OJSC "Magnit"

Interim condensed consolidated financial statements

For the six months ended 30 June 2011

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Report on review of interim condensed consolidated financial statements

To the shareholders of Open Joint Stock Company "Magnit"

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group"), comprising the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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. A review of interim financial statements 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

22 August 2011

OJSC "Magnit"

Interim consolidated statement of financial position as at 30 June 2011

(In thousands of US Dollars)

	Notes	30 June 2011 (unaudited)	31 December 2010
Assets			
Non-current assets			
Property, plant and equipment	6	3,542,620	2,651,136
Land lease rights	7	87,357	54,700
Intangible assets	8	8,481	6,283
		3,638,458	**2,712,119**
Current assets			
Inventories	9	806,902	659,786
Trade and other receivables	10	45,718	20,587
Advances paid	11	52,157	69,223
Taxes receivable		4,334	54,658
Prepaid expenses		12,022	7,091
Income tax receivable		14,971	3,995
Short-term financial assets	12	138,713	28,889
Cash and cash equivalents	13	75,779	132,636
		1,150,596	**976,865**
Total assets		**4,789,054**	**3,688,984**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	14	32	32
Share premium	14	1,012,190	1,012,186
Treasury shares	14	(3,533)	(3,535)
Foreign currency translation reserve		(36,905)	(187,201)
Retained earnings		1,005,706	901,176
Total equity		**1,977,490**	**1,722,658**
Non-current liabilities			
Long-term borrowings and loans	17	1,241,340	803,652
Long-term obligations under finance leases		2,908	6,615
Deferred tax liability		107,559	66,403
		1,351,807	**876,670**
Current liabilities			
Trade and other payables	18	813,841	782,384
Accrued expenses	19	114,396	76,663
Taxes payable	20	51,034	33,768
Dividends payable	15	35,590	-
Short-term obligations under finance leases		13,146	19,751
Short-term borrowings and loans	21	431,750	177,090
		1,459,757	**1,089,656**
Total liabilities		**2,811,564**	**1,966,326**
Total equity and liabilities		**4,789,054**	**3,688,984**

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

OJSC "Magnit"

Interim consolidated statement of comprehensive income

For the six months ended 30 June 2011

(In thousands of US Dollars)

	Notes	For the six months ended 30 June 2011 (unaudited)	For the six months ended 30 June 2010 (unaudited)
Revenue	22	5,470,739	3,447,718
Cost of sales	23	(4,233,603)	(2,707,208)
Gross profit		**1,237,136**	**740,510**
Selling expenses	24	(68,979)	(32,535)
General and administrative expenses	25	(961,700)	(531,151)
Investment income		3,896	1,646
Finance costs	26	(47,623)	(9,963)
Gain from disposal of subsidiary	16	16,689	–
Other income		17,201	9,163
Other expenses		(6,391)	(2,812)
Foreign exchange gain		2,488	2,134
Profit before income tax		**192,717**	**176,992**
Income tax expense	27	(52,367)	(45,779)
Profit for the period		**140,350**	**131,213**
Other comprehensive income			
Gain/(loss) on translation to presentation currency		150,296	(47,952)
Other comprehensive income/(loss) for the period, net of tax		**150,296**	**(47,952)**
Total comprehensive income for the period, net of tax		**290,646**	**83,261**
Profit for the period			
Attributable to:			
Equity holders of the Parent		140,350	131,213
Non-controlling interest		–	–
		140,350	**131,213**
Total comprehensive income for the period, net of tax			
Attributable to:			
Equity holders of the Parent		290,646	83,261
Non-controlling interest		–	–
		290,646	**83,261**
Earnings per share (in US Dollars per share)			
- basic and diluted, for profit for the period attributable to equity holders of the parent	28	1.58	1.47

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

OJSC "Magnit"

Interim consolidated cash flow statement

For six months ended 30 June 2011

(In thousands of US Dollars)

