O'Key Group S.A.

Condensed Consolidated Interim Financial Statements
for the six months ended 30 June 2011

Contents

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Independent Auditor's Report on Review of the condensed consolidated interim financial information

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of O'Key Group S.A. and its subsidiaries (the "Group") as at 30 June 2011 and the related condensed consolidated interim statements of financial position, comprehensive income, changes in equity and cash flows, and the notes thereto for the six month period then ended (the "condensed consolidated interim financial information"). The Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, 29 August 2011

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

Thierry Ravasio

'000 RUB	Note	30 June 2011	31 December 2010
ASSETS			
Non-current assets			
Investment property	14	553 579	517 000
Property, plant and equipment	12	17 367 497	17 533 638
Construction in progress	12	1 903 073	1 204 602
Intangible assets	13	516 702	559 252
Long-term loans issued		1 338	1 338
Deferred tax assets	16	130 103	194 009
Other non-current assets	15	4 959 401	4 194 648
Total non-current assets		**25 431 693**	**24 204 487**
Current assets			
Inventories	17	5 330 506	5 995 208
Trade and other receivables	18	892 351	1 276 531
Prepayments for current assets		753 922	677 703
Short-term loans issued		-	31
Cash and cash equivalents		736 395	5 707 185
Total current assets		**7 713 174**	**13 656 658**
Total assets		**33 144 867**	**37 861 145**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 30.

'000 RUB	Note	30 June 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity	19	**13 527 350**	**12 481 451**
Non-current liabilities			
Loans and borrowings	21	6 680 695	7 869 355
Deferred tax liabilities	16	335 888	496 164
Other non-current liabilities		1 015 846	1 101 942
Total non-current liabilities		**8 032 429**	**9 467 461**
Current liabilities			
Loans and borrowings	21	1 181 390	3 702 261
Trade and other payables	22	9 935 245	11 736 964
Current income tax payable		468 453	473 008
Total current liabilities		**11 585 088**	**15 912 233**
Total liabilities		**19 617 517**	**25 379 694**
Total equity and liabilities		**33 144 867**	**37 861 145**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 30.

For the six months ended 30 June '000 RUB	Note	2011	2010
Revenue	7	**42 797 643**	**38 254 168**
Cost of goods sold		(33 713 467)	(30 147 002)
Gross profit		**9 084 176**	**8 107 166**
General, selling and administrative expenses	8	(7 161 974)	(5 728 577)
Other operating income and expenses	9	3 555	(97 160)
Operating profit		**1 925 757**	**2 281 429**
Finance income		22 334	2 278
Finance costs		(365 302)	(667 679)
Foreign exchange gains/(losses)		106 133	(278 619)
Profit before income tax		**1 688 922**	**1 337 409**
Income tax expense	11	(600 212)	(468 728)
Profit for the period		**1 088 710**	**868 681**
Other comprehensive income			
Foreign currency translation differences for foreign operations		28 804	69
Change in fair value of hedges		(89 519)	80 965
Income tax on other comprehensive income	11	17 904	(16 193)
Other comprehensive income for the period, net of income tax		**(42 811)**	**64 841**
Total comprehensive income for the period		**1 045 899**	**933 522**
Earnings per share			
Basic and diluted earnings per share (RUB)	20	**4.0**	**3.4**

