OJSC "Magnit"

Interim condensed consolidated financial statements

for the six months ended 30 June 2013

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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 2013 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

27 August 2013

OJSC "Magnit"

Interim consolidated statement of financial position

as at 30 June 2013

(In thousands of US Dollars)

	Notes	30 June 2013 (unaudited)	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	6	5,270,828	5,226,818
Investment property		9,947	10,821
Land lease rights	7	96,074	95,733
Intangible assets	8	17,824	17,223
Long-term financial assets		5,930	6,230
		5,400,603	5,356,825
Current assets			
Inventories	9	1,276,400	1,350,740
Trade and other receivables		16,002	19,228
Advances paid	10	47,561	88,145
Taxes receivable		1,911	953
Prepaid expenses		5,677	5,990
Short-term financial assets		15,118	28,863
Cash and cash equivalents	11	266,108	409,993
		1,628,777	1,903,912
Total assets		7,029,380	7,260,737
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	12	34	34
Share premium	12	1,488,268	1,484,255
Treasury shares	12	(11,442)	(18,852)
Foreign currency translation reserve		(409,033)	(156,537)
Retained earnings		2,262,128	1,958,364
Total equity attributable to equity holders of the parent		3,329,955	3,267,264
Total equity		3,329,955	3,267,264
Non-current liabilities			
Long-term borrowings and loans	14	915,838	1,259,247
Deferred tax liability		210,820	202,784
		1,126,658	1,462,031
Current liabilities			
Trade and other payables	15	1,215,880	1,413,130
Accrued expenses	16	180,060	165,328
Taxes payable	17	216,873	122,835
Dividends payable	13	22	18
Income tax payable		10,498	3,010
Short-term obligations under finance leases		–	404
Short-term borrowings and loans	18	949,434	826,717
		2,572,767	2,531,442
Total liabilities		3,699,425	3,993,473
Total equity and liabilities		7,029,380	7,260,737

The accompanying notes on pages 6-37 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 2013

(In thousands of US Dollars)

	Notes	For the six months ended 30 June 2013 (unaudited)	For the six months ended 30 June 2012 (unaudited)
Revenue	19	8,796,432	6,775,761
Cost of sales	20	(6,398,474)	(5,040,220)
Gross profit		**2,397,958**	**1,735,541**
Selling expenses	21	(81,916)	(71,400)
General and administrative expenses	22	(1,654,687)	(1,180,099)
Investment income		3,896	6,511
Finance costs	23	(76,047)	(61,546)
Other income		23,858	18,434
Other expenses		(5,407)	(4,287)
Foreign exchange (loss)/gain		(7,590)	590
Profit before income tax		**600,065**	**443,744**
Income tax expense	24	(131,152)	(103,864)
Profit for the period		**468,913**	**339,880**
Other comprehensive income			
Loss on translation to presentation currency		(252,006)	(66,542)
Other comprehensive loss for the period, net of tax		**(252,006)**	**(66,542)**
Total comprehensive income for the period, net of tax		**216,907**	**273,338**
Profit for the period			
Attributable to:			
Equity holders of the Parent		468,913	339,880
Non-controlling interest		–	–
		468,913	**339,880**
Total comprehensive income for the period, net of tax			
Attributable to:			
Equity holders of the Parent		216,907	273,338
Non-controlling interest		–	–
		216,907	**273,338**
Earnings per share (in US Dollars per share)			
▸ basic and diluted, for profit for the period attributable to equity holders of the parent	25	4.96	3.59

The accompanying notes on pages 6-37 are an integral part of these interim condensed consolidated financial statements.

OJSC "Magnit"

Interim consolidated cash flow statement

for the six months ended 30 June 2013

(In thousands of US Dollars)