	Notes	For the six months ended 30 June 2011 (unaudited)	2010 (unaudited)
Cash flows from operating activities:			
Profit before income tax		192,717	176,992
Adjustments for:			
Depreciation	6	119,988	65,311
Amortization		2,531	1,143
Loss from disposal of property, plant and equipment		3,430	1,817
Provision for doubtful receivables	25	(99)	(41)
Foreign exchange gain		(2,488)	(2,134)
Finance costs	26	47,623	9,963
Investment income		(3,896)	(1,646)
Operating cash flows before working capital changes		**359,806**	**251,405**
Increase in trade and other receivables		(25,313)	(2,241)
Decrease in advances paid		17,066	19,801
Decrease/(Increase) in taxes receivable		50,324	(2,684)
(Increase)/decrease in prepaid expenses		(4,931)	89
Increase in inventories		(147,116)	(53,846)
Increase/(Decrease) in trade and other payables		31,457	(8,570)
Increase in accrued expenses		37,733	3,714
Increase in taxes payable		17,266	2,531
Cash generated from operations		**336,292**	**210,199**
Income tax paid		(28,545)	(41,727)
Interest paid		(44,408)	(11,681)
Net cash from operating activities		**263,339**	**156,791**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(767,073)	(388,687)
Purchase of intangible assets	8	(4,017)	(1,218)
Purchase of land lease rights	7	(36,779)	(5,897)
Proceeds from sale of property, plant and equipment		4,549	5,124
Loans provided		(235,348)	(7,054)
Loans repaid		133,949	6,958
Net cash used in investing activities		**(904,719)**	**(390,774)**
Cash flows from financing activities:			
Proceeds from loans and borrowings		2,913,486	907,935
Repayment of loans and borrowings		(2,319,886)	(974,994)
Dividends paid		-	(17,059)
Repayment of obligations under finance leases		(12,266)	(13,825)
Proceeds from sale of treasury shares	14	4	-
Net cash from/(used in) financing activities		**581,338**	**(97,943)**
Effect of foreign exchange rates on cash and cash equivalents		3,185	12,415
Net decrease in cash and cash equivalents		**(56,857)**	**(319,511)**
Cash and cash equivalents at the beginning of the period	13	**132,636**	**371,045**
Cash and cash equivalents at the end of the period	13	**75,779**	**51,534**

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

OJSC "Magnit"

Interim consolidated statement of changes in equity

For the six months ended 30 June 2011

(In thousands of US Dollars)

	Attributable to equity holders of the Parent					
	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2010	32	1,007,823	(5,557)	(173,802)	596,340	1,424,836
Profit for the period	-	-	-	-	131,213	131,213
Other comprehensive income	-	-	-	(47,952)	-	(47,952)
Total comprehensive income for the period	-	-	-	(47,952)	131,213	83,261
Dividends declared (Note 15)	-	-	-	-	(28,860)	(28,860)
Balance at 30 June 2010 (unaudited)	32	1,007,823	(5,557)	(221,754)	698,693	1,479,237
Balance at 1 January 2011	32	1,012,186	(3,535)	(187,201)	901,176	1,722,658
Profit for the period	-	-	-	-	140,350	140,350
Other comprehensive income	-	-	-	150,296	-	150,296
Total comprehensive income for the period	-	-	-	150,296	140,350	290,646
Dividends declared (Note 15)					(35,820)	(35,820)
Sale of treasury shares	-	4	2	-	-	6
Balance at 30 June 2011 (unaudited)	32	1,012,190	(3,533)	(36,905)	1,005,706	1,977,490

The accompanying notes on pages 6-39 are an integral part of these interim condensed consolidated financial statements.

(All amounts are in thousands of US Dollars if not otherwise indicated)

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 were authorised for release by the Chief Executive Officer of OJSC “Magnit” on 22 August 2011.

Close Joint Stock Company “Magnit” (“Magnit”) was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company “Magnit” (the “Company” or OJSC “Magnit”). There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company.

OJSC “Magnit” and its subsidiaries (the “Group”) operate in the retail and distribution of consumer goods under the “Magnit” name. The Group’s retail operations are operated through convenience stores and through hypermarkets.

All of the Group’s operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya St., 350072 Krasnodar, the Russian Federation.

The principal activities of the Group’s subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

Company name	Principal activity	Ownership Interest 30 June 2011	Ownership Interest 31 December 2010
CJSC “Tander”	Food retail and wholesale	100%	100%
LLC “Magnit Finance”	Issuer of the Group’s bonds	100%	100%
LLC “BestTorg”	Food retail in the city of Moscow and the Moscow region	100%	100%
LLC “Tander-Magnit”	Food retail in the Moscow region	100%	100%
LLC “Selta”	Transportation services for the Group	100%	100%
LLC “TK Zelenaya Liniya”	Greenhouse complex	100%	100%
LLC “Magnit Nizhniy Novgorod”	Holding company	–	100%
LLC “Tandem”	Food retail in Nizhniy Novgorod	100%	100%
LLC “Alkotrading”	License holder for alcohol sales	100%	100%
LLC "UK Premier-Liga"	Managing company of the employee`s pension fund	100%	100%

In January 2011, LLC “Project M” changed its name to LLC “TK Zelenaya Liniya”. It also changed the principal activity from retail in Saint-Petersburg to greenhouse culture.

The 100% ownership in LLC “Magnit Nizhniy Novgorod” was sold to a third party.

(All amounts are in thousands of US Dollars if not otherwise indicated)

1. Corporate information (continued)

At 30 June 2011 and 31 December 2010, the shareholding structure of the Company was as follows:

	30 June 2011		31 December 2010	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Galitskiy S.N.	36,563,000	41.09%	36,563,000	41.09%
Labini Investments Ltd. (Cyprus)	1,674,217	1.88%	1,676,441	1.88%
Lavreno Ltd. (Cyprus)	4,539,075	5.10%	4,539,075	5.10%
Gordeichuk V.E.	2,601,220	2.92%	2,601,220	2.92%
Other (Group management)	472,227	0.53%	579,978	0.65%
Free float	43,125,334	48.48%	43,015,359	48.36%
	88,975,073	100%	88,975,073	100%

2. Basis of preparation of the financial statements

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

Basis of accounting

The Group's entities maintain their accounting records in Russian Roubles ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these interim condensed consolidated financial statements in accordance with IFRS.

The financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as of the date of transition to IFRS.

The functional currency of each of the Group's entities is the Russian Rouble ("RUB").

The presentation currency of the interim condensed consolidated financial statements is the United States of America Dollar ("USD") as it is considered by management a more relevant presentation currency for international users of the interim condensed consolidated financial statements of the Group.

2. Basis of preparation of the financial statements (continued)

Basis of accounting (continued)

The translation from functional currency into presentation currency is made as follows:

- Assets and liabilities for each interim consolidated statement of financial position presented are translated at the closing rate at the date of that interim consolidated statement of financial position;
- Income and expenses for each interim consolidated statement of comprehensive income presented are translated at the average exchange rates for the periods presented;
- All resulting exchange differences are recognized in other comprehensive income;
- All items included in the interim consolidated statement of changes in equity, other than net profit for the period, are translated at historical exchange rates;
- In the interim consolidated cash flow statement, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at the average exchange rates for the periods presented.

The RUB is not a freely convertible currency outside of the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these interim condensed consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Reclassifications

Certain reclassifications have been made to the 2010 comparatives to conform to the presentation as at and for the six months ended 30 June 2011.

3. Summary of significant accounting policies

Basis of consolidation

The interim condensed consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises 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.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

3. Summary of significant accounting policies (continued)

Business combinations (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

The Group generates and recognizes sales to retail customers at the point of sale in its stores and to wholesale customers at the point of sale in its distribution centers. Retail sales are in cash. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

Historical cost information was not available in relation to buildings purchased prior to transition date to IFRS (1 January 2004). Therefore, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS and deemed those values as cost.

Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful economic lives of the related assets are as follows:

	Useful life in years
Buildings	30
Machinery and equipment	3-14
Other fixed assets	3-5

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Land lease rights

Land lease rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful life is estimated to be 49 years.

When the Group constructs a building on land that is leased under an operating lease, the operating lease costs (including amortization of land lease rights) that are incurred during the construction are capitalised as part of the construction cost of the building.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives.

Lease rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, lease rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortization:

Description	Useful life in years
Licenses	4
Lease rights (convenience stores)	6
Software	2
Trade marks	9
Other	3

3. Summary of significant accounting policies (continued)

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost of goods for resale is calculated using the weighted average method, cost of raw materials is calculated using cost per unit method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

3. Summary of significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Vendor allowances

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian law.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the interim consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. Summary of significant accounting policies (continued)

Income taxes (continued)

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated profit and loss, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Retirement benefit costs

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.

3. Summary of significant accounting policies (continued)

Bonus plan

Under the bonus program the Group has agreed to pay, at its discretion, cash bonuses to key management personnel. The amount of the cash bonus, if paid, will be based on the market price of the Group's shares on that date times a fixed number of shares as indicated in the employment contract of each individual. The compensation expense is recognized over the one-year service period based on its assessment that it is probable the amounts will be paid. The liability will be remeasured at the date of settlement, with any changes recognised in profit or loss.

The fair value of the liability is determined based on the market value of shares at the end of each reporting period adjusted for expected employee turnover.

Segment reporting

The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group's chief operating decision maker reviews the Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores and hypermarkets, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the interim condensed consolidated financial statements.

Seasonality

The Group's business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009.

All other borrowing costs are expensed in the period they occur.

3. Summary of significant accounting policies (continued)

Financial assets

General description

Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"); held-to-maturity investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate. Interest income is included in investment income in the income statement.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss.

With the exception of AFS equity instruments, 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 through the profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities and equity instruments issued by the Group

Treasury shares

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognised as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

3. Summary of significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Share premium

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares.

Earnings per share

Earnings per share have been determined using the weighted average number of the Group's shares outstanding during the six months ended 30 June 2011 and 2010. The Group does not have any potentially dilutive equity instruments.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial liabilities.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

3. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Changes in accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 , except for the adoption of the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

IAS 24 *Related Party Transactions (Amendment)*
The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 *Financial Instruments: Presentation (Amendment)*
The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement*. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to a modification of the liability outstanding. If so, the consideration paid is allocated between the two parts.

The interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability.

The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2010)
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations*

The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- IFRS 3 *Business Combinations*

Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).

- IFRS 3 *Business Combinations*

Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.

- IFRS 7 *Financial Instruments – Disclosures*

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- IAS 1 *Presentation of Financial Statements*

The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

- IAS 27 *Consolidated and Separate Financial Statements*

Applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.

- IAS 34 *Interim Financial Statements*

The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

- IFRIC 13 *Customer Loyalty Programmes*

In determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's interim condensed consolidated 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.