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 30.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2010		**109 815**	**111**	**3 676 612**	**(105 127)**	**(387 575)**	**3 735 520**	**106 436**	**7 135 792**
Total comprehensive income for the year									
Profit for the period		-	-	-	-	868 681	-	-	**868 681**
Other comprehensive income									
Foreign currency translation differences		-	-	-	-	-	-	69	**69**
Change in fair value of hedges		-	-	-	80 965	-	-	-	**80 965**
Income tax on other comprehensive income	11	-	-	-	(16 193)	-	-	-	**(16 193)**
Total other comprehensive income		-	-	-	**64 772**	-	-	**69**	**64 841**
Total comprehensive income for the period		-	-	-	**64 772**	**868 681**	-	**69**	**933 522**
Transactions with owners, recorded directly in equity		-	-	-	-	-	-	-	-
Contributions by and distributions to owners									
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Balance at 30 June 2010		**109 815**	**111**	**3 676 612**	**(40 355)**	**481 106**	**3 735 520**	**106 505**	**8 069 314**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 30.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 1 January 2011		**119 440**	**111**	**8 903 606**	**7 485**	**(168 606)**	**3 362 660**	**256 755**	**12 481 451**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	1 088 710	-	-	**1 088 710**
Other comprehensive income									
Foreign currency translation differences		-	-	-	-	-	-	28 804	**28 804**
Change in fair value of hedges		-	-	-	(89 519)	-	-	-	**(89 519)**
Income tax on other comprehensive income	11	-	-	-	17 904	-	-	-	**17 904**
Total other comprehensive income		-	-	-	**(71 615)**	-	-	**28 804**	**(42 811)**
Total comprehensive income for the period		-	-	-	**(71 615)**	**1 088 710**	-	**28 804**	**1 045 899**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Increase of legal reserve	19	-	10 486	-	-	(10 486)	-	-	-
Total contributions by and distributions to owners		-	**10 486**	-	-	**(10 486)**	-	-	-
Balance at 30 June 2011		**119 440**	**10 597**	**8 903 606**	**(64 130)**	**909 618**	**3 362 660**	**285 559**	**13 527 350**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 30.

For the six months ended 30 June '000 RUB	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		1 688 922	1 337 409
Adjustments for:			
Depreciation and amortisation	12, 13, 15	887 211	736 866
Loss on disposal of non-current assets	9	15 540	57 689
Finance income		(22 334)	(2 278)
Finance costs		365 302	667 679
Foreign exchange (gains)/losses		(106 133)	278 619
Cash from operating activities before changes in working capital and provisions		**2 828 508**	**3 075 984**
Change in trade and other receivables		145 095	(91 119)
Change in inventories		664 702	637 446
Change in trade and other payables		(2 583 218)	(1 774 838)
Change in deferred income		-	(1 108)
Cash flows from operations before income taxes and interest paid		**1 055 087**	**1 846 365**
Interest paid		(388 169)	(708 374)
Income tax paid		(702 136)	(418 563)
Net cash (used in)/from operating activities		**(35 218)**	**719 428**

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 30.

For the six months ended 30 June **'000 RUB**	**2011**	**2010**
Cash flows from investing activities		
Purchase of property, plant and equipment and initial cost of land lease	(1 969 255)	(1 586 562)
Purchase of other intangible assets	(31 726)	(13 052)
Proceeds from sales of property, plant and equipment	16 181	40 204
Interest received	22 365	3 949
Net cash used in investing activities	**(1 962 435)**	**(1 555 461)**
Cash flows used in financing activities		
Proceeds from borrowings	3 050 240	11 740 000
Repayment of borrowings	(6 173 551)	(11 878 033)
Proceeds from IPO	152 568	-
Repayment of finance lease payables	-	(19 444)
Net cash used in financing activities	**(2 970 743)**	**(157 477)**
Net decrease in cash and cash equivalents	**(4 968 396)**	**(993 510)**
Cash and cash equivalents at beginning of the period	5 707 185	1 462 312
Effect of exchange rate fluctuations on cash and cash equivalents	(2 394)	18 417
Cash and cash equivalents at end of the period	**736 395**	**487 219**

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 30.

1 Background

(a) Organisation and operations

The O'Key Group S. A. (the "Company") is incorporated and domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The main part of the Group is located and conducts its business in the Russian Federation.

The major shareholders of the Group are four individuals, Mr.Korzhev, Mr.Troitsky, Mr.Volchek and Mr.Teder ("the shareholder group"), who have the power to direct the transactions of the Group at their own discretion and for their own benefits. They also have a number of other business interests outside of the Group. Related party transactions are detailed in Note 26.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'Key". At 30 June 2011 the Group operated 59 stores (31 December 2010: 58 stores).

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

(b) Business environment

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

(c) Seasonality

The Group experiences seasonal fluctuations in its operations, such as an increase in sales during December, prior to Christmas and the New Year period, and May holidays and a decrease in sales in August, September and February, which follow the summer and winter holiday seasons, respectively. The sale of seasonal products, such as school-related non-food products in August, New Year decorations and gifts in December, household appliances for summer houses from April to September affects the Group's interim results.

