9,557	-	9,557
Other receivables	7,142	-	7,142
Loans - current	106,464	5,450	111,914
Capital advances	71,561	-	71,561
Trade and other payables	97,298	-	97,298

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2009: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The income and expense items with related parties for the year 2010 were as follows:

	Entities under common control	Key management personnel	Total
Interest income	16,080	-	16,080
Interest expense	2,050	-	2,050
Revenue	2,581	-	2,581
Purchase of goods	652,656	-	652,656

Transfers under finance arrangements (including loans and equity contributions in cash or in kind) for the year 2010 were as follows:

In thousands of Russian Roubles	Entities under common control	Key management personnel	Total
Loans issued	(550,000)	(6,500)	(556,500)
Repayment of loans issued	550,000	1,850	551,850
Repayment of loans received	(275,566)	-	(275,566)

4 Balances and transactions with related parties (continued)

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 2009 are detailed below. At 31 December 2009, the outstanding balances with related parties were as follows:

	Entities under common control	Key management personnel	Total
Trade receivables	12,919	-	12,919
Prepayments	6,746	-	6,746
Other receivables	6,968	-	6,968
Loans - current	97,776	800	98,576
Capital advances	71,952	-	71,952
Borrowings (refer to Note 14)	407,395	-	407,395
Trade and other payables	64,144	-	64,144

The income and expense items with related parties for the year 2009 were as follows:

	Entities under common control	Key management personnel	Total
Interest income	11,161	61	11,222
Interest expense	9,688	-	9,688
Purchase of goods	504,908	-	504,908

Transfers under finance arrangements (including loans and equity contributions in cash or in kind) for the year 2009 were as follows:

In thousands of Russian Roubles	Entities under common control	Key management personnel	Total
Loans issued	(325,000)	(310)	(325,310)
Repayment of loans issued	325,000	4,910	329,910

Directors' compensation

Compensation paid to seven (2009: six) directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results, all of which represent short-term employee benefits as defined in IAS 19, *Employee Benefits*. Total directors' compensation included in selling, general and administrative expenses in profit or loss amounted to 111,912 (2009: 102,437).

4 Balances and transactions with related parties (continued)

Loans obtained from parties under common control

At 31 December 2009 the Group had several outstanding loans from Dixy Capital Investments Limited, which is under control of the Group's ultimate shareholder. These loans were payable on demand and denominated in US dollars. The interest rates on these loans were in 2009 11-12.65%. No assets were pledged under these loans agreements. In 2010 these loans were repaid.

Loans issued to parties under common control

At 31 December 2010 and 2009 the Group had several loans issued to parties under common control of the Group's ultimate shareholder. These loans are payable in 2011 and are mainly denominated in US dollar. The interest rate on these loans is 11.5% (2009: 11.5%). These loans are not secured.

Purchase of goods

During 2010 and 2009 the Group purchased goods for resale in the normal course of business in the amount of 652,656 (2009: 504,908) from entities under control of its controlling shareholder Group Megapolis. The Group's controlling shareholder operates in the wholesale business specializing in distribution of tobacco goods.

5 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment in 2010 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2009	**348,848**	**9,062,323**	**2,196,024**	**4,336,147**	**423,701**	**16,367,043**
Additions	-	-	-	-	1,795,686	1,795,686
Transfers	46,943	243,501	510,047	1,005,865	(1,806,356)	-
Disposals	(17)	-	(65,554)	(93,850)	(11,052)	(170,473)
At 31 December 2010	**395,774**	**9,305,824**	**2,640,517**	**5,248,162**	**401,979**	**17,992,256**
Accumulated depreciation						
At 31 December 2009	-	**674,797**	**948,414**	**2,003,080**	-	**3,626,291**
Disposals	-	-	(52,976)	(62,509)	-	(115,485)
Depreciation charge	-	317,496	482,942	845,566	-	1,646,004
At 31 December 2010	-	**992,293**	**1,378,380**	**2,786,137**	-	**5,156,810**
Net book value						
At 31 December 2010	**395,774**	**8,313,531**	**1,262,137**	**2,462,025**	**401,979**	**12,835,446**
At 31 December 2009	**348,848**	**8,387,526**	**1,247,610**	**2,333,067**	**423,701**	**12,740,752**