	Notes	For the six months ended 30 June 2013 (unaudited)	2012 (unaudited)
Cash flows from operating activities			
Profit before income tax		**600,065**	**443,744**
Adjustments for:			
Depreciation		212,451	168,453
Amortization		5,271	3,393
Loss from disposal of property, plant and equipment		3,148	2,630
Loss on disposal of investment property		107	–
Provision for doubtful receivables		685	3,125
Foreign exchange loss/(gain)		7,590	(590)
Finance costs		76,047	61,546
Investment income		(3,896)	(6,511)
Operating cash flows before working capital changes		**901,468**	**675,790**
Increase in trade and other receivables		(966)	(3,267)
Decrease in advances paid		40,584	871
Increase in taxes receivable		(958)	(4,969)
Decrease in prepaid expenses		313	1,684
Decrease /(increase) in inventories		74,340	(53,355)
Decrease in trade and other payables		(204,863)	(105,699)
Increase in accrued expenses		14,732	6,255
Increase in taxes payable		94,038	39,760
Cash generated from operations		**918,688**	**557,070**
Income tax paid		(99,912)	(89,857)
Interest received		2,511	6,143
Interest paid		(65,680)	(65,163)
Net cash from operating activities		**755,607**	**408,193**
Cash flows from investing activities			
Purchase of property, plant and equipment		(654,744)	(680,539)
Purchase of investment property		–	(12,907)
Proceeds from disposal of subsidiary		4,026	–
Purchase of intangible assets		(6,589)	(5,571)
Purchase of land lease rights		(11,375)	(8,252)
Purchase of non-controlling interest in a single asset entity		–	(3,614)
Proceeds from sale of property, plant and equipment		2,224	20,491
Loans provided		(67,806)	(68,876)
Loans repaid		81,359	84,239
Net cash used in investing activities		**(652,905)**	**(675,029)**
Cash flows from financing activities			
Proceeds from loans and borrowings		3,259,430	1,570,055
Repayment of loans and borrowings		(3,345,406)	(1,655,695)
Dividends paid	13	(157,983)	(66,518)
Repayment of obligations under finance leases		(404)	(3,891)
Sale of treasury shares	12	13,803	7,772
Share buy-back		(2,870)	–
Net cash used in financing activities		**(233,430)**	**(148,277)**
Effect of foreign exchange rates on cash and cash equivalents		(13,157)	9,068
Net decrease in cash and cash equivalents		**(143,885)**	**(406,045)**
Cash and cash equivalents at the beginning of the period	11	**409,993**	**534,392**
Cash and cash equivalents at the end of the period	11	**266,108**	**128,347**

The accompanying notes on pages 6-37 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 2013

(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	Non-controlling interest	Total
Balance at 1 January 2012	**34**	**1,479,322**	**(5,574)**	**(317,167)**	**1,284,032**	**2,440,647**	**3,614**	**2,444,261**
Profit for the period	–	–	–	–	339,880	**339,880**	–	**339,880**
Other comprehensive income	–	–	–	(66,542)	–	**(66,542)**	–	**(66,542)**
Total comprehensive income for the period	**–**	**–**	**–**	**(66,542)**	**339,880**	**273,338**	**–**	**273,338**
Dividends declared (Note 13)	–	–	–	–	(69,789)	**(69,789)**	–	**(69,789)**
Sale of treasury shares	–	3,656	5,031	(915)	–	**7,772**	–	**7,772**
Purchase of non-controlling interest	–	–	–	–	–	**–**	(3,614)	**(3,614)**
Balance at 30 June 2012 (unaudited)	**34**	**1,482,978**	**(543)**	**(384,624)**	**1,554,123**	**2,651,968**	**–**	**2,651,968**
Balance at 1 January 2013	**34**	**1,484,255**	**(18,852)**	**(156,537)**	**1,958,364**	**3,267,264**	**–**	**3,267,264**
Profit for the period	–	–	–	–	468,913	**468,913**	–	**468,913**
Other comprehensive income	–	–	–	(252,006)	–	**(252,006)**	–	**(252,006)**
Total comprehensive income for the period	**–**	**–**	**–**	**(252,006)**	**468,913**	**216,907**		**216,907**
Dividends declared (Note 13)	–	–	–	–	(165,149)	**(165,149)**	–	**(165,149)**
Share-buyback	–	–	(2,870)	–	–	**(2,870)**	–	**(2,870)**
Sale of treasury shares (Note 12)	–	4,013	10,280	(490)	–	**13,803**	–	**13,803**
Balance at 30 June 2013 (unaudited)	**34**	**1,488,268**	**(11,442)**	**(409,033)**	**2,262,128**	**3,329,955**	**–**	**3,329,955**

The accompanying notes on pages 6-37 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 2013 were authorised for release by the Chief Executive Officer of OJSC "Magnit" on 27 August 2013.