In the middle of the year Group's stock levels and payables to suppliers decrease compared to year-end.

2 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim financial reporting*. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010 which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 29 August 2011.

3 Significant accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2010.

4 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

5 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. In these condensed consolidated interim financial statements the fair values have been determined based on the principles, which are consistent with those applied in the consolidated financial statements for the year ended 31 December 2010, except for land and buildings which were not revalued as at 30 June 2011 (see note 12).

6 Operating segments

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

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

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

Each of Group's 59 stores represents individual operating segment. It is not practicable to present segment information for each store. Due to similar economic characteristics (refer below) operating segments were aggregated in one reportable segment.

Within the reportable segment all business components demonstrate similar characteristics:

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

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

The accounting policies used for the segment are the same as accounting policies applied for these condensed consolidated interim financial statements.

The segment information for the six months ended 30 June is as follows:

'000 RUB	**2011**	**2010**
Revenue	42 797 643	38 254 168
EBITDA	2 770 659	3 153 535

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

For six months ended 30 June

'000 RUB	**2011**	**2010**
EBITDA	**2 770 659**	**3 153 535**
Loss from disposal of non-current assets	(15 540)	(57 689)
Loss from write-off of receivables	(10 712)	(9 230)
Impairment of receivables	68 562	(68 321)
Depreciation and amortisation	(887 212)	(736 866)
Finance income	22 334	2 278
Finance costs	(365 302)	(667 679)
Foreign exchange gains/(losses)	106 133	(278 619)
Profit before income tax	1 688 922	1 337 409
Income tax	(600 212)	(468 728)
Profit for the period	**1 088 710**	**868 681**

7 Revenue

For six months ended 30 June '000 RUB	2011	2010
Sales of trading stock	40 344 514	35 958 027
Sales of self-produced catering products	2 033 078	1 835 318
Subtotal of retail revenue	42 377 592	37 793 345
Rental income	317 587	345 111
Revenue from advertising services	102 464	115 712
	42 797 643	**38 254 168**

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

8 General, selling and administrative expenses

For six months ended 30 June '000 RUB	Note	2011	2010
Personnel costs	10	(3 342 124)	(2 786 890)
Depreciation and amortization		(887 211)	(736 866)
Advertising and marketing		(213 014)	(192 316)
Operating leases		(811 595)	(464 985)
Repairs and maintenance costs		(141 199)	(113 169)
Communication and utilities		(767 212)	(539 627)
Materials and supplies		(140 526)	(119 128)
Security expenses		(294 612)	(230 610)
Insurance and bank commission		(181 730)	(147 864)
Legal and professional expenses		(101 808)	(79 997)
Operating taxes		(196 033)	(202 744)
Other costs		(84 910)	(114 381)
		(7 161 974)	**(5 728 577)**

Operating lease expenses for six months ended 30 June 2011 increased significantly compared to six months ended 30 June 2010. The increase was primarily caused by rent of stores, including rent of stores from related parties (refer to note 26).

9 Other operating income and expenses

For six months ended 30 June '000 RUB	2011	2010
Loss from disposal of non-current assets	(15 540)	(57 689)
Loss from write-off of receivables	(10 712)	(9 230)
Impairment and reversal of impairment of receivables	68 562	(68 321)
Sundry (expenses)/income	(38 755)	38 080
	3 555	(97 160)

Sundry (expenses)/income mainly includes penalties (received and paid) on the settlements with suppliers.

10 Personnel costs

For six months ended 30 June '000 RUB	2011	2010
Wages and salaries	(2 171 058)	(1 781 150)
Contributions to state pension fund	(798 566)	(519 911)
Employee benefits	(347 400)	(471 153)
Other	(25 100)	(14 676)
Total personnel costs	**(3 342 124)**	**(2 786 890)**

11 Income tax expense

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

Income tax recognised in profit and loss

For six months ended 30 June '000 RUB	2011	2010
Current tax expense	(678 678)	(335 415)
Deferred tax expense	78 466	(133 313)
Total income tax expense	**(600 212)**	**(468 728)**

