O'KEY group

O'Key Group S.A.
Annual Report 2012

O'KEY aims to improve customer lifestyles by offering an outstanding shopping experience and by making a broad assortment of high quality products more accessible across a network of hypermarkets throughout Russia.

Satisfying customers through…

Providing an Outstanding Shopping Experience

For more information see pages

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Providing a Broad and Compelling Assortment

For more information see pages

16-21

Providing Excellent Value for Money

For more information see pages

22-25

Operational Highlights

428,000m²

Of selling space
(346,000m² in 2011)

25.3%

Increase in Unique Loyalty Card holders to 5.6 million

83

Total number of stores, up from 71 stores in 2011

21

Major cities in Russia, 17 in 2011

7%

LFL revenue growth

2.5%

Growth in LFL number of purchases

22.4%

Increase in purchases to 170m in 2012

Financial Highlights

EBITDA (RUB)

9.4bn
+25.5%
(2011: 7.5bn)

Revenue (RUB)

117.3bn
+26.0%
(2011: 93.1bn)

Net profit (RUB)

4.7bn
+44.4%
(2011: 3.2bn)

Gross profit (RUB)

27.6bn
+29.8%
(2011: 21.3bn)

Earnings per share

17.4 RUB
+45.0%
(2011: 12.0 RUB)

Gross margin

23.5%
+0.7 pp
(2011: 22.8%)

Contents

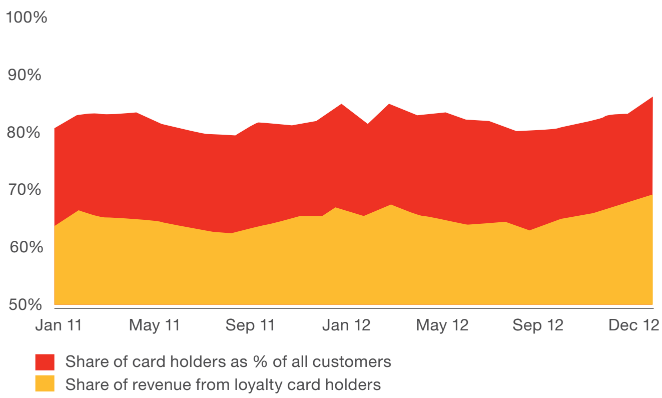
O'KEY at a glance

O'KEY is a rapidly growing food retailer whose unique business model has led to unequalled customer loyalty and brand equity.

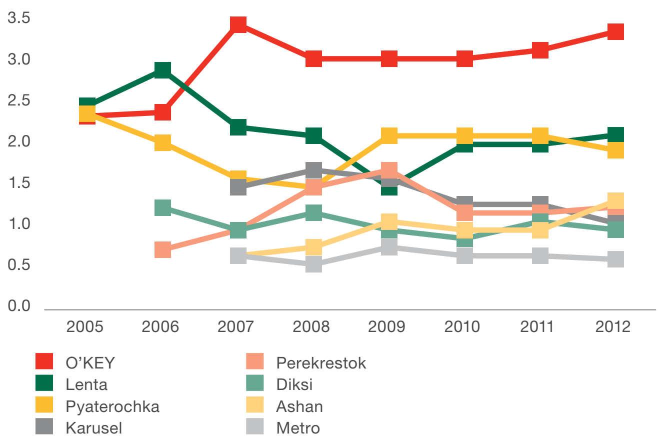
- > Employing the modern hypermarket concept across 21 major Russian cities. Undergoing rapid expansion in the regions with the intention of serving customers in 25 cities by 2015.
- > Unique business model which creates an exceptional customer experience by focusing on providing attractive and convenient 'all under one roof' stores with a wide assortment of products priced competitively.
- > Strong assortment of local produce mixed with imported foods – attractive assortment of fresh, delicatessen and non-food products.
- > Importance placed on the individual customer through the high levels of in-store service and an assortment policy that is tied to customer needs.
- > Retaining high levels of customer loyalty with a bigger average basket than its peers and positive LFL traffic growth as more and more customers choose O'KEY.
- > 309k Rub revenue per sqm – making O'KEY one of the largest publicly traded food retailers in Russia.
- > Highest store equity among competitors in St. Petersburg.*

*Nielsen 2012

Customer Loyalty
Source: Company Data



Brand Equity Index of Modern Store Formats
Source: Nielsen 2012, St. Petersburg Brand Leadership 2005 – 2013