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, cosmetic 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 2013	Ownership interest 31 December 2012
CJSC "Tander"	Food retail and wholesale	100%	100%
LLC "Retail Import"	Import operations	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 "Tandem"	Rent operations	100%	100%
LLC "Alkotrading"	Other operations	100%	100%
LLC "UK Premier-Liga"	Managing company of the employee's pension fund	100%	100%
LLC "Logistica Alternativa"	Import operations	100%	100%

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

1. Corporate information (continued)

At 30 June 2013 and 31 December 2012, the shareholding structure of the Company was as follows:

	30 June 2013		31 December 2012	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Galitskiy S.N.	36,563,000	38.67%	36,563,000	38.67%
Shares controlled by Lavreno Ltd. (Cyprus)	3,251,466	3.44%	3,251,466	3.44%
Gordeichuk V.E.	2,720,862	2.88%	2,722,170	2.88%
Shares controlled by the Group's Management	541,200	0.57%	542,366	0.57%
Treasury shares	70,740	0.07%	125,726	0.13%
Free float	51,414,087	54.37%	51,356,627	54.31%
	94,561,355	**100%**	**94,561,355**	**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 2012.

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 and investment property at fair value.

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 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- 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 2012 comparatives to conform to the presentation as at and for the six months ended 30 June 2013.

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. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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 and through bank cards. 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	3-10

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.

Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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.

3. Summary of significant accounting policies (continued)

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	1-25
Lease rights (convenience stores)	1-21
Software	1-25
Trade marks	1-10
Other	1-7

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 or 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 or loss.

3. Summary of significant accounting policies (continued)

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 or 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 materials and supplies is calculated using cost per unit method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

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.

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Income taxes (continued)

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 or 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 or loss as incurred.

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, cosmetic stores, hypermarkets and others, 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 consolidated financial statements.

3. Summary of significant accounting policies (continued)

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.

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 financial assets 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.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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.

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 financial asset 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.

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 or 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 or 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.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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 from 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.

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 2013 and 2012. 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.

3. Summary of significant accounting policies (continued)

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 using an effective interest rate method.

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.

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 2012, except for the adoption of the following new and amended IFRS and IFRIC interpretations as of 1 January 2013:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment has had no effect on the financial position or performance of the Group.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet. The amendment has had no effect on the financial position or performance of the Group.

IAS 32 Tax Effects of Distributions to Holders of Equity Instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment has had no effect on the financial position or performance of the Group.

IAS 34 Interim Financial Reporting and Segment Information for Total Assets and Liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker. The amendment has had no effect on the financial position or performance of the Group.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit or loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment has had no effect on the financial position or performance of the Group.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. The amendment has had no effect on the financial position or performance of the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The amendment has had no effect on the financial position or performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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.

Estimates and assumptions

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.

4. Significant accounting judgements and estimates (continued)

Impairment of assets (continued)

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.

Useful 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, provides loans and acquires construction services. Related parties of the Group are represented by (i) shareholders and (ii) counterparties that are affiliated with the Group through key management and relatives (other related parties). Transactions with related parties are made on terms not necessarily available to third parties.

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

5. Balances and transactions with related parties (continued)

Long-term loans to related parties maturing in October 2016 bear fixed interest rate of 9.5% (as at 31 December 2012: 9.5%) and are unsecured. Short-term loans to related parties maturing in December 2013 – May 2014 bear fixed interest rate of 8.50%-9.97% (as at 31 December 2012: 9.98%). Loans are unsecured as at 31 December 2012. 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.

Related party balances as at 30 June 2013 and 31 December 2012 consisted of the following:

	Other related parties	
	30 June 2013	31 December 2012
Long-term loans receivable	3,789	3,925
Short-term loans receivable	15,071	28,813
Advances received	15	–
Advances paid	–	88
Other receivables	1,987	2,770
Trade payables	4,179	4,292
Other payables	1,286	28

The Group's transactions with related parties for the six months ended 30 June 2013 and 30 June 2012 consisted of the following:

	Shareholders		Other related parties	
	For the six months ended 30 June		For the six months ended 30 June	
	2013	2012	2013	2012
Wholesale	–	–	–	274
Rent income	–	–	49	57
Rent expense	–	–	8	18
Other income	–	–	1,982	1,914
Investment income	54	107	2,273	1,318
Interest expense	–	–	–	–
Purchases of property, plant and equipment	–	–	125	36
Purchases of inventory	–	–	153,218	145,732
Loans given	9,445	9,791	53,171	59,114
Loans given repayment	9,499	9,898	67,613	75,439
Loans obtained repayment	–	–	–	–