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 instruments as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. The Board's work on the other phases is ongoing and includes impairment of financial instruments and hedge accounting, with a view to replacing IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety in 2011. Phase 1 of IFRS 9 applies to all financial instruments within the scope of IAS 39.

IFRS 10 ***Consolidated Financial Statements***

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation–Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 11 *Joint Arrangements*
IFRS 11 improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard – joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities– Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 13 *Fair Value Measurement*
IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value.

IAS 12 *Deferred taxes: Recovery of Underlying Assets (Amendment)*
These amendments address the determination of deferred tax on investment property measured at fair value. These amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The amendments are mandatory for annual periods beginning on or after 1 January 2012, but earlier application is permitted.

IAS 19 *Employee Benefits (Amendment)*
These amendments propose major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). The result is greater balance sheet volatility for those entities currently applying the corridor approach. In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. Expected returns on plan assets will be replaced by a credit to income based on the corporate bond yield rate. Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IAS 1 *Presentation of Financial Statements (Amendment)*
These amendments require companies preparing financial statements in accordance with IFRS to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after 1 July 2012.

The impact of adoption of these Standards in the preparation of interim condensed consolidated financial statements in the future periods is currently being assessed by the Group's management.

4. Significant accounting judgements and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

4. Significant accounting judgements and estimates (continued)

Useful economic life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

Useful life of leasehold improvements

The Group's leasehold improvements in convenience stores used under operating leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of operating lease agreements assuming leases will be renewed. Based on the history of the renewals of these agreements and pre-emptive rights for the prolongation of the lease agreements, the Group's management assumes a thirty year depreciation period for these leasehold improvements.

Taxation

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

5. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, obtains loans and acquires construction services. Related parties of the Group are represented by counterparties that are allied with the Group through key management and relatives. Transactions with related parties are made on terms not necessarily available to third parties.

Loans to related parties maturing in August-November 2011 bear fixed interest rate of 7.7% (as at 31 December 2010: 6%) and are unsecured. No guarantees have been given or received.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

(All amounts are in thousands of US Dollars if not otherwise indicated)

5. Balances and transactions with related parties (continued)

Related party balances as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Short-term loans receivable	79,916	372
Advances paid	1,783	520
Other receivables	13,641	10,928
Short-term loans and borrowings	–	9,875
Trade payables	3,566	3,368
Other payables	5	216

The Group's transactions with related parties for the six months ended 30 June 2011 and 30 June 2010 consisted of the following:

	For the six months ended 30 June	
	2011	2010
Rent income	91	122
Rent expense	–	61
Other income	4,380	2,279
Interest income	1,618	–
Interest expense	70	–
Purchases of property, plant and equipment	9	6,526
Purchases of inventory	177,223	317
Loans given	150,665	7,175
Loans given repayment	74,295	–
Loans obtained repayment	10,584	–

Short-term employee benefits of Group management and members of the Board of Directors of the Group for the six months ended 30 June 2011 were USD 4,730 thousand (for the six months ended 30 June 2010: USD 1,666 thousand).

(All amounts are in thousands of US Dollars if not otherwise indicated)

6. Property, plant and equipment

Property, plant and equipment as at 30 June 2011 and 31 December 2010 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2011	120,755	1,514,840	589,196	394,416	440,769	**3,059,976**
Additions	30,770	–	167,461	147,024	426,097	**771,352**
Transfers	–	292,610	–	–	(292,610)	**-**
Disposals	(1,171)	(1,682)	(6,783)	(4,877)	(1,573)	**(16,086)**
Transfer from land lease rights	8,633	–	–	–	–	**8,633**
Translation difference	11,074	135,235	53,528	36,507	40,271	**276,615**
At 30 June 2011	**170,061**	**1,941,003**	**803,402**	**573,070**	**612,954**	**4,100,490**
Accumulated depreciation and impairment						
At 1 January 2011	–	(91,637)	(238,959)	(78,244)	–	**(408,840)**
Charge for the period	–	(31,127)	(60,440)	(28,421)	–	**(119,988)**
Disposals	–	178	5,306	2,623	–	**8,107**
Translation difference	–	(8,441)	(21,513)	(7,195)	–	**(37,149)**
At 30 June 2011	**-**	**(131,027)**	**(315,606)**	**(111,237)**	**-**	**(557,870)**
Net book value						
At 1 January 2011	**120,755**	**1,423,203**	**350,237**	**316,172**	**440,769**	**2,651,136**
At 30 June 2011	**170,061**	**1,809,976**	**487,796**	**461,833**	**612,954**	**3,542,620**