Movements in the carrying amount of property, plant and equipment in 2009 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2008	**110,480**	**8,297,544**	**1,797,727**	**3,752,834**	**487,070**	**14,445,655**
Additions	-	-	-	-	2,211,529	2,211,529
Transfers	238,550	769,040	497,899	754,738	(2,260,227)	-
Disposals	(182)	(4,261)	(99,602)	(171,425)	(14,671)	(290,141)
At 31 December 2009	**348,848**	**9,062,323**	**2,196,024**	**4,336,147**	**423,701**	**16,367,043**
Accumulated depreciation						
At 31 December 2008	-	**376,910**	**631,994**	**1,368,906**	-	**2,377,810**
Disposals	-	(3,592)	(42,773)	(129,981)	-	(176,346)
Depreciation charge	-	301,479	359,193	764,155	-	1,424,827
At 31 December 2009	-	**674,797**	**948,414**	**2,003,080**	-	**3,626,291**
Net book value						
At 31 December 2009	**348,848**	**8,387,526**	**1,247,610**	**2,333,067**	**423,701**	**12,740,752**
At 31 December 2008	**110,480**	**7,920,634**	**1,165,733**	**2,383,928**	**487,070**	**12,067,845**

The carrying value of equipment and buildings held under finance lease contracts at 31 December 2010 was 358,541 (2009: 424,086) and 48,118 (2009: 79,211), respectively.

Additions during 2010 include 110,926 (2009: 1,374) of equipment held under finance leases. The Group has no title for leased assets and the ownership rights for them transfer to the Group upon the maturity of finance lease contracts.

5 Property, plant and equipment (continued)

As of 31 December 2010 property, plant and equipment of nil (31 December 2009: 356,226) was pledged as collateral under bank loan agreements (Note 14).

During the year ended 31 December 2010 the Group capitalized interest of 1,055 (2009: 18,756). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was in the range of between 4.54-17.36%.

6 Goodwill

Goodwill is allocated to cash-generating units (CGUs; one CGU is one store), which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment.

Movements in the carrying amount of goodwill in 2010 were as follows:

	Total
Cost	
At 31 December 2008	404,603
At 31 December 2009	404,603
At 31 December 2010	**404,603**
Accumulated impairment losses	
At 31 December 2008	-
At 31 December 2009	-
Impairment (Note 19)	46,125
At 31 December 2010	**46,125**
Net book value	
At 31 December 2008	**404,603**
At 31 December 2009	**404,603**
At 31 December 2010	**358,478**

The recoverable amount of CGUs was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which CGUs operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2010	2009
Sales growth within five years	6.5%	7.5%
Gross margin	18-22%	21-22%
Growth rate beyond five years	5.0%	7.5%
Pre-tax discount rate	13% p.a.	13% p.a.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports prepared by reputable analysts. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

7 Other intangible assets

Movements in the carrying amount of intangible assets in 2010 were as follows:

	Licenses	Favourable operating lease agreements	Total
Cost			
At 31 December 2009	110,067	542,143	652,210
Additions	45,993	-	45,993
Disposals	(3,897)	(124,933)	(128,830)
At 31 December 2010	152,163	417,210	569,373
Amortisation			
At 31 December 2009	28,364	192,088	220,452
Amortisation charge	21,585	83,385	104,970
Disposals	(3,623)	(51,277)	(54,900)
At 31 December 2010	46,326	224,196	270,522
Carrying amount			
At 31 December 2010	105,837	193,014	298,851
At 31 December 2009	81,703	350,055	431,758

Movements in the carrying amount of intangible assets in 2009 were as follows:

	Licenses	Favourable operating lease agreements	Total
Cost			
At 31 December 2008	80,368	829,891	910,259
Additions	31,401	-	31,401
Disposals	(1,702)	(287,748)	(289,450)
At 31 December 2009	110,067	542,143	652,210
Amortisation			
At 31 December 2008	17,973	164,853	182,826
Amortisation charge	11,079	67,576	78,655
Disposals	(688)	(40,341)	(41,029)
At 31 December 2009	28,364	192,088	220,452
Carrying amount			
At 31 December 2009	81,703	350,055	431,758
At 31 December 2008	62,395	665,038	727,433

8 Taxes recoverable and prepayments

	2010	2009
VAT recoverable	367,705	252,209
Prepayments (net of allowance for impairments of 176,881 (2009: 69,634))	522,928	385,180
Prepaid expenses	29,374	35,310
Taxes prepaid	54,923	127,839
Income tax prepaid	138,806	138,975
Total taxes recoverable and prepayments	**1,113,736**	**939,513**

9 Inventories

	2010	2009
Goods for resale (net of write-down to net realizable value of 99,916 (2009: 90,245))	3,861,716	3,281,277
Raw materials and operating supplies (at cost)	11,407	39,692
Total inventories at the lower of cost or net realisable value	**3,873,123**	**3,320,969**

Inventory write-down due to shrinkages identified during the physical inventory counting in 2010 comprised 1,298,329 (2009: 1,160,875). No inventory is pledged as of 31 December 2010 and 2009.