Fast facts

23,000 employees

Including stores and offices

869 RUB

Industry leading average basket*

11.1%

Average LFL revenue growth 2007-2012

4

New cities added in 2012

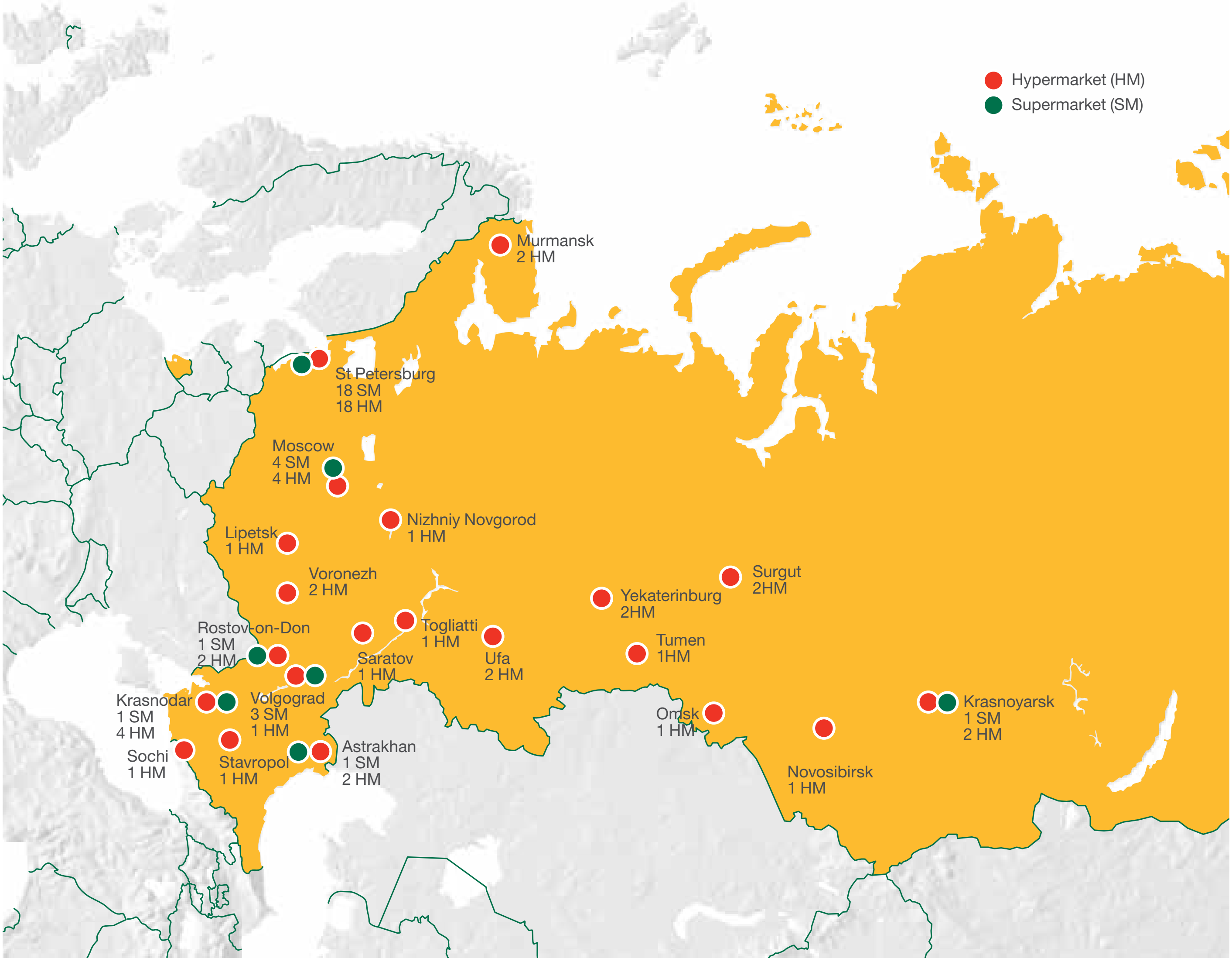
31%

CAGR Retail Revenue Growth (07-12)

24%

Selling space CAGR 2007-2012

*Among public companies



The successful execution of our strategy allows us to keep improving our customers' experience as we replicate our business model throughout Russia:

Expand footprint:

> Further penetrate the Russian market focusing on Urals, Siberia and Moscow.
> Establish presence in 25 Russian cities by 2015.
> Ensure that the high standards of convenience are met by all new locations without compromising O'KEY's store model and commitment to the customer.

Provide broad product offering:

> Constantly develop assortment to ensure a truly 'one stop shop' experience.
> Cooperate with local suppliers to meet customer expectations at every city.
> Grow the share of our private labels while ensuring high quality standards and attractive prices.

Enhance supply chain:

> Optimise supply chain for every category of products and SKUs.
> Maintain high shelf availability and optimal inventory levels as the business grows.
> Improve efficiency of logistics supporting import and private label operations.

Optimise information systems and business processes:

> Enhance technological platform to support expanding the scale of operations.
> Implement innovative retailing solutions to meet and exceed customer expectations.
> Introduce best practices into existing business processes.

Delivering Outstanding Customer Experience

Business Model

O'KEY Group opened its first hypermarket in St. Petersburg in 2002, introducing a differentiated business model. The strength of this business model, which had a distinct focus on customer experience has seen O'KEY grow its presence in St. Petersburg, one of the most competitive markets in Russia, then seen it expand regionally and nationally to become one of the largest food retailers in Russia.

Modern, Convenient 'Under One Roof' Shopping

Excellent Customer Service

Customer Experience

Compelling Product Range

High Quality Produce

Assortment

Competitive Prices

Value

Strong Brand Image and Customer Satisfaction

Our business model is **geared** towards meeting the needs of our shoppers.

Our **modern and convenient** stores are located at the centre of population hubs, **with good parking** and easy access to our stores through **strong transportation links**.

Each store has an **appealing ambiance** where we offer a **wide assortment** of **high quality food** and **non-food** produce that is **priced** very **competitively**.

Our **supply chain** is designed to ensure a constant supply of products with short lead times whether **sourced locally, nationally** or through **import** to meet our customers' expectations.

Chairman's Statement

2012 was a year of growth and consolidation, which led to the opening of the largest number of O'KEY hypermarkets in a single year. Our key strengths have remained constant and our strategy has remained simple yet effective.

Dear customers, shareholders and colleagues,

It is with great pleasure that I present O'KEY Group S.A.'s 2012 Annual Report, which gives us the opportunity to review our financial and operational results for 2012, to restate the commitment made to our shareholders to carry out business in an efficient, ethical and transparent manner, and to our customers, to whom we are committed to delivering a modern and convenient shopping experience.

2012 was a year of growth and consolidation, which led to the opening of the largest number of O'KEY hypermarkets in a single year. Our key strengths have remained constant and our strategy has remained simple yet effective. In essence, the needs of our customers are at the very heart of our growth plans. This commitment has ensured we retain existing customers at a rate unmatched by our peers, while attracting new clients as we continue our ambitious roll-out programme.

O'KEY currently has 83 stores in 21 cities and our ambition is to have stores in 25 cities by 2015. With Russian GDP expected to grow by around 3% in 2013 and real wages expected to keep increasing to support an anticipated 44% growth in per capita consumer spend in the Russian retail market over the next three years, the scene is set for O'KEY to grow. To capitalise on this opportunity, O'KEY intends to focus on the regions which have the highest levels of personal income.

O'KEY's focus on the customer and its strategy for expansion enabled the Group to deliver a strong set of results for 2012, securing growth for the tenth successive year in our history. In 2012, we also set a new benchmark by opening ten hypermarkets in a single year. In St. Petersburg, the location of O'KEY's first hypermarket and one of the most competitive markets in Russia, we continue to enjoy the highest level of brand equity amongst our competitors – a feat we intend to replicate in other cities.

"O'KEY currently has 83 stores in 21 cities and our ambition is to have stores in 25 cities by 2015."

Such levels of success bring the Board a great deal of satisfaction and it is equally pleasing to see this level of execution being recognised by the equity capital markets. At the time of writing this letter, O'KEY is one of very few issuers who floated during the financial crisis that is trading above its IPO price.