Property, plant and equipment as at 30 June 2010 and 31 December 2009 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2010	83,037	954,756	383,591	196,429	287,467	**1,905,280**
Additions	17,130	–	51,693	51,673	268,191	**388,687**
Transfers	–	140,716	–	428	(141,144)	**-**
Disposals	(2,703)	(2,142)	(1,175)	(454)	(1,780)	**(8,254)**
Transfer from land lease rights	2,256	105	–	–	45	**2,406**
Translation difference	(3,135)	(34,126)	(13,527)	(7,855)	(13,089)	**(71,732)**
At 30 June 2010	**96,585**	**1,059,309**	**420,582**	**240,221**	**399,690**	**2,216,387**
Accumulated depreciation and impairment						
At 1 January 2010	–	(53,310)	(165,028)	(48,482)	–	**(266,820)**
Charge for the period	–	(17,339)	(35,517)	(12,455)	–	**(65,311)**
Disposals	–	205	937	171	–	**1,313**
Translation difference	–	2,244	6,288	1,922	–	**10,454**
At 30 June 2010	**-**	**(68,200)**	**(193,320)**	**(58,844)**	**-**	**(320,364)**
Net book value						
At 1 January 2010	**83,037**	**901,446**	**218,563**	**147,947**	**287,467**	**1,638,460**
At 30 June 2010	**96,585**	**991,109**	**227,262**	**181,377**	**399,690**	**1,896,023**

(All amounts are in thousands of US Dollars if not otherwise indicated)

6. Property, plant and equipment (continued)

During the six months ended 30 June 2011, the weighted average capitalisation rate on funds borrowed is 7.22% per annum (during the six months ended 30 June 2010: 8.89%).

At 30 June 2011, the net carrying amount of vehicles under finance lease included in other assets is USD 52,836 thousand (at 31 December 2010: USD 64,404 thousand).

During the six months ended 30 June 2011, there were no additions of property, plant and equipment under finance lease (during the six months ended 30 June 2010: 0).

7. Land lease rights

Land lease rights as at 30 June 2011 and 31 December 2010 consisted of the following:

	Land lease rights
Cost	
At 1 January 2011	55,981
Additions	36,779
Transfer to PPE	(8,633)
Translation difference	5,337
At 30 June 2011	**89,464**
Accumulated amortization and impairment	
At 1 January 2011	(1,281)
Charge for the period	(703)
Translation difference	(123)
At 30 June 2011	**(2,107)**
Net book value	
At 1 January 2011	**54,700**
At 30 June 2011	**87,357**

Land lease rights as at 30 June 2010 and 31 December 2009 consisted of the following:

	Land lease rights
Cost	
At 1 January 2010	25,552
Additions	5,897
Transfer to PPE	(2,256)
Translation difference	(911)
At 30 June 2010	**28,282**
Accumulated amortization and impairment	
At 1 January 2010	(740)
Charge for the period	(249)
Translation difference	32
At 30 June 2010	**(957)**
Net book value	
At 1 January 2010	**24,812**
At 30 June 2010	**27,325**

(All amounts are in thousands of US Dollars if not otherwise indicated)

7. Land lease rights (continued)

During the six months ended 30 June 2011, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 560 thousand (during the six months ended 30 June 2010: USD 150 thousand).

8. Intangible assets

Intangible assets as at 30 June 2011 and 31 December 2010 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2011	962	1,182	6,284	134	281	8,843
Additions	400	142	3,387	-	88	4,017
Disposals	(133)	(46)	(576)	(3)	(28)	(786)
Translation difference	88	105	594	9	24	820
At 30 June 2011	**1,317**	**1,383**	**9,689**	**140**	**365**	**12,894**
Accumulated depreciation and impairment						
At 1 January 2011	(320)	(485)	(1,515)	(80)	(160)	(2,560)
Charge for the period	(244)	(111)	(1,976)	(8)	(49)	(2,388)
Disposals	133	46	576	3	28	786
Translation difference	(30)	(43)	(157)	(7)	(14)	(251)
At 30 June 2011	**(461)**	**(593)**	**(3,072)**	**(92)**	**(195)**	**(4,413)**
Net book value						
At 1 January 2011	**642**	**697**	**4,769**	**54**	**121**	**6,283**
At 30 June 2011	**856**	**790**	**6,617**	**48**	**170**	**8,481**

Intangible assets as at 30 June 2010 and 31 December 2009 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2010	559	1,288	3,737	131	202	5,917
Additions	144	2	1,025	-	47	1,218
Disposals	(50)	(106)	(759)	(3)	(21)	(939)
Translation difference	(21)	(36)	(123)	(4)	(7)	(191)
At 30 June 2010	**632**	**1,148**	**3,880**	**124**	**221**	**6,005**
Accumulated amortization and impairment						
At 1 January 2010	(177)	(381)	(1,437)	(66)	(138)	(2,199)
Charge for the period	(108)	(116)	(783)	(7)	(30)	(1,044)
Disposals	50	106	759	3	21	939
Translation difference	8	13	45	1	4	71
At 30 June 2010	**(227)**	**(378)**	**(1,416)**	**(69)**	**(143)**	**(2,233)**
Net book value						
At 1 January 2010	**382**	**907**	**2,300**	**65**	**64**	**3,718**
At 30 June 2010	**405**	**770**	**2,464**	**55**	**78**	**3,772**

Amortization expense is included in general and administrative expenses (Note 25).