Short-term employee benefits of Group management and members of the Board of Directors of the Group for the six months ended 30 June 2013 were USD 4,382 thousand (for the six months ended 30 June 2012: USD 6,370 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 2013 and 31 December 2012 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2013	**223,323**	**3,314,397**	**1,246,233**	**746,893**	**669,176**	**6,200,022**
Additions	20,447	–	147,012	60,994	426,720	**655,173**
Transfers	–	369,676	–	–	(369,676)	**–**
Disposals	(133)	(2,286)	(14,732)	(1,797)	(1,822)	**(20,770)**
Transfer from land lease rights	2,760	–	–	–	–	**2,760**
Translation difference	(17,144)	(255,743)	(95,858)	(56,411)	(50,653)	**(475,809)**
At 30 June 2013	**229,253**	**3,426,044**	**1,282,655**	**749,679**	**673,745**	**6,361,376**
Accumulated depreciation and impairment						
At 1 January 2013	**–**	**(255,928)**	**(512,137)**	**(205,139)**	**–**	**(973,204)**
Charge for the period	–	(64,997)	(111,814)	(35,640)	–	**(212,451)**
Disposals	–	372	13,781	1,245	–	**15,398**
Translation difference	–	21,625	41,652	16,432	–	**79,709**
At 30 June 2013	**–**	**(298,928)**	**(568,518)**	**(223,102)**	**–**	**(1,090,548)**
Net book value						
At 1 January 2013	**223,323**	**3,058,469**	**734,096**	**541,754**	**669,176**	**5,226,818**
At 30 June 2013	**229,253**	**3,127,116**	**714,137**	**526,577**	**673,745**	**5,270,828**

Property, plant and equipment as at 30 June 2012 and 31 December 2011 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2012	**178,601**	**2,201,777**	**888,547**	**578,602**	**578,654**	**4,426,181**
Additions	15,525	–	114,113	60,470	491,034	**681,142**
Transfers	–	353,285	–	–	(353,285)	**–**
Disposals	(15,720)	(2,540)	(23,407)	(9,330)	(1,697)	**(52,694)**
Transfer from land lease rights	2,754	–	–	–	–	**2,754**
Translation difference	(3,549)	(64,928)	(22,829)	(14,340)	(19,975)	**(125,621)**
At 30 June 2012	**177,611**	**2,487,594**	**956,424**	**615,402**	**694,731**	**4,931,762**
Accumulated depreciation and impairment						
At 1 January 2012	**–**	**(148,956)**	**(334,872)**	**(125,921)**	**–**	**(609,749)**
Charge for the period	–	(44,717)	(85,476)	(38,260)	–	**(168,453)**
Disposals	–	257	22,656	6,660	–	**29,573**
Translation difference	–	5,769	10,504	4,481	–	**20,754**
At 30 June 2012	**–**	**(187,647)**	**(387,188)**	**(153,040)**	**–**	**(727,875)**
Net book value						
At 1 January 2012	**178,601**	**2,052,821**	**553,675**	**452,681**	**578,654**	**3,816,432**
At 30 June 2012	**177,611**	**2,299,947**	**569,236**	**462,362**	**694,731**	**4,203,887**

(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 2013, the weighted average capitalisation rate on funds borrowed is 8.71% per annum (during the six months ended 30 June 2012: 8.21%).

At 30 June 2013, the net carrying amount of vehicles under finance lease included in other assets is nil (at 31 December 2012: USD 6,228 thousand).

7. Land lease rights

Land lease rights as at 30 June 2013 and 31 December 2012 consisted of the following:

	Land lease rights
Cost	
At 1 January 2013	**100,383**
Additions	11,375
Transfer to PPE	(2,760)
Translation difference	(7,617)
At 30 June 2013	**101,381**
Accumulated amortization and impairment	
At 1 January 2013	**(4,650)**
Charge for the period	(1,043)
Translation difference	386
At 30 June 2013	**(5,307)**
Net book value	
At 1 January 2013	**95,733**
At 30 June 2013	**96,074**

Land lease rights as at 30 June 2012 and 31 December 2011 consisted of the following:

	Land lease rights
Cost	
At 1 January 2012	**81,623**
Additions	8,252
Transfer to PPE	(2,754)
Translation difference	(1,909)
At 30 June 2012	**85,212**
Accumulated amortization and impairment	
At 1 January 2012	**(2,644)**
Charge for the period	(869)
Translation difference	108
At 30 June 2012	**(3,405)**
Net book value	
At 1 January 2012	**78,979**
At 30 June 2012	**81,807**

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

7. Land lease rights (continued)

During the six months ended 30 June 2013, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 429 thousand (during the six months ended 30 June 2012: USD 603 thousand).