10 Trade and other receivables

	2010	2009
Trade receivables (net of allowance for impairment of trade receivables of 73,488 (2009: 54,709))	1,423,758	1,264,492
Other receivables (net of allowance for impairment of other receivables of 6,883 (2009: 3,216))	93,866	162,677
Total trade and other receivables	**1,517,624**	**1,427,169**
Less current portion	(1,514,900)	(1,401,365)
Non-current trade and other receivables	**2,724**	**25,804**

Trade receivables as of 31 December 2010 and 2009 are denominated mainly in Russian roubles.

10 Trade and other receivables (continued)

As at 31 December 2010, trade receivables at nominal value of 73,488 (2009: 54,709) were individually impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

At 1 January 2009	22,043
Reversed	(13,577)
Accrued	46,243
At 31 December 2009	**54,709**
Reversed	(15,641)
Accrued	34,420
At 31 December 2010	**73,488**

At 31 December, the ageing analysis of trade receivables was as follows:

			Of which: not impaired on the reporting date and past due in the following periods			
	Carrying amount	**Of which neither impaired nor past due on the reporting date**	**Less than 60 days**	**between 61 and 150 days**	**between 151 and 330 days**	**More than 330 days**
2010	1,423,758	929,069	168,931	103,106	142,455	80,197
2009	1,264,492	846,144	231,070	88,845	70,467	27,966

Trade receivable as of 31 December 2010 and 2009 had different payment terms ranging from 5 to 60 days payment period with average payment period of 1 month. Because of different payment terms and significant number of debtors the Group concluded that it is impracticable to provide ageing analysis of trade receivables on individual basis. The Group prepared overdue ageing analysis based on average payment period of 1 month.

As at 31 December 2010 and 2009, other receivables at nominal value of 6,883 (2009: 3,216) were impaired and fully provided for. Movements in the provision for impairment of other receivables were as follows:

At 1 January 2009	4,031
Reversed	(3,525)
Accrued	2,710
At 31 December 2009	**3,216**
Reversed	(3,610)
Accrued	7,277
At 31 December 2010	**6,883**

10 Trade and other receivables (continued)

At 31 December, the ageing analysis of other receivables was as follows:

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods			
			Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2010	93,866	67,086	1,175	3,105	12,769	9,731
2009	162,677	109,668	29,184	4,571	10,656	8,598

11 Cash and cash equivalents

	2010	2009
Cash on hand - Russian roubles	162,371	161,018
Russian rouble denominated bank balances due on demand	440,173	456,533
US$ denominated bank balances due on demand	2,961	14,385
Russian rouble denominated time deposits	549,625	341,042
Cash in transit - Russian roubles	441,550	358,878
	1,596,680	1,331,856

Short-term deposits have original maturities of less than one month.

12 Share capital and equity

Issued and additional paid-in capital

As at 31 December 2010 the Group had 86,000,000 (2009: 86,000,000) authorized ordinary shares of which 1,963,646 (2009: 1,932,083) ordinary shares were held as treasury stock. All ordinary shares are fully paid.Ordinary shares have par value of 0.01 Russian rouble per share. The shares rank equally. Each share carries one vote.

Additional paid-in capital represents accumulated contributions made by shareholders and share premium for new shares issue transactions.

In August and in October 2010 the Company repurchased 27,563 ordinary shares for 7,001 (254 roubles per share) and 4,000 ordinary shares for 1,016 (254 roubles per share), respectively.

12 Share capital and equity (continued)

Dividends

No dividends were paid in 2010 (2009: nil). No dividends were declared or paid subsequent to 31 December 2010 up to the date of authorisation of these financial statements for issue.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. As of 31 December 2010 and 2009 the Company had 137,471 and 181,372 of accumulated loss, respectively. In addition, the Company's share in the undistributed and unreserved earnings of subsidiaries was approximately 2,647,003 as at 31 December 2010 (2009: 1,819,628).