(All amounts are in thousands of US Dollars if not otherwise indicated)

9. Inventories

Inventory as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Goods for resale	754,649	615,426
Raw materials	52,253	44,360
	806,902	**659,786**

Raw materials are represented by spare parts, packaging materials and other materials used in hypermarkets, convenience stores and warehouses.

10. Trade and other receivables

Trade and other receivables as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Claims to suppliers	2,094	1,605
Settlements with employees	457	547
Trade receivables from third parties	108	136
Other receivables for sale of Magnit Nizhniy Novgorod	17,809	–
Other	15,105	10,685
Other receivables from related parties	13,641	10,928
Less: provision for doubtful receivables	(3,496)	(3,314)
	45,718	**20,587**

11. Advances paid

Advances paid as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Advances to third party suppliers	28,664	30,302
Advances for customs duties	19,229	36,282
Advances to employees	2,481	2,119
Advances to related party suppliers	1,783	520
	52,157	**69,223**

(All amounts are in thousands of US Dollars if not otherwise indicated)

12. Short-term financial assets

Short-term financial assets as at 30 June 2011 and 31 December 2010 consisted of the following:

	Weighted average interest rate	30 June 2011	Weighted average interest rate	31 December 2010
Short-term loans to related parties	7.70%	79,916	6.00%	372
Short-term loans to third parties	8.76%	58,797	8.01%	25,897
Bank deposits	–	–	8.40%	2,620
		138,713		28,889

13. Cash and cash equivalents

Cash and cash equivalents as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Petty cash, in RUB	20,943	16,818
Cash in banks, in RUB	19,618	54,528
Cash in banks, in foreign currency	25	132
Cash in transit, in RUB	35,193	61,158
	75,779	132,636

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts as at 30 June 2011 and 31 December 2010.

14. Share capital, share premium and treasury shares

Share capital as at 30 June 2011 amounted to USD 32 thousand. There were no changes compared to 31 December 2010.

15. Dividends declared

During the six months ended 30 June 2011 the Group declared dividends to shareholders relating to 2010 and the first quarter 2011:

	30 June 2011
Dividends declared for 2010 (0.24 USD for 1 share)	20,937
Dividends declared for the first quarter 2011 (0.17 USD for 1 share)	14,883

(All amounts are in thousands of US Dollars if not otherwise indicated)

15. Dividends declared (continued)

During the six months ended 30 June 2010 the Group declared dividends to shareholders relating to 2009:

	30 June 2010
Dividends declared for the 2009 (0.3 USD for 1 share)	28,860

At 30 June 2011 the amount of liability for unpaid dividends is USD 35,590 thousand (at 31 December 2010: 0).

16. Disposal of Magnit Nizhniy Novgorod

During 6 months 2011 the Group has disposed 100% of the ownership over its subsidiary LLC Magnit Nizhniy Novgorod to third party for RUB 500,000 thousand (USD 17,468 thousand). The outstanding amount receivable as of June 30, 2011 is RUB 500,000 thousand (USD 17,809 thousand).

The difference between the consideration received and net assets of the subsidiary was recognised as a gain in the statement of comprehensive income in the amount of USD 16,689 thousand.

17. Long-term borrowings and loans

	30 June 2011		31 December 2010	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Sberbank, Krasnodar branch	7.94%	355,549	7.94%	245,619
Bonds issued in 2010	8.30%	199,889	8.30%	184,005
Alfa-bank	8.09%	195,898	8.09%	180,465
Bonds issued in April 2011	7.77%	180,108	–	–
Bonds issued in March 2011	8.02%	179,357	–	–
Sberbank, Moscow branch	7.94%	88,885	7.94%	32,648
Vneshtorgbank	5.72%	53,426	–	–
Bonds issued in 2007	–	–	8.34%	166,354
KB Systema	–	–	7.50%	2,620
Less: current portion (Note 21)	8.08%	(11,772)	8.32%	(8,059)
		1,241,340		803,652

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 10,000,000 thousand (USD 356,179 thousand) maturing in July 2013 – June 2014. The amount outstanding as at 30 June 2011 is RUB 9,982,312 thousand (USD 355,549 thousand). The credit lines were unsecured as at 30 June 2011.

17. Long-term borrowings and loans (continued)

Bonds: In September 2010 the Group issued bonds of RUB 5,500,000 thousand net of direct issue costs of RUB 30,252 thousand, maturing in September 2013. The total amount outstanding as at 30 June 2011 is RUB 5,500,000 thousand (USD 195,898 thousand) net of RUB 22,197 thousand (USD 791 thousand) of direct issue costs plus accrued interest of RUB 134,255 thousand (USD 4,782 thousand).