Whilst the strategy adopted to achieve our ambitions may be simple, a great deal of work goes on behind the scenes to implement it. I would therefore like to take this opportunity to thank our Board of Directors, our top-management team and all employees nationwide, for their commitment and professionalism in the face of continued economic uncertainty, as this has helped make 2012 a successful year for O'KEY.

As O'KEY expands into new towns and cities, a key part of its corporate policy is ensuring that the Company is contributing all it can to the social and economic development of its regions and that it maintains a good reputation within the general community. Given the size of our stores, each location is carefully selected by committee with each store's environmental impact discussed before opening. Furthermore, in O'KEY's pursuit for customer service, much is expected of our staff, but O'KEY is creating an environment within which individual members of staff are rewarded, valued and receive training.

To conclude, I would like to say that the Board of Directors is pleased with the progress made by O'KEY in 2012. We are delivering value and returns to our shareholders by way of generating both earnings and asset growth as well as through offering a dividend to all shareholders. While the market is becoming more competitive, growth remains fast and we expect us to remain on this profitable growth trajectory for years to come as O'KEY capitalises on the strong offering it has.

Heigo Kera
Chairman
April 2013

O'KEY's focus on the customer and its strategy for expansion enabled the Group to deliver a strong set of results for 2012, securing growth for the tenth successive year in our history.

Chief Executive Officer’s Review

By sticking to our core values, upon which O’KEY’s success is built, we ensured that 2012 was another successful year for the Company on several fronts.

Dear customers, shareholders and colleagues,

By sticking to our core values, upon which O’KEY’s success is built, we ensured that 2012 was another successful year for O’KEY on several fronts. We grew our retail revenues by 25.7% to RUB 115.9 billion, by 7% on a like for like basis, to deliver on the sales and LFL revenue targets that were set at the beginning of 2012. Furthermore, our EBITDA margin of 8.0%, demonstrates that our focus on delivering exceptional customer experience provides high returns.

We value consistency in doing business. It means that while our growth plans are aggressive, they are sustainable. This means that continuous price investments allow our customers to achieve savings on their shopping, regardless of the market conditions. It also means that shareholders can rely on us to deliver earnings and asset growth on their behalf. In line with this commitment, we opened 12 new stores during 2012, adding four new cities to our list, and ensured that O’KEY is well on its way to meeting its target of establishing a presence in 25 Russian cities by 2015.

While most Russian retailers benefited from growing inflation in 2012, few managed to deliver positive LFL traffic growth. On a like for like basis, our store traffic grew by 2.5% during 2012, and as the year progressed, more and more customers chose to shop at O’KEY stores. The strength of our business model, which places a quality shopping experience at its core, and the strength of our brand, played a significant role in helping us achieve these LFL results.

The high quality shopping experience behind these results is based on a ‘one stop shop’ concept where O’KEY ensures that each store remains true to our concept. The concept guarantees quality and convenience of location, availability of spacious parking, modern store layout and the provision of additional services to complete the offering and to make shopping at O’KEY stores a positive and pleasant experience. Our product range is made up of 35,000 SKUs, increasing to 64,000 by season, but what outstrips most of our peers is the breadth of our assortment. At the same time, price investments we make, help to make our proposition to the customer highly competitive.

"While most Russian retailers benefited from growing inflation in 2012, few managed to deliver positive LFL traffic growth. On a like for like basis, our store traffic grew by 2.5% during 2012."

Since we started out in St. Petersburg, one of the most competitive markets in Russia, more than a decade ago, we have built significant expertise and know-how that has enabled us to replicate this successful business model on a national scale. We are proud that we have remained true to our core principles throughout our expansion – we want to grow as quickly as possible, but not at the cost of compromising on the quality of our stores and our locations. With this in mind, and given our growing scale, we felt it important to enhance our management structure in the cities. Responsibility for the Group's expansion is retained at O'KEY's federal headquarters, as are the responsibilities for negotiating commercial conditions with suppliers and the development of our assortment policy. Our local city offices do however play a major role in ensuring that we stay in touch with and remain focused on local customers, that we maintain the high levels of efficiency achieved by local operations and that all stores comply with a standard of service set centrally.

In terms of growing our total sqm selling space, we decided in 2012 to increase transparency and provide greater insight into our development pipeline. You will see that we now disclose the total number of stores under development and, most importantly, where each store is in its respective stage of completion. This helps provide clarity on our plans for growth by breaking down our actual committed pipeline and anticipated store completion time.

In terms of our expectations moving forward, our priority remains the organic expansion of our hypermarket network. We currently have 26 hypermarkets in our pipeline and we are rapidly expanding our land bank to ensure that our flow of planned new store openings remains high.

Our long-term profitability target remains at 8% on the EBITDA line, and we still think there is scope to improve our operating efficiency going forward. We continue to develop our range of products through our non-food offering, our private labels and own production, and as efficiencies are realised, we will focus on passing these savings on to our customers.

Patrick Longuet
Chief Executive Officer
April 2013

The high quality shopping experience behind these results is based on a 'one stop shop' concept where O'KEY ensures that each store remains true to our concept.

The Consumer Environment

Overall, Russia is the largest market in Europe[1] with the third-highest retail turnover in EMEA[1] (16%) of GDP and retail chains are expanding quicker than ever before.

[1]PWC 2050 Russian Retail Market Overview

According to an Infoline Agency report, in 2012 the top 130 Russian retail chains opened 4,059 new outlets, a record number, higher even than pre-crisis records.

Since O'KEY's foundation in 2001 and the current day, Russia's retail turnover has multiplied five times over, to exceed $600 billion annually. Over a similar period (that is 2003-2012), Russian consumer spending more than doubled from RUB 2546.70 billion in February 2003 to RUB 5,806.70 billion in 3Q 2012 (www.tradingeconomics.com/Russia/consumer-spending).

The size of O'KEY's average basket is closely tied to total CPI Inflation, which fell during the first part of 2012 to reach a two year low of 3.6% in May, but as inflation increased during the second part of the year, peaking at 6.6% in October, so did O'KEY's average ticket, which by the end of the year had increased by 4.7% to RUB 869 in 2012.