Income tax recognised directly in other comprehensive income

For six months ended 30 June

'000 RUB	2011			2010		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	28 804	-	28 804	69	-	69
Change in fair value of hedges	(89 519)	17 904	(71 615)	80 965	(16 193)	64 772
	(60 715)	**17 904**	**(42 811)**	**81 034**	**(16 193)**	**64 841**

Reconciliation of effective tax rate:

For six months ended 30 June

'000 RUB	2011	2010
Profit before income tax	**1 688 922**	**1 337 409**
Income tax at applicable tax rate (20%)	(337 784)	(267 482)
Effect of income taxed at different rates	(14 121)	(35 617)
- Inventory shrinkage expenses	(129 200)	(135 338)
- Other non-deductible expenses	(27 903)	(18 700)
Write-off of deferred tax asset of tax losses carried forward	-	(10 258)
Tax withheld on dividends received from subsidiaries	(91 204)	-
Adjustments to current income tax for previous periods	-	(1 333)
Income tax expense for the year	**(600 212)**	**(468 728)**

12 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improve-ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Cost or deemed cost/Revalued amount								
Balance at 1 January 2010	6 100 379	10 098 051	695 855	29 627	3 099 213	1 295 536	974 042	22 292 703
Additions	-	176 496	334 360	1 630	481 864	230 376	254 639	1 479 365
Transfers	(74 924)	74 924	62 803	-	(207 659)	306 308	(161 452)	-
Disposals	-	-	-	-	(1 853)	(19 103)	(28 888)	(49 844)
Balance at 30 June 2010	**6 025 455**	**10 349 471**	**1 093 018**	**31 257**	**3 371 565**	**1 813 117**	**1 038 341**	**23 722 224**
Balance at 1 January 2011	**3 685 336**	**9 821 000**	**1 642 159**	**35 395**	**4 020 975**	**1 582 463**	**1 204 602**	**21 991 930**
Additions	34 049	17 766	172 548	1 022	139 192	91 820	880 262	1 336 659
Transfers	-	-	56 589	-	73 934	36 188	(166 711)	-
Disposals	-	-	-	(371)	(18 144)	(9 967)	(15 080)	(43 562)
Balance at 30 June 2011	**3 719 385**	**9 838 766**	**1 871 296**	**36 046**	**4 215 957**	**1 700 504**	**1 903 073**	**23 285 027**

'000 RUB	Land	Buildings	Leasehold improve-ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Depreciation and impairment losses								
Balance at 1 January 2010	-	-	(42 522)	(16 026)	(1 460 668)	(804 082)	-	(2 323 298)
Depreciation for the period	-	(169 565)	(46 498)	(1 056)	(292 401)	(127 523)	-	(637 043)
Disposals	-	-	-	-	706	3 739	-	4 445
Balance at 30 June 2010	**-**	**(169 565)**	**(89 020)**	**(17 082)**	**(1 752 363)**	**(927 866)**	**-**	**(2 955 896)**
Balance at 1 January 2011	-	-	(128 930)	(17 164)	(2 016 807)	(1 090 789)	-	(3 253 690)
Depreciation for the period	-	(189 807)	(91 301)	(1 325)	(346 853)	(155 048)	-	(784 334)
Disposals	-	-	-	348	14 689	8 530	-	23 567
Balance at 30 June 2011	**-**	**(189 807)**	**(220 231)**	**(18 141)**	**(2 348 971)**	**(1 237 307)**	**-**	**(4 014 457)**

'000 RUB	Land	Buildings	Leasehold improve-ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Net book value								
At 1 January 2010	6 100 379	10 098 051	653 333	13 601	1 638 545	491 454	974 042	19 969 405
At 30 June 2010	6 025 455	10 179 906	1 003 998	14 175	1 619 202	885 251	1 038 341	20 766 328
At 1 January 2011	3 685 336	9 821 000	1 513 229	18 231	2 004 168	491 674	1 204 602	18 738 240
At 30 June 2011	3 719 385	9 648 959	1 651 065	17 905	1 866 986	463 197	1 903 073	19 270 570

The Group believes that fair value of land and buildings has not changed significantly as at 30 June 2011 as compared to 31 December 2010 and as at 30 June 2010 as compared to 31 December 2009. Therefore, revaluation of land and buildings was not performed as at 30 June 2010 and 30 June 2011.