8. Intangible assets

Intangible assets as at 30 June 2013 and 31 December 2012 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2013	**2,281**	**4,356**	**17,355**	**711**	**902**	**25,605**
Additions	381	1,795	3,873	22	518	**6,589**
Disposals	(149)	(334)	(4,055)	(33)	(152)	**(4,723)**
Translation difference	(175)	(386)	(1,230)	(50)	(83)	**(1,924)**
At 30 June 2013	**2,338**	**5,431**	**15,943**	**650**	**1,185**	**25,547**
Accumulated amortization and impairment						
At 1 January 2013	**(775)**	**(829)**	**(6,247)**	**(205)**	**(326)**	**(8,382)**
Charge for the period	(353)	(1,028)	(2,868)	(72)	(336)	**(4,657)**
Disposals	149	334	4,055	31	152	**4,721**
Translation difference	66	94	385	17	33	**595**
At 30 June 2013	**(913)**	**(1,429)**	**(4,675)**	**(229)**	**(477)**	**(7,723)**
Net book value						
At 1 January 2013	**1,506**	**3,527**	**11,108**	**506**	**576**	**17,223**
At 30 June 2013	**1,425**	**4,002**	**11,268**	**421**	**708**	**17,824**

Intangible assets as at 30 June 2012 and 31 December 2011 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2012	**1,494**	**1,878**	**10,314**	**120**	**284**	**14,090**
Additions	325	1,650	3,403	14	179	**5,571**
Disposals	(137)	–	(1,984)	(3)	(30)	**(2,154)**
Translation difference	(41)	(145)	(289)	(3)	(16)	**(494)**
At 30 June 2012	**1,641**	**3,383**	**11,444**	**128**	**417**	**17,013**
Accumulated amortization and impairment						
At 1 January 2012	**(451)**	**(625)**	**(3,980)**	**(84)**	**(105)**	**(5,245)**
Charge for the period	(290)	(261)	(2,489)	(8)	(79)	**(3,127)**
Disposals	137	–	1,984	3	30	**2,154**
Translation difference	19	29	109	2	5	**164**
At 30 June 2012	**(585)**	**(857)**	**(4,376)**	**(87)**	**(149)**	**(6,054)**
Net book value						
At 1 January 2012	**1,043**	**1,253**	**6,334**	**36**	**179**	**8,845**
At 30 June 2012	**1,056**	**2,526**	**7,068**	**41**	**268**	**10,959**

Amortization expense is included in general and administrative expenses (Note 22).

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

9. Inventories

Inventory as at 30 June 2013 and 31 December 2012 consisted of the following:

	30 June 2013	31 December 2012
Goods for resale	1,209,004	1,286,757
Materials and supplies	67,396	63,983
	1,276,400	**1,350,740**

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

10. Advances paid

Advances paid as at 30 June 2013 and 31 December 2012 consisted of the following:

	30 June 2013	31 December 2012
Advances to third party suppliers	38,168	62,582
Advances for customs duties	7,719	23,663
Advances to employees	1,674	1,812
Advances to related party suppliers	–	88
	47,561	**88,145**

11. Cash and cash equivalents

Cash and cash equivalents as at 30 June 2013 and 31 December 2012 consisted of the following:

	30 June 2013	31 December 2012
Petty cash, in RUB	41,023	45,835
Cash in banks, in RUB	30,354	114,804
Cash in banks, in foreign currency	285	127
Cash in transit, in RUB	147,758	249,227
Cash on deposit in RUB	46,688	–
	266,108	**409,993**

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts as at 30 June 2013 and 31 December 2012.

Sberbank, Krasnodar branch: Deposit was placed in the amount of RUB 1,500,00 thousand (USD 45,859 thousand) plus interest receivable in the amount of RUB 27,123 thousand (USD 829 thousand) maturing in July 2013.