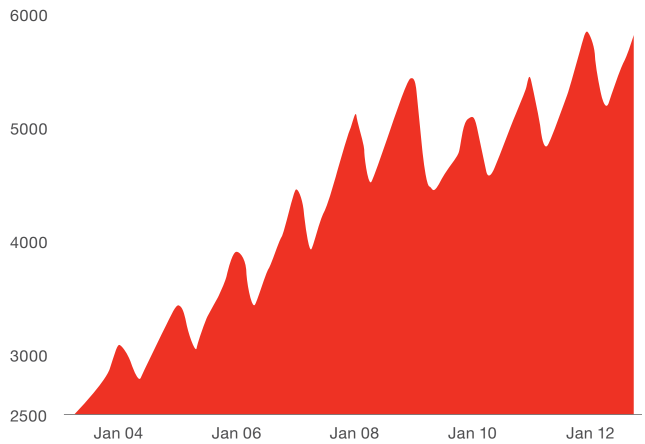
Russian real GDP grew 4.5% last year (according to the OECD Economic Outlook) and is forecast at similar levels for 2013.

As O'KEY has expanded, Russia has also witnessed a general decrease in its unemployment rate from a high of over 9-10% in 2001 and during the crisis to below 6% coming out of 2012.

With the labour market's increasing buoyancy, wages have also increased from less than RUB 5,000 to an all time high of RUB 36,450 in December 2012.

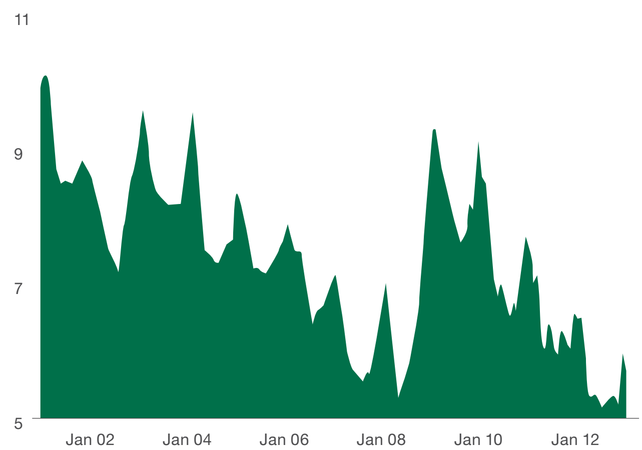
Russia Consumer Spending

Source: www.tradingeconomics.com | Federal State Statistics Service, Russia



Russia Unemployment Rate

Source: www.tradingeconomics.com | Federal State Statistics Service, Russia



Russia's retail turnover has multiplied 5 times over since 2001 with Russia also witnessing a general decrease in unemployment from a high of 9-10% in 2001 to below 6%... these dual trends remain robust and underline customers' increasing purchasing power.

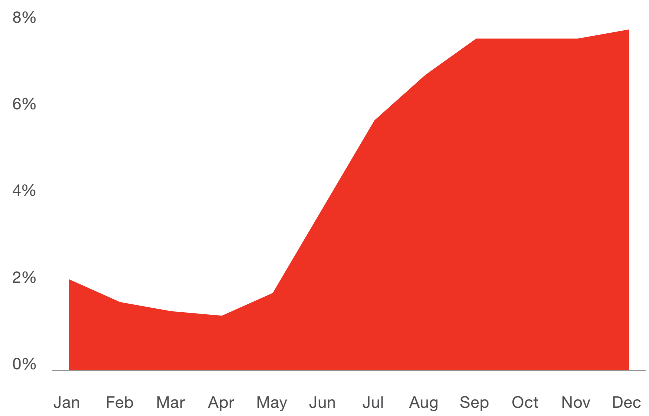
These dual trends of increase in real wages and higher employment have remained robust over the past ten years and are predicted to continue – underlining our consumer's increasing purchasing power.

Per capita consumer spending in the Russian retail market is forecast to increase by 44% between 2013 and 2016. Whilst, in PwC's 'World in 2050' report, Russia is forecast to become the largest European economy in purchasing power parity (PPP) terms by 2020.

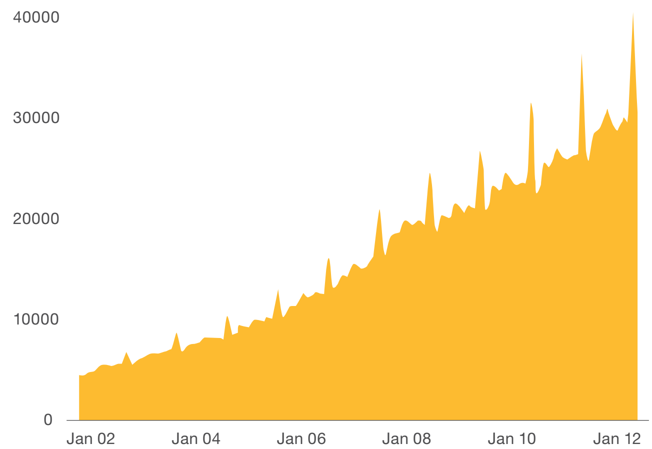
In addition, Russian customers have progressively adapted their habits away from the traditional market model. According to a 2012 GfK Russia survey, 52% of fresh produce is now purchased in modern retail outlets.

Whilst these figures clearly highlight Russia's ongoing potential as a market, as well as consumers' increased purchasing power and disposable income, it is O'KEY's commitment to customer service which has and continues to enable us to exploit the positive macroeconomic and sector situation. The loyalty engendered by our unique product offering is borne out by our share of revenue generated from loyalty card holders – a rate unmatched by our peers.

2012 Russian CPI inflation
Source: Bloomberg



Russia Wages
Source: www.tradingeconomics.com | Ministry for Economic Development, Russia

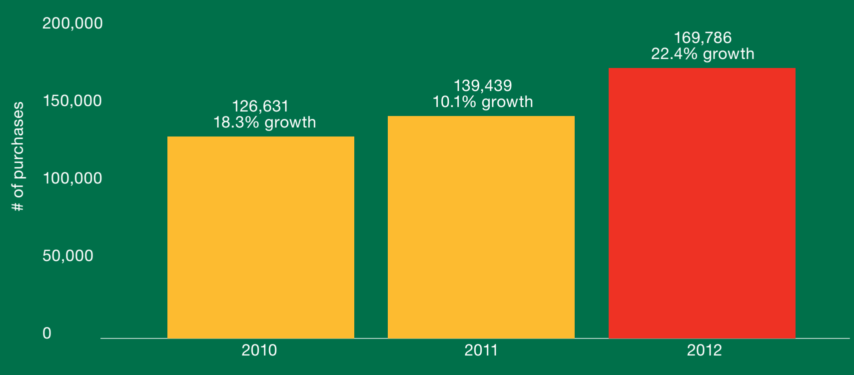


Providing an Outstanding Shopping Experience

O'KEY's primary focus is to offer modern, convenient and innovative stores that are well-located, well-designed and have everything under one roof.