Depreciation expense of RUB 784 334 thousand has been charged to selling, general and administrative expenses (six months ended 30 June 2010: RUB 637 043 thousand).

13 Intangible assets

'000 RUB	Software	Lease rights	Total
Cost			
Balance at 1 January 2010	200 002	491 475	691 477
Additions	13 052	-	13 052
Balance at 30 June 2010	**213 054**	**491 475**	**704 529**
Balance at 1 January 2011	416 206	491 475	907 681
Additions	31 726	-	31 726
Balance at 30 June 2011	**447 932**	**491 475**	**939 407**
Amortisation and impairment losses			
Balance at 1 January 2010	(116 637)	(93 414)	(210 051)
Amortisation for the period	(39 832)	(31 668)	(71 500)
Balance at 30 June 2010	**(156 469)**	**(125 082)**	**(281 551)**
Balance at 1 January 2011	(192 744)	(155 685)	(348 429)
Amortisation for the period	(43 006)	(31 270)	(74 276)
Balance at 30 June 2011	**(235 750)**	**(186 955)**	**(422 705)**
Carrying amounts			
At 1 January 2010	**83 365**	**398 061**	**481 426**
At 30 June 2010	**56 585**	**366 393**	**422 978**
At 1 January 2011	**223 462**	**335 790**	**559 252**
At 30 June 2011	**212 182**	**304 520**	**516 702**

Amortisation and impairment charge

Amortisation of RUB 74 276 thousand has been charged to selling, general and administrative expenses (6 months ended 30 June 2010: RUB 71 500 thousand).

14 Investment property

'000 RUB	Investment property	Investment property under construction	Total investment property
Investment properties at fair value as at 1 January 2010	**1 161 824**	**405 600**	**1 567 424**

'000 RUB	**Investment property**	**Investment property under construction**	**Total investment property**
Additions	-	5 470	**5 470**
Expenditure on subsequent improvements	2 703	-	**2 703**
Investment properties at fair value as at 30 June 2010	**1 164 527**	**411 070**	**1 575 597**
Investment properties at fair value as at 1 January 2011	**517 000**	-	**517 000**
Expenditure on subsequent improvements	36 579	-	**36 579**
Investment properties at fair value as at 30 June 2011	**553 579**	-	**553 579**

As at 31 December 2009 and 2010 the fair value of investment property has been determined by independent appraisers. The fair value of investment property as at 30 June 2011 and 30 June 2010 was updated by the Group applying income approach.

There were no significant changes in assumptions used for determination of fair value of investment property as at 30 June 2011 compared to 31 December 2010.

Fair value of investment property as at 30 June 2011 and 30 June 2010 did not significantly change as compared to 31 December 2010 and 31 December 2009, respectively. Therefore, no fair value gain/(loss) was recognized as at 30 June 2011 (30 June 2010: Nil).

15 Other non-current assets

'000 RUB	30 June 2011	31 December 2010
Prepayments for non-current assets	934 334	383 080
Initial cost of land lease	2 741 295	2 433 694
Long-term deposits to lessors	125 385	118 081
Long-term prepayments to entities under control of shareholder group	1 137 861	1 230 054
Deferred bank commissions	20 526	29 739
	4 959 401	**4 194 648**

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

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2017. Related party transactions are detailed in note 26.

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

'000 RUB	2011	2010
Cost		
Balance at 1 January	**2 950 601**	**3 290 913**
Additions	347 928	247 733
Disposals	(12 679)	(56 334)
Balance at 30 June	**3 285 850**	**3 482 312**
Amortization and impairment losses		
Balance at 1 January	**(516 907)**	**(503 446)**
Amortization charge	(28 601)	(28 323)
Disposals	953	3 840
Balance at 30 June	**(544 555)**	**(527 929)**
Net book value at 30 June	**2 741 295**	**2 954 383**