Non-controlling interest

In October 2009 the Group sold out a 11% interest in LLC YartorgOdezhda for a cash consideration of 2,328. The Group recognised increase in non-controlling interest by 8,896. The resulting loss of 6,568 was recognised directly in equity.

With a view of obtaining 100% ownership in LLC YartorgOdezhda, in July and December 2010 the Group bought out a 11.57% and 3.65% interest in LLC YartorgOdezhda from its non-controlling shareholders for a cash consideration of 3,365 and 2,470, respectively. The related net gain of 6,139 was recognised directly in equity.

At 31 December 2010 the Group had 100% interest in LLC YartorgOdezhda.

13 Bonds

In March 2006 the Group issued 3,000,000 Russian rouble denominated bonds for a term of 5 years with a coupon period of 6 months. Bonds bear interest of 9.25% per annum. The only covenant of the bond placement is that the Company should retain control over its key operating companies, which account for more than 79% of consolidated revenues. As at 31 December 2010 the Group had accrued coupon of 76,630 (2009: 79,823). In December 2010 the Group bought-out 147,178 bonds for a cash consideration of 147,671. In March 2011 the Group timely repaid the remaining bonds obligation in full amount.

14 Borrowings

	2010	2009
Bank loans	6,045,380	5,262,600
Loan from entities under common control (Note 4)	-	407,395
Total borrowings	**6,045,380**	**5,669,995**

The Group's borrowings mature as follows:

	2010	2009
Borrowings due:		
- within 1 year	6,442	5,669,995
- between 2 and 5 years	6,038,938	-
Total borrowings	**6,045,380**	**5,669,995**

Terms and conditions in respect of borrowings are detailed below:

Source of financing	Maturity date	Currency	Interest rate 2010	Interest rate 2009	Collateral 2010	Collateral 2009	2010	2009
Syndicated loan arranged by ZAO Unicredit bank, ING Bank N.V., ZAO Raiffeisenbank, OJSC Nordea bank	2014	RR	MOSPRIME+4%	-	-	-	6,041,803	-
Syndicated loan arranged by CITIBANK N.A.	2010	US$	-	LIBOR+4,3%	-	-	-	4,099,835
VTB Bank (OJSC)	2010	RR	-	16,7-17,4%	-	-	-	1,010,267
AB Gazprombank (CJSC)	2010	RR	-	15%	-	Buildings for 356,226	-	151,426
Loan from entities under common control (Note 4)	2010	US$	-	11-12.65%	-	-	-	407,395
Other	2010	RR			-	-	3,577	1,072
							6,045,380	5,669,995

As at 31 December 2010 and 2009, loans with carrying amount of nil and 151,426, respectively, were secured by property, plant and equipment with carrying value of nil and 356,226, respectively (See Note 5).

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its interest rate exposures.

As at 31 December 2010 and 2009 carrying amount of borrowings approximates their fair value.

As of 31 December 2010 the Group had syndicated loan arranged by ZAO Unicredit bank, ING Bank N.V., ZAO Raiffeisenbank and OJSC Nordea bank in the principal amount of 6,145,340 with 4 year maturity. Carrying amount of this loan as of 31 December 2010 amounted to 6,041,803 including accrued interest of 2,864 and net of initial borrowing cost of 106,401.

14 Borrowings (continued)

This loan imposes certain financial covenants, which are summarised below:

- Total Financial Debt to EBITDA not exceed of 3.5x
- EBITDA/interest expense not less than 3.0x
- Net Worth not less than 6,000,000 adjusted for any currency remeasurement loss or gains incurred at any time after 1st January 2008.

For the purposes of the covenant testing EBITDA and Interest expense are measured quarterly on 12 months rolling basis.

All borrowings were repaid in accordance with its maturities.