O'KEY's efforts to provide an excellent shopping experience combined with a broad assortment of goods across the price spectrum have been rewarded with high levels of customer satisfaction and loyalty.

Rapid growth in the total number of purchases thanks to O'KEY's distinct offering and successful growth plan



7,500m²

Average selling space of a hypermarket

35,000

Person days of training in HQ and stores in 2012

56%

Of O’KEY’s real estate belongs to the Company – strengthening our ability to build hypermarkets that provide the best shopping experience

40+

Cash registers per average O’KEY hypermarket

5.6m

Of unique loyalty card holders

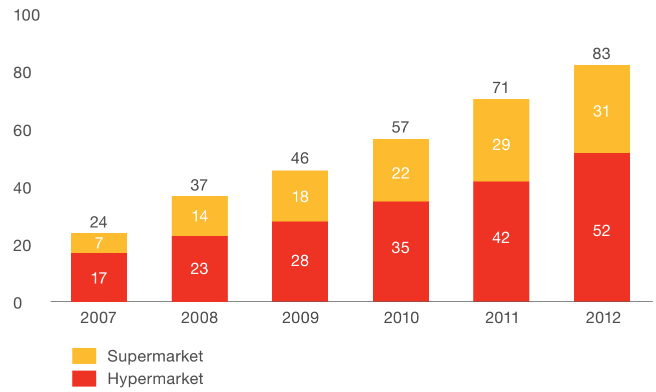
3.2

Highest brand equity in St. Petersburg

Providing an Outstanding Shopping Experience

Led by an experienced management team who have a combined 115 years' experience in developing and expanding the hypermarket model across Europe, O'KEY has unparalleled managerial expertise in the hypermarket business.

Number of Stores (as of December 31, 2012)



Strong Retail Expertise…

Led by an experienced management team who have a combined 115 years' experience in developing and expanding the hypermarket model across Europe, O'KEY has unparalleled managerial expertise in the hypermarket business. We use this expertise to create a business model with just one goal – to meet customer expectations.

Carefully Selected Store Locations

Location is the key to success in retail. The selection process behind new O'KEY store locations is thorough and involves a large number of experts. Generally, we never close stores down and, as a result, we select our store locations as though they are going to serve their communities for a lifetime. So, choosing the right location is vital and involves three levels of expert opinions:

> Suitable locations are vetted by the expansion department who compile a shortlist of locations based on O'KEY's special criteria.
> All locations are examined by experts from the construction, legal, sales, HR and commercial departments.
> Accepted locations are considered by the Expansion Committee where senior management review the top locations and reach their final decisions.

When selecting specific sites for new hypermarkets, convenience for the customer is key:

> Locations within city boundaries near main public transportation hubs and main roads. A maximum 30 minute public transportation ride and 15 minutes by car.
> Large and well-lit free parking at each location close to the stores' main selling areas, equal to one parking space for every ten m^2 of selling space.
> Locations where our competitive position in the area is secure in the long term.
> Land plots are either purchased or leased, are around four hectares in size and accommodate both a fully sized O'KEY hypermarket and a large parking space to provide an optimal shopping experience.
> For rented stores we choose large spacious shopping centers that provide customers with a modern and high quality shopping experience.
> Our stores typically have a selling area of around 7,500 m^2 and around 15,000 m^2 in total size built on four hectares of land. This format enables us to display a wide choice of products in relatively compact premises. As a result, we can locate our hypermarkets within city boundaries and can provide enhanced convenience for our customers.

Making Sure O'KEY Secures the Best Stores for its Customers…

Search Team:

Identifying available locations in target cities.

Operational Management:

Selecting locations that meet O'KEY's criteria.

Senior Management & Board Approval:

Development stage – singling out the best locations.

Architects, Designers & Builders:

Developing stores that realise a location's potential.

18 months lead time from the acquisition of land, to an owned hypermarket being ready and open.

A Bright, Modern Layout

On entering our stores, shoppers are greeted by a bright, warm and well-ventilated ambiance with well-presented produce immediately catching one's attention. Store layouts are convenient, with sections clearly signed and differentiated by bright light schemes that also ensure customers can see the produce. Our selling area is set up with low shelving to ensure that all produce is easy to reach while buffer inventories are kept at the back of the store. To minimise discomfort for our customers and to keep unnecessary clutter at a minimum, discrete replenishment occurs during the course of the day whereby our employees deliver products to the floor using trolleys.

Consistent store layouts maintain a level of familiarity for customers across all O'KEY stores. So, if they go to a different O'KEY store, they still know where to find their goods and they experience the same high quality of premises.

Bringing convenience to family shopping is a key part of our store philosophy and the contribution made by our broad scope of services is critical to this offering. We provide supervised playgrounds for babies within our selling area, while third parties provide supervised areas for toddlers alongside pharmacies, dry cleaners, toy stores and bank services, all under one roof. We pay a lot of attention to the breadth and variety of what is offered in O'KEY premises.

Excellent Customer Service

Friendly & Knowledgeable Staff

Store layout is important, but the quality of service provided by our employees is what really makes a friendly shopping environment. To promote consistent standards and quality of customer service, all O'KEY staff undergo a number of compulsory training programs which comprise of:

> An Introduction to O'KEY's corporate culture and business practices which ensures staff appreciate the importance of the customer to O'KEY from the start.

> All store employees undergo training in hospitality, which focuses on providing customers with polite, knowledgeable and friendly service.

> Employees who interact with customers directly receive compulsory conflict management training. The training teaches employees how to resolve difficult situations when helping customers.

> To ensure uniformity when it comes to the layout of stores, employees are trained and filmed working in the same sales area in different shops. When it comes to selling and merchandising, two training groups exist through which employees gain an initial understanding of the principles of merchandising and customer perception.

All our hypermarkets have an information desk where well-trained employees are available at all times to provide advice and assist customers.