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	**30 June 2011**	**31 December 2010**	**30 June 2011**	**31 December 2010**	**30 June 2011**	**31 December 2010**
Investment property	47 993	55 309	-	-	47 993	55 309
Property, plant and equipment	4 765	-	(531 417)	(660 632)	(526 652)	(660 632)
Intangible assets	2 058	-	(402)	-	1 656	-
Investments	3 266	3 365	-	-	3 266	3 365
Other non-current assets	-	5 522	(16 603)	-	(16 603)	5 522
Inventories	162 863	156 748	-	-	162 863	156 748
Trade and other receivables	32 392	69 037	-	-	32 392	69 037
Trade and other payables	89 300	68 496	-	-	89 300	68 496
Tax assets/(liabilities)	**342 637**	**358 477**	**(548 422)**	**(660 632)**	**(205 785)**	**(302 155)**
Set off of tax	(212 534)	(164 468)	212 534	164 468	-	-
Net tax assets/(liabilities)	**130 103**	**194 009**	**(335 888)**	**(496 164)**	**(205 785)**	**(302 155)**

(b) Unrecognised deferred tax liability

As at 30 June 2011 a temporary difference of RUB 12 125 413 thousand (31 December 2010: RUB 11 713 761 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

17 Inventories

'000 RUB	**30 June 2011**	**31 December 2010**
Goods for resale	5 449 817	6 022 609
Raw materials and consumable	242 161	287 597
Write-down to net realisable value	(361 472)	(314 998)
	5 330 506	**5 995 208**

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 361 472 thousand as at 30 June 2011 (31 December 2010: RUB 314 998 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

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

18 Trade and other receivables

'000 RUB	30 June 2011	31 December 2010
Trade receivables	80 045	64 966
VAT receivable	318 887	604 032
Prepaid taxes	42 915	23 748
Foreign exchange and interest rate swap receivables	-	21 896
Other receivables	450 504	561 889
	892 351	**1 276 531**

Taxes prepaid include RUB 36 782 thousand of prepaid Income tax (31 December 2010: RUB 17 879 thousand).

Other receivables include RUB 437 398 thousand of bonuses receivable from suppliers (31 December 2010: RUB 349 173 thousand).

19 Equity

As at 30 June 2011 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 31 December 2010: EUR 2 691 thousand) is represented by 269 074 000 shares (31 December 2010: 269 074 000 shares) with a par value of 0.01 EUR each.

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

In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During six months ended 30 June 2011 the Company has transferred RUB 10 486 thousand from net profits for 2010 to legal reserve.

There were no movements in Revaluation reserves and additional paid-in capital in 6 months period ended 30 June 2011 and 30 June 2010.

20 Earnings per share

The calculation of basic earnings per share for six months ended 30 June 2011 was based on the profit attributable to ordinary shareholders of RUB 1 088 710 thousand (six months ended 30 June 2010: RUB 868 681 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000 (six months ended 30 June 2010: 253 100 000), calculated as shown below. The Company has no dilutive potential ordinary shares.

For six months ended 30 June

Number of shares	**2011**	**2010**
Issued shares at 1 January	269 074 000	253 100
Effect of share split in 2010	-	252 846 900
Weighted average number of shares for six months ended 30 June	269 074 000	253 100 000

21 Loans and borrowings

'000 RUB	**30 June 2011**	**31 December 2010**
Non-current liabilities		
Secured bank loans	5 843 290	6 960 333
Unsecured loans from related parties	837 405	909 022
	6 680 695	**7 869 355**
Current liabilities		
Secured bank loans	1 178 515	1 796 655
Unsecured bank facilities	-	1 902 747
Unsecured loans from third parties	2 875	2 859
	1 181 390	**3 702 261**

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of RUB 7 020 482 thousand (2010: RUB 8 756 988 thousand).

The Group has a number of revolving credit line agreements with local banks. Net decrease of borrowings under these agreements amounted to RUB 1 300 000 thousand for six months ended 30 June 2011.

During six months ended 30 June 2011 the Group also repaid RUB 1 223 325 thousands of secured bank loans and RUB 600 000 thousands of unsecured bank loans.

Other changes of loans and borrowings for six months ended 30 June 2011 comprised interest charges and the effect of exchange rate fluctuations and resulted in decrease of loans and borrowings of RUB 586 206 thousand.