15 Finance leases

Minimum lease payments under finance leases and their present values were as follows:

	Due in 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2010	244,830	311,164	555,994
Less future finance charges	(82,952)	(68,787)	(151,739)
Present value of minimum lease payments at 31 December 2010	161,878	242,377	404,255
Minimum lease payments at 31 December 2009	212,731	319,214	531,945
Less future finance charges	(84,417)	(77,239)	(161,656)
Present value of minimum lease payments at 31 December 2009	128,314	241,975	370,289

The Group entered into finance leases for various items of buildings and equipment (Note 5). All leases have purchase options at the end of the lease terms. In the years ended 31 December 2010 and 2009 the average imputed return rate under lease contracts amounted to 22% and 26% respectively. Finance lease payables are stated in Russian roubles except for finance leases in the amount of nil (2009: 237) denominated in US dollars and finance leases in the amount of 207,150 (2009: 323,223) denominated in Euro.

16 Trade and other payables

	2010	2009
Trade payables	6,618,243	5,892,200
Payables to employees	293,026	222,441
Other liabilities and accruals	297,725	245,521
Trade and other payables	7,208,994	6,360,162

As of 31 December 2010 and 2009 trade payables are denominated mainly in Russian roubles.

Trade and other payables are normally settled on 30-60 days term.

17 Tax liability, other than income taxes

	2010	2009
VAT payable	238,328	157,515
Payroll taxes payable	39,889	25,796
Tax liability, other than income taxes	**278,217**	**183,311**

Payables to employees, VAT payable and payroll taxes payable are settled normally within 15-90 days after reporting date.

18 Revenue

	2010	2009
Sales of goods	63,844,539	53,535,641
Marketing revenue	562,947	366,217
Sublease income	391,628	359,683
Total revenue	**64,799,114**	**54,261,541**

19 Selling, general and administrative expenses

	Note	2010	2009
Staff costs		6,229,071	5,346,495
Operating lease expenses		2,601,119	2,246,665
Depreciation of property, plant and equipment and amortisation of intangible assets	5, 7	1,750,974	1,503,482
Shrinkage of inventories	9	1,298,329	1,160,875
Utilities		835,664	657,082
Transportation and handling costs		393,787	261,406
Repair and maintenance costs		355,600	357,309
Advertising costs		257,928	206,846
Supplies and materials		232,911	236,266
Taxes other than income tax		230,727	259,974
Amortisation of initial lease costs		193,609	99,100
Bank charges		162,922	133,271
Information, consulting and other services		135,574	96,014
Security services		119,126	178,946
Increase in provision for impairment of prepayments		107,247	37,868
Telecommunication expenses		96,907	97,580
Impairment of goodwill	6	46,125	-
Business related expenses		23,876	30,708
Increase in provision for impairment of trade and other receivables	10	22,446	31,851
Increase/(decrease) in inventory allowance	9	9,671	(544)
Other operating expenses		319,606	298,687
Total Selling, general and administrative expenses		**15,423,219**	**13,239,881**

Included in staff costs are statutory social security and pension contributions of 1,163,012 (2009: 963,379).

19 Selling, general and administrative expenses (continued)

Operating lease expenses relate to cancellable and non-cancellable operating leases with terms from 1 to 10 years.

Included in other operating expenses is a change in provisions for liabilities and charges in the amount of positive 6,277 (2009: 25,519) (refer to Note 23).

20 Finance income and finance costs

	Note	2010	2009
Interest income from third parties		10,440	14,356
Interest income from related parties	4	16,080	11,222
Total finance income		**26,520**	**25,578**

	Note	2010	2009
Interest expense to third parties		736,501	835,500
Interest expense to related parties	4	2,050	9,688
Total finance costs		**738,551**	**845,188**

21 Income taxes

Income tax expense comprises the following:

	2010	2009
Current tax	788,657	497,763
Deferred income tax credit - origination and reversal of temporary differences	(175,277)	(76,417)
Income tax expense for the year	**613,380**	**421,346**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2010	2009
Profit before income tax	**871,223**	**308,961**
Theoretical tax charge at statutory rate of 20%	174,245	61,792
Tax effect of items which are not deductible or assessable for taxation purposes:		
Shrinkage of inventories	259,666	232,175
Non-deductible expenses	179,469	127,379
Income tax expense for the year	**613,380**	**421,346**

21 Income taxes (continued)

Deferred tax balances are computed by applying the statutory tax rate in effect at the reporting date to the differences between the tax basis of assets and liabilities and the amounts reported in the accompanying consolidated financial statements, and are comprised of the following as of 31 December:

	2010	2009
Deferred tax assets	357,237	290,782
Accounts payable and receivable	122,499	84,179
Tax losses carried forward	205,914	180,997
Inventories	28,824	25,606
Deferred tax liabilities	(194,488)	(303,310)
Property, plant and equipment	(194,488)	(303,310)
Net deferred tax asset/(liability)	162,749	(12,528)

Reflected in the consolidated statement of financial position as follows:

	2010	2009
Total Deferred tax assets	397,482	250,592
Total Deferred tax liabilities	(234,733)	(263,120)
Net deferred tax asset/(liability)	162,749	(12,528)

Weighted average income tax rate is set at 20%; it is based on the income tax rates at the Group Companies' jurisdictions. In 2010 and 2009 there were no significant income or loss generated in the companies outside of Russian Federation.