An Efficient Check-Out Service

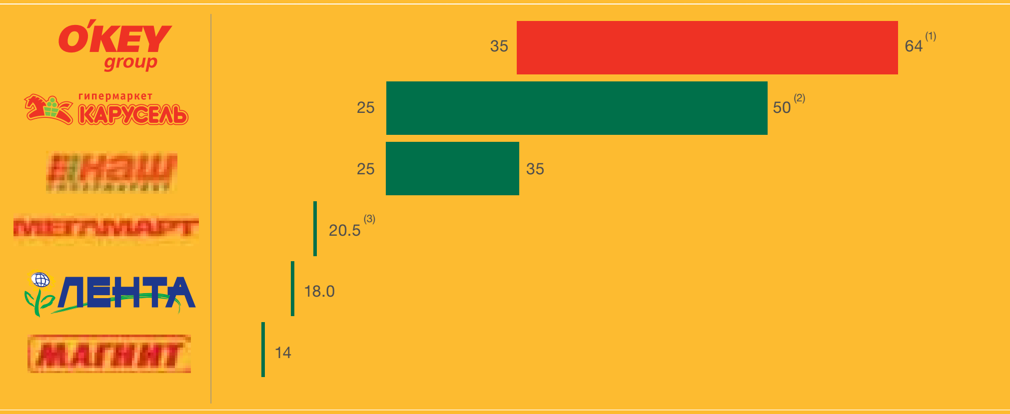
The O'KEY shopping experience concludes with quick and easy service at the check-out point. Once ready to pay, our customers are met by a large number of manned cash registers. Our cashiers' schedules are carefully managed and our target is to minimise queuing time so that not more than three customers are in a line at any time. To achieve that result our hypermarkets are equipped with more than 40 cash registers serviced by more than 100 employees.

Providing a Broad and Compelling Assortment

O'KEY's wide product assortment of both food and non-food produce that is high in quality and freshness makes O'KEY a destination of choice.

O'KEY Group and Peer SKUs

Companies' data; for Megamart, Lenta and Magnit – average number of SKUs



(1) As of 30 June 2012 (2) As of December 2011 (3) As of 30 November 2011

92%
Share of direct deliveries

70%
Non-food share in the 2012 assortment

500
Unique recipes used in owned production

35,000
SKUs sold constantly in a store

93%
Average on-shelf availability of products

3,000
Customer needs recognised and addressed

Providing a Broad and Compelling Assortment

Broad Assortment of Quality Food & Non-Food Products

Customers are presented with a wide and well-balanced choice across a range of basic, average and average-plus products in all of our stores. We build our assortment around approximately 3,000 recognised customers needs. We develop an assortment with each of these customer needs in mind and we respond to different quality and price expectations. The resulting 35,000 SKUs we constantly sell represent a well-balanced portfolio of products that meet differing expectations and needs regardless of customers' income levels and preferences.

O'KEY's selection of non-food products is an important differentiator for the Company. Customers travel near and far to buy goods they cannot find anywhere else and these non-food goods represent more than 70% of our assortment in hypermarkets. To make the most of its scale and location, a hypermarket needs to offer more than just foods that are widely available across a variety of outlets. Providing an extensive non-food selection and putting special emphasis on our non-food range, differentiates O'KEY's proposition, which helps us generate high levels of traffic and customer satisfaction.

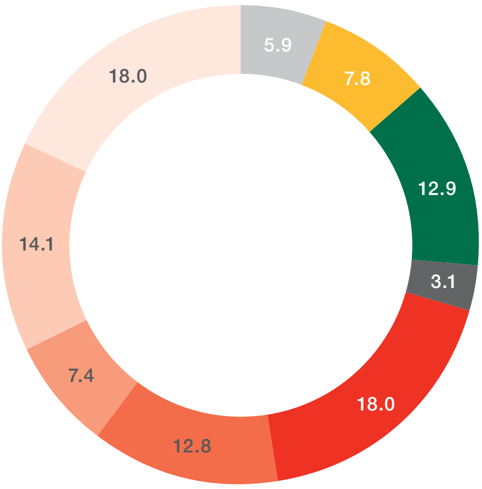
Customers travel near and far to buy goods they cannot find anywhere else and these non-food goods represent more than 70% of our assortment in hypermarkets.

The most popular non-food categories include cosmetics, health and beauty, consumer electronics, clothing, DIY, toys and crockery, but it is not limited by these and we constantly work to enhance our non-food offering and provide customers with new product.

O'KEY's fresh food & delicatessen produce is also a forte, with freshly prepared baked goods also very popular. O'KEYs 50 bread recipes and more than 100 different salads is an O'KEY signature that has contributed significantly to O'KEY's high level of customer recognition and differentiation. A fresh food and delicatessen selection has been part of our offering from the very beginning and we have never lost this focus.

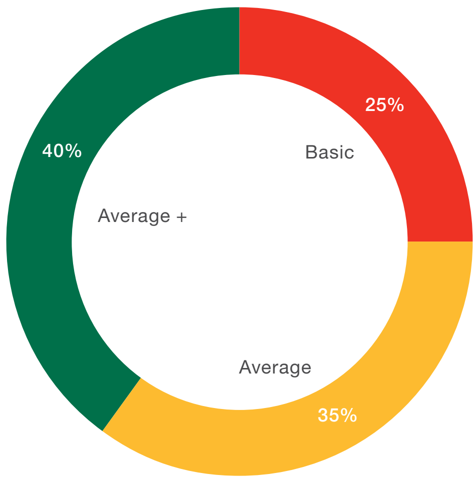
Our private label range includes non-branded first price items and O'KEY labelled products manufactured by large and renowned Russian and international producers. O'KEY's private labels improve the value

Total Assortment by SKUs



- Ultra Fresh
- Fresh food
- Dry food
- Alcohol
- Health & Beauty
- Products for home
- Clothing
- Seasonal merchandise
- CE & DIY

Well-balanced assortment



- **Basic basket:** Price sensitive customers
- **Average basket:** Well-known brands
- **Average Plus basket:** More expensive branded products and imported goods

of our proposition as our branded private labels provide high quality for a moderate price – the private label range completes O'KEY's price assortment and ensures there is something available at all price points. The private label range also generates additional store traffic and provides better value for money for our customers.