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

At 30 June 2011 the Group complied with all loan covenants.

22 Trade and other payables

'000 RUB	30 June 2011	31 December 2010
Trade payables	7 967 322	10 505 712
Advances received	104 341	130 878
Taxes payable (other than income tax)	528 576	388 238
Payables to staff	562 258	634 130
Foreign exchange and interest rate swap liabilities	575 273	28 611
Other current payables	197 475	49 395
	9 935 245	**11 736 964**

23 Non-cancellable operating leases

During six months ended 30 June 2011 the Group entered into several non-cancellable operating leases of land plots.

Non-cancellable operating lease rentals are payable as follows:

RUB 000'	30 June 2011	31 December 2010
Less than one year	215 846	198 137
Between one and five years	580 430	558 697
More than five years	4 762 698	3 278 600
	5 558 974	**4 035 434**

24 Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUB 4 724 758 thousand as at 30 June 2011 (31 December 2010: RUB 1 877 202 thousand).

25 Contingencies

(a) Legal proceedings

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

(b) Taxation contingencies

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

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

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

26 Related party transactions

(a) Control relationships

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

(b) Transactions with management

(i) Management remuneration

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

For the six months ended 30 June

'000 RUB	2011	2010
Salaries and bonuses	52 656	47 653
Contributions to State pension fund	267	946
Long-service bonus	9 834	7 808
	62 757	56 407

In addition members of Board of Directors received remuneration of RUB 4 330 thousand (six months ended 30 June 2010: Nil), which is included in Legal and professional expenses (see note 8).

(c) Transactions with other related parties

Other related parties are entities which belong to the Group's ultimate shareholders.

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

(i) Revenue

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	Six months ended 30 June 2011	Six months ended 30 June 2010	30 June 2011	31 December 2010
Services provided:				
Other related parties	10 435	2 067	(634)	(1 694)
	10 435	2 067	(634)	(1 694)

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

(ii) Expenses

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	Six months ended 30 June 2011	**Six months ended 30 June 2010**	**30 June 2011**	**31 December 2010**
Lease of premises				
Other related parties	(315 423)	-	1 272 412	1 334 466
Other services received:				
Other related parties	(20 687)	(10 835)	614	11 822
Finance costs:				
Other related parties	(33 747)	(80 202)	-	-
	(369 857)	(91 037)	1 273 026	1 346 288

All outstanding balances with related parties, except for prepayments for operating leases, are to be settled in cash within six months of the reporting date. None of the balances are secured.

Outstanding balance of RUB 1 272 412 thousand represents prepayments for rent of hypermarkets for the period until 2017. Long-term part of prepayments is RUB 1 137 861 thousand, refer to note 15. Terms of the leases are such that the Group pays rentals which include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

Interest costs on loans from related parties amounted to RUB 33 747 thousand for six months ended 30 June 2011 (six months ended 30 June 2010: RUB 80 202 thousand) and were recorded as finance costs in profit or loss.

(iii) Loans

'000 RUB	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	For six months ended 30 June			
	2011	**2010**	**30 June 2011**	**31 December 2010**
Loans received:				
Other related parties	-	-	(837 405)	(909 022)

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

27 Subsidiaries

Subsidiary	Country of incorporation	30 June 2011 Ownership/voting	31 December 2010 Ownership/voting
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	100%
LLC O'Key Group	Russian Federation	100%	100%
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor	Russian Federation	100%	100%
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	100%	100%
JSC Olips D	Russian Federation	100%	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	100%
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	100%
LLC Photon	Russian Federation	100%	100%
LLC Tagar	Russian Federation	100%	100%
LLC Tagar-City	Russian Federation	100%	100%
LLC Djemir Invest	Russian Federation	100%	-
LLC Lux Development	Russian Federation	100%	-

During six months ended 30 June 2011 the Group acquired two subsidiaries: LLC Djemir Invest and LLC Lux Development for the purpose of obtaining lease rights on the land plots. The acquisition of subsidiaries was classified as acquisition of assets.

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

28 Events subsequent to the reporting date

Subsequent to the reporting date the Group has committed to purchase right of the long-term land lease from third party for the amount of RUB 83 262 thousand.