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

12. Share capital, share premium and treasury shares

Share capital as at 30 June 2013 amounted to USD 34 thousand. There were no changes compared to 31 December 2012.

During the six months ended 30 June 2013, 68,416 treasury shares were sold by the Group for total cash consideration of RUB 431,120 thousand (USD 13,803 thousand at exchange rate at the date of transaction). The difference between cash received and the carrying value of shares was recorded as increase of share premium in amount of USD 4,013 thousand and decrease of foreign currency translation reserve in amount of USD 490 thousand.

During the six months ended 30 June 2013 the Group purchased 13,430 of own ordinary shares from the open market.

13. Dividends declared

During the six months ended 30 June 2013 the Group declared dividends to shareholders relating to 2012:

	30 June 2013
Dividends declared for 2012 (1.75 USD for 1 share)	165,149

During the six months ended 30 June 2012 the Group declared dividends to shareholders relating to 2011 and the first quarter 2012:

	30 June 2012
Dividends declared for 2011 (0.57 USD for 1 share)	54,365
Dividends declared for the first quarter 2012 (0.16 USD for 1 share)	15,424

During the six months ended 30 June 2013 the Group paid dividends in amount of USD 157,983 thousand (for the six months ended 30 June 2012: USD 66,518 thousand). At 30 June 2013 the amount of liability for unpaid dividends is USD 22 thousand (at 31 December 2012: USD 18 thousand, at 30 June 2012: USD 23 thousand).

Dividends proposed for the six months 2013 (not recognised as a liability as at 30 June 2013):

Dividends proposed for the six months 2013 (1.40 USD for 1 share)	132,426

The dividends for the six months 2013 were proposed by the Board of Directors on 31 July 2013, subject to approval by shareholders.

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

14. Long-term borrowings and loans

	30 June 2013		31 December 2012	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Sberbank, Krasnodar branch	8.13%	381,984	8.13%	411,290
Sberbank, Moscow branch	7.96%	305,518	8.30%	411,172
Bonds issued in April 2013	8.41%	311,603	–	–
Bonds issued in February 2013	8.52%	156,928	–	–
Bonds issued in 2012	8.93%	156,184	8.93%	168,169
Other	11.07%	25	11.07%	123
Bonds issued in April 2011	–	–	7.77%	166,845
Bonds issued in March 2011	–	–	8.02%	166,048
Alfa-bank	–	–	8.64%	181,169
Gazprombank	–	–	9.15%	164,868
Less: current portion (Note 18)		(396,404)		(410,437)
		915,838		**1,259,247**

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 12,500,000 thousand (USD 382,158 thousand) maturing in November 2014. The amount outstanding as at 30 June 2013 is RUB 12,488,791 thousand (USD 381,815 thousand) plus interest accrued of RUB 5,534 thousand (USD 169 thousand). Part of credit lines in the amount of RUB 9,991,108 thousand (USD 305,455 thousand) plus interest accrued of RUB 5,534 thousand (USD 169 thousand) maturing in June 2014 was classified as current portion of long-term loans and borrowings as at 30 June 2013. The credit lines were unsecured as at 30 June 2013.

Sberbank, Moscow branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 10,000,000 thousand (USD 305,726 thousand) maturing in September 2014. The amount outstanding as at 30 June 2013 is RUB 9,988,844 thousand (USD 305,385 thousand) plus interest accrued of RUB 4,329 thousand (USD 133 thousand). Part of credit lines in the amount of RUB 2,497,518 thousand (USD 76,356 thousand) plus interest accrued of RUB 4,329 thousand (USD 133 thousand) maturing in April 2014 was classified as current portion of long-term loans and borrowings as at 30 June 2013. The credit lines were unsecured as at 30 June 2013.

Bonds: In April 2013 the Group issued bonds of RUB 10,000,000 thousand net of direct issue costs of RUB 13,680 thousand, maturing in March 2016. The total amount outstanding as at 30 June 2013 is RUB 10,000,000 thousand (USD 305,726 thousand) net of RUB 12,565 thousand (USD 384 thousand) of direct issue costs plus accrued interest of RUB 204,800 thousand (USD 6,261 thousand).