Deferred tax assets and liabilities are calculated for all temporary differences under the liability method using the principal tax rate of 20%. Deferred tax assets and liabilities at 31 December 2010 and 2009 were attributable to the following:

	31 December 2009	Credited/ (charged) to profit or loss	31 December 2010
Tax effect of deductible/(taxable) temporary differences and tax losses carried forward			
Accounts payable and receivable	84,179	38,320	122,499
Tax losses carried forward	180,997	24,917	205,914
Property, plant and equipment, and Other intangible assets	(303,310)	108,822	(194,488)
Inventories	25,606	3,218	28,824
Net deferred tax asset/(liability)	(12,528)	175,277	162,749

21 Income taxes (continued)

	31 December 2008	Credited/ (charged) to profit or loss	31 December 2009
Tax effect of deductible/(taxable) temporary differences and tax losses carried forward			
Accounts payable and receivable	7,833	76,346	84,179
Tax losses carried forward	231,897	(50,900)	180,997
Property, plant and equipment, and Other intangible assets	(339,144)	35,834	(303,310)
Inventories	10,469	15,137	25,606
Net deferred tax liability	**(88,945)**	**76,417**	**(12,528)**

Temporary differences in property, plant and equipment represent timing differences due to different useful lives and fair value adjustments on business combinations. Temporary differences in inventories represent timing differences of recognition of cost of goods sold. Temporary differences in account payable and receivable represents timing differences of recognition of certain expenses and vendors rebates.

Tax loss carry forwards recognised by the Group as of 31 December 2010 expires in 2017 in the amount of 851,740 and in 2019 in the amount of 177,830. The Group believes that the tax loss is fully recoverable before expiry date because tax loss carry forwards have arisen on entities, whose primary source of income are intragroup charges and interest income, which are under control of the Group.

The Group has not recognised a deferred tax liability in respect of taxable temporary differences of 3,224,978 (2009: 3,263,981) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

22 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

In August and in October 2010 the Company repurchased 27,563 and 4,000 ordinary shares (refer to Note 12).

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

Earnings per share are calculated as follows:

	Note	2010	2009
Profit/(loss) for the year attributable to ordinary shareholders		257,666	(111,856)
Weighted average number of ordinary shares in issue	12	84,055,432	84,067,917
Basic and diluted earnings/(losses) per ordinary share (expressed in Russian rouble per share)		**3.07**	**(1.33)**

23 Contingencies, commitments and operating risks

Operating environment of the group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

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

Litigation

During 2010 and 2009 the Group was involved in litigation with tax authorities in respect of tax claims arisen as a result of tax audits. The Group believes that the risk that they would not be able to defend their position in court is possible and the amount of related tax risks not recognized in these consolidated statements amounted to 83,068 as of 31 December 2010 (2009: 80,084).

Except for the above, in the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Capital expenditure commitments

At 31 December 2010 the Group had contractual capital expenditure commitments in respect of property, plant and equipment amounting to 366,674 (2009: 79,024).

Operating lease commitments

The Group leases premises for operation of its stores. Some of these leases are non-cancelable. These leases have remaining terms of between 1 and 10 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

23 Contingencies, commitments and operating risks (continued)

Future minimum rental payments under non-cancelable operating leases as at 31 December were as follows:

	2010	2009
Committed to pay		
- within 1 year	1,710,715	1,079,403
- between 2 and 5 years	4,824,154	2,949,838
- more than 5 years	1,562,635	926,409
Total non-cancellable operating lease liabilities	8,097,504	4,955,650

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately as liabilities. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may arise, if any, or the likelihood of any unfavorable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

23 Contingencies, commitments and operating risks (continued)

Tax legislation (continued)

During 2009 the Group released a tax provision related to taxes other than income by 25,519 and income tax liability by 12,290, which are no longer probable to result in additional tax liabilities due to expiration of limitation period or based on the results of tax inspections. In 2009 the Group accrued additional tax provisions for unsustainable tax positions related to income tax liabilities of 11,395.