O'KEY's careful management of third party providers at each store complements O'KEY's own offering by selling products and services that are not offered by O'KEY itself. This includes jewellers, banks, dry cleaners, toy stores, consumer electronics stores, crockery stores and food court operators.

Tailoring Assortment to Differentiate O'KEY and Meet Customer Expectations

By offering customers an extensive choice of quality products and by tailoring our assortment in response to evolving preferences, O'KEY differentiates itself from its competitors and builds long-lasting relationships with customers.

We recognise the importance of providing a localised assortment, where part of the assortment in our stores is different in each city so that local tastes and expectations are catered for. We aim to maintain a high share of local assortment in every city and in some places it reaches 40% of total store purchases. Naturally, fresh foods form a large part of our local assortment, which brings

O'KEY's careful management of third party providers at each store complements O'KEY's own offering by selling products and services that are not offered by O'KEY itself.

numerous advantages such as shorter lead time when it comes to their sourcing, a longer subsequent shelf life, high brand recognition and better inventory rotation. Of the current assortment, fresh food and own production accounted for approximately 45% of O'KEY's total revenue in 2012, reinforcing O'KEY's belief that such products are driving traffic and encouraging greater overall spend.

O'KEY is also looking to increase the share of private label and non-branded products as they represent excellent value to customers, while offering similar levels of quality to branded products. The contribution of private label goods to O'KEY's revenue reached 8% in 2012.

O'KEY is constantly looking at ways of developing new categories. By developing private label goods and monitoring the performance of third party providers inside the store, O'KEY becomes more flexible and able to adapt to new trends as they emerge, to ensure that its goods assortment is optimal.

Providing a Broad and Compelling Assortment

Enhancing Quality Controls

As for any food retailer, the quality of our assortment is regulated and closely watched by both government bodies and local communities. To ensure compliance with rules and regulations on quality and sanitary norms and to guarantee high levels of service to our customers, we have developed and introduced several monitoring units within the Company. Their target is to maintain permanent quality monitoring in stores, detect and bring to the attention of management any deviations from norms, to educate and develop store personnel's level of awareness and involvement in quality control.

We have established a system whereby one food safety and health inspector is on call in every city to conduct regular food safety and health spot-checks on food preparation areas and to conduct medical checks on employees who work with food. Approximately 480 store checks are carried out annually, which means that almost every hypermarket is subjected to strict checks once a month for cleanliness and sanitary control.

Our food assortment is also subject to regular quality inspections, which our food safety and health inspectors are responsible for. Products are randomly selected and sent to laboratories for inspection. Laboratories verify the consistency between how the food is described on its packaging and whether that reflects its content.

Quality and variety are among the critical factors behind the loyalty of our customers, and the logic behind our supply chain maintains and improves high levels in both.

Produce is also checked for pathogens, parasites and infusions of any harmful elements. Food products are subject to random physical inspection on arrival at warehouses and stores, whether they are branded or own produced goods, with approximately 20 products taken away for testing on a monthly basis.

O'KEY has also developed internal policies that regulate the quality of service provided inside our stores and how retail processes are organised. Quality managers perform quarterly checks in stores to ensure compliance with internal policies and regulations, such as merchandising and warehousing norms. Service checks are thorough, can last two or three days per visit and are repeated on a quarterly basis with detailed reports following each inspection. The standards of service provided within each store impacts our results and how our customers perceive our stores. As a result, store management compensation correlates to the results of these service inspections which provide scores that determine around 25% of store managers' bonuses.

Effective Supply Chain to Deliver Quality, Variety, Freshness and Value…

Ensuring that all our customers have ready access to a wide variety of high quality produce is our supply chain's key priority. Being a federal company we work with international, federal and local suppliers as well as

their distributors. In some cases completing deliveries ourselves is the most efficient way of getting products to a store, in which case we use our cross dock platforms. This model gives us considerable flexibility and a high degree of supply chain efficiency. Maintaining the quality and variety of our assortment is critical for success of our business model, and the logic behind our supply chain is to maintain and improve high levels in both.

Regardless of which of the 21 cities our customers are based, they have all come to expect access to a wide range of quality products. Delivering this means working closely with our suppliers, keeping a tight grip on our distribution network, on inventory controls and educating our staff in-store.

In essence, our supply chain revolves around direct delivery which accounts for around 92% of all deliveries. Direct delivery provides significant flexibility in terms of assortment management and store roll-out. It also enables us to quickly and easily tailor product assortments to local preferences without restrictions, minimises our inventories and most importantly provides high shelf availability.

Direct deliveries are supplemented by O'KEY's storage warehouses where imported and private label products are stored. These warehouses also become useful when producers are international and we need to take care of the logistics ourselves.

O'KEY's cross-docking facilities also enhance our supply chain as they reduce our dependence on the logistical capabilities of our suppliers and distributors, leading to improved inventory rotation for slow moving products and in some cases improved product profitability.

Our supply model is set up to bring O'KEY and its customers a number of advantages:

> Wide range of fresh food and high quality goods, tailored to suit local tastes.
> Low inventory costs as products hit shelves directly upon delivery.
> Time lags between order, delivery and shelf availability are short with produce rarely out of stock.
> Growth model enables O'KEY to leverage both national and regional economies of scale.
> Efficient roll-out of new stores and new city stores as we have little infrastructure constraints.
> Minimised expenditure and management time spent on supply chain.
> Costs of warehousing and delivery rest with suppliers.

Providing Excellent Value for Money

Generating Loyalty and Traffic by Delivering Value.

869 RUB Leading average basket among Russian hypermarkets	**170m** Purchases made in 2012	**1,000** Prices checked weekly
82% Of sales were with loyalty cards	**2.5%** LFL growth in the number of purchases	**13+** Items per average basket in a hypermarket


Опережая

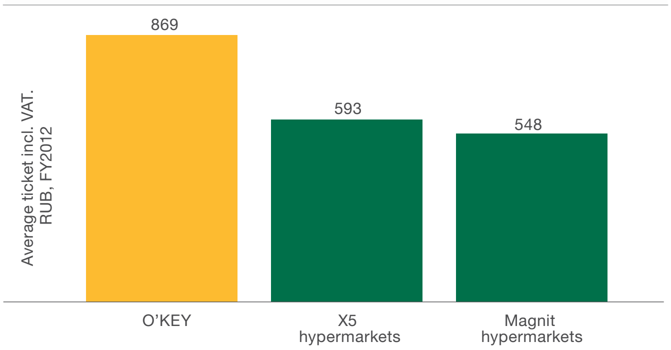
Providing Excellent Value for Money

Generating Loyalty and Traffic by Exceeding Customer Price Expectations

O'KEY has historically focused on a number of areas that differentiate upscale stores from the rest. O'KEY creates an excellent customer experience and provides a broad and well balanced assortment of products. From our very beginnings, our pricing policy has been set to fight competition. O'KEY's proposition to the customer is clear and we are constantly working to enchance this so that our strengths become more visible. However, we do not want to be known for being expensive.