In February 2013 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 12,890 thousand, maturing in February 2016. The total amount outstanding as at 30 June 2013 is RUB 5,000,000 thousand (USD 152,863 thousand) net of RUB 11,430 thousand (USD 350 thousand) of direct issue costs plus accrued interest of RUB 144,400 thousand (USD 4,415 thousand).

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

14. Long-term borrowings and loans (continued)

In September 2012 the Group issued bonds of RUB 5,000,000 thousand net of direct issue costs of RUB 12,922 thousand, maturing in September 2015. The total amount outstanding as at 30 June 2013 is RUB 5,000,000 thousand (USD 152,863 thousand) net of RUB 9,617 thousand (USD 294 thousand) of direct issue costs plus accrued interest of RUB 118,250 thousand (USD 3,615 thousand).

The bonds are listed at the Moscow Exchange MICEX-RTS.

As of 30 June 2013 and 31 December 2012, current portion of long-term loans and borrowings represents current portion of long-term credit line from Sberbank and accrued interest on borrowings and loans.

15. Trade and other payables

Trade and other payables as at 30 June 2013 and 31 December 2012 consisted of the following:

	30 June 2013	31 December 2012
Trade payables to third parties	1,196,893	1,393,234
Other payables to third parties	13,522	15,576
Trade payables to related parties (Note 5)	4,179	4,292
Other payables to related parties (Note 5)	1,286	28
	1,215,880	**1,413,130**

16. Accrued expenses

Accrued expenses as at 30 June 2013 and 31 December 2012 consisted of the following:

	30 June 2013	31 December 2012
Accrued salaries and wages	104,099	104,630
Other accrued expenses	75,961	60,698
	180,060	**165,328**

17. Taxes payable

Taxes payable as at 30 June 2013 and 31 December 2012 consisted of the following:

	30 June 2013	31 December 2012
Value added tax	144,614	49,651
Social insurance contributions	36,229	35,578
Property tax	19,131	20,037
Employee income tax withholding	15,390	16,156
Other taxes	1,509	1,413
	216,873	**122,835**

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

18. Short-term borrowings and loans

Short-term loans as at 30 June 2013 and 31 December 2012 consisted of the following:

	Weighted average interest rate	30 June 2013	Weighted average interest rate	31 December 2012
Bonds issued in April 2011	7.77%	154,962	–	–
Bonds issued in March 2011	8.02%	154,222	–	–
Bonds issued in 2010	8.30%	172,308	8.30%	185,439
Bank of Moscow	6.61%	68,788	7.90%	14,816
Sberbank, Krasnodar branch	6.90%	2,618	–	–
Other short-term loans	6.80%	132	–	–
Vneshtorgbank	–	–	7.92%	95,811
Rosbank	–	–	7.56%	87,290
Absolut Bank	–	–	7.53%	32,924
Current portion of long-term loans (Note 15)		396,404		410,437
		949,434		826,717

Bonds: 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 2013 is RUB 5,000,000 thousand (USD 152,863 thousand) net of RUB 3,545 thousand (USD 108 thousand) of direct issue costs plus accrued interest of RUB 72,200 thousand (USD 2,207 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 2013 is RUB 4,916,972 thousand (USD 150,325 thousand) net of RUB 2,937 thousand (USD 90 thousand) of direct issue costs plus accrued interest of RUB 130,397 thousand (USD 3,987 thousand).

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 2013 is RUB 5,500,000 thousand (USD 168,149 thousand) net of RUB 1,964 thousand (USD 60 thousand) of direct issue costs plus accrued interest of RUB 137,995 thousand (USD 4,219 thousand).

Bank of Moscow: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 7,000,000 thousand (USD 214,008 thousand) effective till April 2016. The amount outstanding as at 30 June 2013 is RUB 2,250,000 thousand (USD 68,788 thousand) maturing in July 2013. The credit lines were unsecured as at 30 June 2013.

Sberbank, Krasnodar branch: The Group entered into a number of credit line agreements allowing borrowings of up to RUB 1,000,000 thousand (USD 30,573 thousand) effective till April 2014. The amount outstanding as at 30 June 2013 is RUB 85,454 thousand (USD 2,613 thousand) plus interest accrued of RUB 187 thousand (USD 5 thousand) maturing in July 2013. The credit lines were unsecured as at 30 June 2013.