During 2010 the Group released a tax provision related to taxes other than income by 6,277 and income tax liability by 8,738, which are no longer probable to result in additional tax liabilities due to expiration of limitation period or based on the results of tax inspections. The Group did not accrue any additional tax provisions for unsustainable tax positions related to income tax liabilities.

As of 31 December 2010 provision for income tax liabilities and provision for taxes other than income comprised 5,201 and 1,208, respectively. Management believes that these provisions will be sufficient to cover any additional tax payments it may need to make in the future. The balances at 31 December 2010 are expected to be either utilized or released within three years.

Although historically there have been no significant liabilities arising from tax assessments, the potential for assessments over amounts provided or accrued remains. Management estimates that the order of magnitude as at 31 December 2010 of potential liabilities that have not been provided for because management believes they are less than probable, amounts to 344,617 (2009: 379,828).

24 Financial risk management

Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables and cash and cash equivalents. The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that credit sales are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The Group holds major portion of its cash including time deposits in banks with credit rating above BBB.

24 Financial risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise for the Group two types of risk - foreign exchange risk and interest rates risk. Financial instruments affected by market risk include loans, borrowings, cash and cash equivalents and trade and other payables.

The sensitivity analyses in the following sections relate to the position as at 31 December 2010 and 31 December 2009.

The sensitivity analyses have been prepared on the basis that the amount of the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at 31 December 2010 and 31 December 2009.

Foreign exchange risk

Foreign currency denominated assets (refer to Note 11) and liabilities (refer to Notes 14, 15) give rise to foreign exchange exposure. As of 31 December 2010 the Group does not have significant exposure to foreign exchange risk currently as in 2010 the Group refinanced all of its US dollar denominated borrowings to Russian rubles denominated ones.

Group's current primary objective in terms of borrowing is to raise new debt funds in the local currency.

The following table demonstrates the sensitivity to a reasonably possible change in the US$ and EUR exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in exchange rate	Effect on profit before tax
2010		
US$	-8.9%	(9,737)
EUR	-11.05%	22,890
US$	+8.9%	9,737
EUR	+11.05%	(22,890)
2009		
US$	-14.8%	652,637
EUR	-14%	45,251
US$	+14.8%	(652,637)
EUR	+14%	(45,251)

24 Financial risk management (continued)

Interest rate risk

The Company monitors and measures interest rate risk regularly. The Group's exposure to the risk of negative changes in market interest rates related to the Group's long-term bank loan with floating interest rate (refer to Note 14).

In 2009 Group's interest rate risks were associated with the syndicated facility raised in 2008 and considered floating interest rate based on US LIBOR. Even though interest rate risk was not hedged, the Group benefited from significant decrease of US 6 month LIBOR from 1.75% to 0.43% in 2009.

In June 2010 the Group raised syndicated facility in principal amount of 6,145,340 at floating interest rate based on MOSPRIME. In the second half of 2010 MOSPRIME increased from 3.94% to 4.39%, but in the medium-term outlook the management does not expect significant growth of rates. In the long-term perspective the Group considers hedging instruments for interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in MOSPRIME and LIBOR, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings). There is no other impact on the Group's equity.

	31 December 2010		31 December 2009	
	Increase/decrease in basis points	Effect on profit before tax	Increase/decrease in basis points	Effect on profit before tax
MOSPRIME	1	(60,418)	-	-
	-0.75	45,314	-	-
LIBOR	-	-	1	(40,998)
	-	-	-0.5	20,499

Liquidity risk

As at 31 December 2010 the Group's current liabilities exceeded the Group's current assets by 2,439,885 (2009: 5,395,976). Typically the reason for negative working capital is the suppliers' credit being greater than the inventory turnover, generally 1.5 - 2 times. Short credit lines cover any temporary deficit and are refinanced when required.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities as at 31 December 2010 is 527,750 (2009: 180,000) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines sufficient to support the Group's current operations and ongoing obligations.