In March 2011 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 13,254 thousand, maturing in February 2014. A number of the bonds issued in March 2011 were purchased by a subsidiary of the Group. The total amount outstanding as at 30 June 2011 is RUB 4,920,150 thousand (USD 175,245 thousand) net of RUB 11,804 thousand (USD 420 thousand) of direct issue costs plus accrued interest of RUB 127,235 thousand (USD 4,532 thousand).

In April 2011 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 13,122 thousand, maturing in April 2014. The total amount outstanding as at 30 June 2011 is RUB 5,000,000 thousand (USD 178,089 thousand) net of RUB 12,322 thousand (USD 439 thousand) of direct issue costs plus accrued interest of RUB 69,000 thousand (USD 2,458 thousand).

The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

Alfa-bank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 5,500,000 thousand (USD 195,898 thousand) maturing in June 2013 – July 2014. The amount outstanding as at 30 June 2011 is RUB 5,500,000 thousand (USD 195,898 thousand). The credit lines were unsecured as at 30 June 2011.

Sberbank, Moscow branch: The Group entered into a credit line agreement allowing borrowings of up to RUB 2,500,000 thousand (USD 89,045 thousand) maturing in December 2013 – April 2014. The amount outstanding as at 30 June 2011 is RUB 2,495,515 thousand (USD 88,885 thousand). The credit line was unsecured as at 30 June 2011.

Vneshtorgbank: The Group entered into a number of credit agreements allowing borrowings of up to RUB 1,500,000 thousand (USD 53,426 thousand) maturing in April 2014. The amount outstanding as at 30 June 2011 is RUB 1,500,000 thousand (USD 53,426 thousand). The credits were unsecured as at 30 June 2011.

As of 30 June 2011 and 31 December 2010, current portion of long-term loans and borrowing represents accrued interest.

(All amounts are in thousands of US Dollars if not otherwise indicated)

18. Trade and other payables

Trade and other payables as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Trade payables to third parties	799,647	766,696
Other payables to third parties	10,623	12,104
Trade payables to related parties (Note 5)	3,566	3,368
Other payables to related parties (Note 5)	5	216
	813,841	782,384

19. Accrued expenses

Accrued expenses as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Accrued salaries and wages	74,743	51,709
Other accrued expenses	39,653	24,954
	114,396	76,663

20. Taxes payables

Taxes payables as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011	31 December 2010
Social insurance contributions	27,190	14,360
Property tax	12,313	10,070
Employee income tax withholding	10,167	8,410
Other taxes	1,364	928
	51,034	33,768

(All amounts are in thousands of US Dollars if not otherwise indicated)

21. Short-term borrowings and loans

Short-term loans as at 30 June 2011 and 31 December 2010 consisted of the following:

	Weighted average interest rate	30 June 2011	Weighted average interest rate	31 December 2010
Bonds issued in 2007	8.34%	181,117	-	-
Rosbank	5.05%	119,320	4.87%	98,435
Vneshtorgbank	4.47%	98,165	4.60%	36,111
Alfa Bank	4.53%	21,371	-	-
Absolut Bank	-	-	4.33%	16,406
Lavreno Limited	-	-	4.00%	9,875
Bank Petrocommerce	-	-	4.50%	8,203
Other short-term loans	5.50%	5	5.50%	1
Current portion of long-term loans (Note 17)	8.08%	11,772	8.32%	8,059
		431,750		177,090

Bonds: In March 2007 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 23,025 thousand, maturing in March 2012. The total amount outstanding as at 30 June 2011 is RUB 5,000,000 thousand (USD 178,089 thousand) net of direct issue cost of RUB 3,410 thousand (USD 121 thousand), net of discount of RUB 20,528 thousand (USD 731 thousand) and plus accrued interest of RUB 108,950 thousand (USD 3,880 thousand).

The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

Rosbank: The previous name of the bank was BSGV. The Group entered into a number of credit line agreements allowing borrowings of up to RUB 3,350,000 thousand (USD 119,320 thousand) maturing in July 2011-March 2012. The amount outstanding as at 30 June 2011 is RUB 3,350,000 thousand (USD 119,320 thousand). The credit lines were unsecured as at 30 June 2011.

Vneshtorgbank: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 2,750,000 thousand (USD 97,949 thousand) maturing in July 2011. The amount outstanding as at 30 June 2011 is RUB 2,750,000 thousand (USD 97,949 thousand) plus accrued interest of RUB 6,070 thousand (USD 216 thousand). The credit lines were unsecured as at 30 June 2011.

Alfa-bank*:* The Group entered into a number of credit line agreements allowing borrowings of up to RUB 600,000 thousand (USD 21,371 thousand) maturing in July 2011. The amount outstanding as at 30 June 2011 is RUB 600,000 thousand (USD 21,371 thousand). The credit lines were unsecured as at 30 June 2011.