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

19. Revenue

Revenue for the six months ended 30 June 2013 and 30 June 2012 consisted of the following:

	For the six months ended 30 June	
	2013	2012
Retail	8,795,224	6,771,353
Wholesale	1,208	4,408
	8,796,432	**6,775,761**

20. Cost of sales

Cost of sales, classified by function, for the six months ended 30 June 2013 and 30 June 2012 consisted of the following:

	For the six months ended 30 June	
	2013	2012
Retail	6,397,266	5,036,303
Wholesale	1,208	3,917
	6,398,474	**5,040,220**

Cost of sales, for the six months ended 30 June 2013 and 30 June 2012 consisted of the following:

	For the six months ended 30 June	
	2013	2012
Cost of goods sold	5,946,819	4,700,604
Transportation expenses	309,839	231,293
Losses due to inventory shortages	141,816	108,323
	6,398,474	**5,040,220**

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

During the six months ended 30 June 2013, payroll in the amount of USD 76,023 thousand (during the six months ended 30 June 2012: USD 63,503 thousand) was included in transportation expenses within cost of sales.

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

21. Selling expenses

Selling expenses for the six months ended 30 June 2013 and 30 June 2012 consisted of the following:

	For the six months ended 30 June	
	2013	2012
Packaging and materials	36,027	25,313
Depreciation	33,555	36,749
Advertising	12,334	9,338
	81,916	71,400

22. General and administrative expenses

General and administrative expenses for the six months ended 30 June 2013 and 30 June 2012 consisted of the following:

	For the six months ended 30 June	
	2013	2012
Payroll	752,701	526,251
Rent and utilities	347,966	244,483
Payroll related taxes	218,463	153,795
Depreciation	178,896	131,704
Taxes, other than income tax	42,094	33,318
Repair and maintenance	27,863	17,946
Bank services	20,490	14,640
Security	10,093	7,698
Accrual for unused vacation	9,983	6,226
Bad debt provision	685	3,125
Other expenses	45,453	40,913
	1,654,687	1,180,099

"Other expenses" line includes amortization charge for the six months ended 30 June 2013 in the amount of USD 5,271 thousand (for the six months ended 30 June 2012: USD 3,393 thousand).

23. Finance costs

Finance costs for the six months ended 30 June 2013 and 30 June 2012 consisted of the following:

	For the six months ended 30 June	
	2013	2012
Interest on loans	43,392	42,480
Interest on bonds	38,564	23,688
Interest on finance leases	6	283
Total interest expense for financial liabilities	**81,962**	**66,451**
Less: amounts included in the cost of qualifying assets	(5,915)	(4,905)
	76,047	61,546

23. Finance costs (continued)

The total amount of interest expense paid during 6m 2013 is USD 71,595 thousand (6m 2012: USD 70,068 thousand).

24. Income tax

The Group's income tax expense for the six months ended 30 June 2013 and 30 June 2012 is as follows:

	For the six months ended 30 June	
	2013	**2012**
Interim consolidated statement of comprehensive income:		
Current tax	107,403	75,828
Deferred tax	23,749	28,036
Income tax expense reported in the interim consolidated statement of comprehensive income	**131,152**	**103,864**

25. Earnings per share

Earnings per share for the six months ended 30 June 2013 and 30 June 2012 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 2013 and 30 June 2012 is as follows:

	For the six months ended 30 June	
	2013	**2012**
Profit for the period attributable to equity holders of the parent	468,913	339,880
Weighted average number of shares (in thousands of shares)	94,561	94,561
Basic and diluted earnings per share (in US Dollars)	**4.96**	**3.59**

The Group does not have any potentially dilutive equity instruments.

26. 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.

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

26. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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 2013 and 31 December 2012, the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	30 June 2013	31 December 2012
Within one year	353,729	256,191
In the second to fifth years inclusive	57,861	62,100
	411,590	**318,291**

The Group entered in a number of cancellable short-term and long-term rental agreements. The Group plans to prolong these agreements in the future. The expected annual lease payments under these agreements amount to approximately USD 487 million (for the six month ended 30 June 2012: USD 292 million).

27. 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 approximate to their carrying amounts as at 30 June 2013 and 31 December 2012.

Foreign currency risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when purchase is denominated in a different currency from the Group's functional currency).

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 and long-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.

28. Subsequent events

There were no significant events after the reporting date other than disclosed elsewhere in the interim condensed consolidated financial statements.