24 Financial risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments.

Year ended 31 December 2010	On demand or less than 1 year	1 to 5 years	Total
Bank loans	522,665	7,423,840	7,946,505
Bonds	2,984,394	-	2,984,394
Finance lease liability	244,830	311,164	555,994
Trade and other payables	7,208,994	-	7,208,994
	10,960,883	7,735,004	18,695,887

Year ended 31 December 2009	On demand or less than 1 year	1 to 5 years	Total
Bank loans	5,382,998	-	5,382,998
Borrowings from ultimate shareholder and parties under common control	407,395	-	407,395
Bonds	276,720	3,138,360	3,415,080
Finance lease liability	212,731	319,214	531,945
Trade and other payables	6,360,162	-	6,360,162
	12,640,006	3,457,574	16,097,580

Capital management

The primary objective of the Group's capital management is to ensure that it continues efforts to reduce cost of capital and maintains healthy capital ratios in order to support its business and maximise shareholder value.

24 Financial risk management (continued)

Capital management (continued)

The Group's policy is to keep the Total Financial Debt/EBITDA ratio less than 3,5. The Group includes within total financial debt interest bearing loans and borrowings and finance lease liabilities, excluding discontinued operations. EBITDA is calculated as operating profit excluding depreciation of property, plant and equipment, amortization of intangible assets and dividends received.

	31 December 2010	31 December 2009
Bank Loans	6,045,380	5,262,600
Borrowings from ultimate shareholder and parties under common control	-	407,395
Bonds	2,929,452	3,079,823
Finance lease liabilities	404,255	370,289
Total Financial Debt	9,379,087	9,120,107
Operating profit	1,687,416	1,304,122
Depreciation of property, plant and equipment and amortisation of intangible assets	1,750,974	1,503,482
Amortisation of initial lease costs	193,609	99,100
Impairment of goodwill	46,125	-
EBITDA	3,678,124	2,906,704
Total Financial Debt/EBITDA	2.5	3.1

Simultaneously, the Group maintains optimal capital structure by tracing certain capital requirements based on ratios. The ratios are maximum level of Total Financial Debt/EBITDA, minimum level of EBITDA/Interest expense, minimum level of Net worth. These ratios are included as financial covenants into borrowing facility agreements (Note 14). The Group is in compliance with externally imposed capital requirements.

24 Financial risk management (continued)

Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements.

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Loans	139,113	139,113	153,402	153,402
Trade receivables	1,423,758	1,423,758	1,264,493	1,264,493
Other receivables	93,866	93,866	162,677	162,677
Cash and cash equivalent	1,596,680	1,596,680	1,331,856	1,331,856
Liabilities				
Bank loans	(6,045,380)	(6,045,380)	(5,262,600)	(5,262,600)
Borrowings from ultimate shareholder and parties under common control	-	-	(407,395)	(407,395)
Bonds	(2,929,452)	(2,940,863)	(3,079,823)	(2,827,823)
Finance lease liability	(404,255)	(404,255)	(370,289)	(370,289)
Trade and other payables	(7,208,994)	(7,208,994)	(6,360,162)	(6,360,162)

The fair value of borrowings except for publicly traded bonds has been calculated by discounting the expected future cash flows at prevailing interest rates. Bonds fair market value was determined based on stock exchange quotation. The fair value of other financial assets has been calculated using market interest rates.

25 Events after the reporting date

In January 2011 the Group sold 1 963 646 treasury shares for 785 458 400 rubles to the entity under common control Dixy Holding Limited.

In March 2011 the Group and VTB bank have riched an agreement on an unsecured revolving two-year credit line of 2 billion rubles, bearing an interest rate of 8.8 %.

In the beginning of 2011, the key shareholders of OJSC DIXY Group and OJSC GK Victoria have reached an agreement on the acquisition of 100% in OJSC GK Victoria for a maximum transaction value of 25.6 billion rubles. The transaction is subject to Federal Antimonopoly Service approval.

OJSC GK Victoria is a holding company that operates the neighborhood store, discounter, supermarket and cash&carry formats. As of 31 December 2010 OJSC GK Victoria and its subsidiaries had 257 stores with total space of over 271 thousand squire meters in Moscow, St. Petersburg and also in Kaliningrad and Tula regions. The purpose of this transaction is expansion of operations in Moscow and St. Petersburg and extension of the Group's business to Kaliningrad and Tula regions. The Group expects to complete the transaction in May 2011.

In April 2011 the Group and VTB bank signed an agreement on an revolving two-year credit line of 2 billion rubles. Interest rate is determined separately for each installment.