(All amounts are in thousands of US Dollars if not otherwise indicated)

22. Revenue

Revenue for the six months ended 30 June 2011 and 30 June 2010 consisted of the following:

	For the six months ended 30 June	
	2011	2010
Retail	5,468,557	3,446,822
Wholesale	2,182	896
	5,470,739	3,447,718

23. Cost of sales

Cost of sales, classified by function, for the six months ended 30 June 2011 and 30 June 2010 consisted of the following:

	For the six months ended 30 June	
	2011	2010
Retail	4,231,429	2,706,392
Wholesale	2,174	816
	4,233,603	2,707,208

Cost of sales, for the six months ended 30 June 2011 and 30 June 2010 consisted of the following:

	For the six months ended 30 June	
	2011	2010
Cost of goods sold	3,945,199	2,587,562
Transportation expenses	207,344	81,165
Losses due to inventory shortages	81,060	38,481
	4,233,603	2,707,208

Cost of sales are reduced by rebates and promotional bonuses received from suppliers.

During the six months ended 30 June 2011, payroll in amount of USD 67,305 thousand (during the six months ended 30 June 2010: USD 56,891 thousand) was included in transportation expenses within cost of sales.

(All amounts are in thousands of US Dollars if not otherwise indicated)

24. Selling expenses

Selling expenses for the six months ended 30 June 2011 and 30 June 2010 consisted of the following:

	For the six months ended 30 June	
	2011	**2010**
Depreciation	27,268	11,968
Packaging and raw materials	21,834	11,663
Advertising	15,834	6,799
Fuel	3,100	2,012
Transportation	943	93
	68,979	32,535

25. General and administrative expenses

General and administrative expenses for the six months ended 30 June 2011 and 30 June 2010 consisted of the following:

	For the six months ended 30 June	
	2011	**2010**
Payroll	436,800	243,589
Rent and utilities	189,826	120,136
Payroll related taxes	141,998	61,304
Depreciation	92,720	53,343
Taxes, other than income tax	24,749	14,378
Repair and maintenance	17,699	8,584
Bank services	13,495	9,125
Provision for unused vacation	9,646	3,288
Security	6,498	4,456
Bad debt provision recovery	(99)	(41)
Other expenses	28,368	12,989
	961,700	531,151

"Other expenses" line includes amortization charge for the six months ended 30 June 2011 in the amount of USD 2,531 thousand (for the six months ended 30 June 2010: USD 1,143 thousand).

26. Finance costs

Finance costs for the six months ended 30 June 2011 and 30 June 2010 consisted of the following:

	For the six months ended 30 June	
	2011	**2010**
Interest on loans	27,449	2,496
Interest on bonds	22,640	6,870
Interest on finance leases	1,253	3,116
Total interest expense for financial liabilities	**51,342**	**12,482**
Less: amounts included in the cost of qualifying assets	(3,719)	(2,519)
	47,623	9,963

27. Income tax

The Group's income tax expense for the six months ended 30 June 2011 and 30 June 2010 is as follows:

	For the six months ended 30 June	
	2011	**2010**
Interim consolidated statement of comprehensive income:		
Current tax	17,569	35,478
Deferred tax	34,798	10,301
Income tax expense reported in the interim consolidated statement of comprehensive income	**52,367**	**45,779**

28. Earnings per share

Earnings per share for the six months ended 30 June 2011 and 30 June 2010 have been calculated on the basis of the net profit for the period and the weighted average number of common shares outstanding during the period.

The calculation of earnings per common share for the six months ended 30 June 2011 and 30 June 2010 is as follows:

	For the six months ended 30 June	
	2011	**2010**
Profit for the period attributable to equity holders of the parent	140,339	131,213
Weighted average number of shares (in thousands of shares)	88,975	88,975
Basic and diluted earnings per share (in US Dollars)	**1.58**	**1.47**

The Group does not have any potentially dilutive equity instruments.

29. Contingencies, commitments and operating risks

Operating environment

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.

(All amounts are in thousands of US Dollars if not otherwise indicated)

29. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

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

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows.

Insurance

The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in developed markets are not yet generally available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

Capital and rent commitments

As at 30 June 2011 and 31 December 2010, the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	30 June 2011	31 December 2010
Within one year	366,625	212,667
In the second to fifth years inclusive	24,439	3,228
	391,064	**215,895**

The Group entered in a number of short-term and long-term rental agreements. The future minimum lease payments under non-cancellable operating leases as at 30 June 2011 and 31 December 2010 are as follows:

	30 June, 2011	31 December, 2010
Within one year	210,232	158,870
In the second to fifth years inclusive	406,116	276,643
After five years	109,859	56,761
	726,207	**492,274**

30. Financial risk management objectives and policies

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity ratios.

Fair values

Fair values of financial instruments of the Group approximates to their carrying amounts as at 30 June 2011 and 31 December 2010.

Foreign currency risk management

The Group is not exposed to material foreign currency risks because no subsidiaries of the Group are located outside the Russian Federation and transactions and balances in foreign currencies are not significant.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises with respect to operating activities (primarily for trade and other receivables) and investing activities (cash, short term loans).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as presented in the statement of financial position.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built a liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

31. Subsequent events

There were no significant events after the reporting date.