Operating hypermarket formats, as O'KEY does as its core operation, presents a number of opportunities, particularly when it comes to pricing policy. Due to the breadth of our assortment of up to 64,000 SKUs, as well as the availability of non-food products which represents 70% of our merchandise and the additional services we can offer, hypermarkets become destination points for shoppers. Customers travel longer distances to our stores in most cases, and when they come they take a sizable basket, more than 13 items per average basket,

Supporting Higher than Average Basket (hypermarkets)



O'KEY's store concept and value proposition translates directly to a higher average ticket.

which contains different types of goods. While the prices of individual items may not seem too important, the monetary value of the final basket does matter. It is at the checkout that customers evaluate whether the value of the products in the basket correspond to their price, and whether or not the store is expensive.

We don't believe that our customers shop at O'KEY stores because of our prices, but we know that they could easily leave because of high prices. We therefore have a price monitoring system in place to ensure that our prices always stay highly competitive in the marketplace. We are not leading the market by setting low prices, but we constantly make sure that we are in line with market leaders. To accomplish this we invest all available resources in our prices and we increase our competitiveness by passing surplus margin and cost savings into selling prices, offering private labels and regularly offering promotions and sales.

Several key elements within our pricing policy help us enhance the competitiveness of our prices. Products that are directly comparable with other stores are price matched with the lowest local competitor prices. Prices are monitored on a daily basis for the top 50 selling products, on a weekly basis for the next 1,000 most popular products and an extended range is monitored every two weeks.

We give customers plenty of choice so that they are fully satisfied with the products they buy, and our pricing policy means they keep returning to our stores.

Products that do not have an exact match in competitor stores or where we have lower purchase prices are subject to gross margin limits. Only small price differences are maintained between each of O’KEY’s product lines to encourage customers to trade up to higher quality goods.

O’KEY has greater control over the prices of Private Label goods due to their higher gross margins. O’KEY’s private label products have a slimmer supplier chain, so they generate higher margin products, enabling O’KEY to pass savings directly to the customer. Private label products are increasing in popularity as their quality now more closely resembles branded products. In 2012, they accounted for 8% of O’KEY’s revenues.

In addition to direct price reductions, customers are also offered promotions and catalogues containing special offers twice a month in each city. Additional potential for savings is created by O’KEY’s first price concept which applies to the entry point of each product category.

Our overall objective when it comes to pricing is to provide our customers with the best value offer. We give customers plenty of choice so that they can make a balanced decision on the products they buy, and our pricing policy ensures that they receive a good offer whether they look for quality or price.

Financial Overview

Our 2012 Financial Results can be Summarised as Follows:

> Total revenue increased to RUB 117.3 billion.
> Gross margin reached 23.5%.
> Net profit margin of 4.0%.
> Operating cash flow generated RUB 8.9 billion.

Revenue
Revenue for the year ended 31 December 2012 was RUB 117,333.2 million, a 26.0% increase over the 2011 figure of RUB 93,134.4 million. Both an increase in the amount of selling space and like for like revenue growth contributed to the growth in revenue figures.

2012 saw a 7.0% year-on-year (y-o-y) increase in like for like (LFL) revenue, with a 4.3% increase in the LFL basket driven primarily by rising inflation. LFL number of transactions increased by 2.5% in 2012 showing healthy growth dynamics throughout most of the year. We attribute this growth to the strength of our business model, the attractiveness of our proposal and our competitive pricing policy. Among specific factors that had a positive impact on store traffic generation in 2012 is the low base effect for the first quarter, intensified promotional activities for several cities and O'KEY's tenth anniversary sale campaign.

LFL analysis includes the 66 stores that we opened before 30 November 2011 and were not subsequently closed, expanded or downsized.

Cost of Goods Sold and Gross Profit
Cost of goods sold were up 24.8%, or RUB 17,852.9 million, in 2012 when compared to 2011. Higher sales of trading stock driven by new store openings and LFL revenue expansion resulted in this increase.

In the following table, revenue, cost of goods sold, gross profit and gross margin in years ended 31 December 2012 and 2011 are set out:

(RUB millions, except percentages)	Year ended 31 December 2012	Year ended 31 December 2011	Percentage change (%)
Revenue	**117,333.2**	93,134.4	26.0
Cost of goods sold (less supplier bonus)	**(89,706.3)**	(71,853.4)	25.9
Gross profit	**27,627.0**	**21,281.0**	**29.8**
Gross margin	**23.5 %**	**22.8%**	**0.7**

In the following table, we provide further detail of our cost of goods sold in the years ended 31 December 2012 and 2011:

	Year ended 31 December 2012 (RUB millions)	Percentage of revenue (%)	Year ended 31 December 2011 (RUB millions)	Percentage of revenue (%)	Change, p.p.
Cost of trading stock sold (less supplier bonuses)	**(87,404.3)**	**74.5**	(70,176.9)	75.4	(0.9)
Inventory shrinkage	**(1,381.3)**	**1.2**	(953.2)	1.0	0.2
Logistic costs	**(295.6)**	**0.3**	(304.8)	0.3	0.0
Packing and labelling costs	**(625.0)**	**0.5**	(418.6)	0.5	0.0
Total cost of goods sold	**(89,706.3)**	**76.5**	**(71,853.4)**	**77.2**	**(0.7)**

In the year ended 31 December 2012 we achieved an increase in gross profit of 29.8% to RUB 27,627.0 million, compared to RUB 21,281.0 million in the year ended 31 December 2011.

In 2012 we improved our gross margin compared to 2011. General improvement in commercial terms due to the growing purchasing power contributed the most significant part of the increase in gross margin which was partially offset by higher inventory shrinkage. The level of shrinkage increased due to a higher number of new stores and change of warehouses. New store shrinkage levels normally higher than in mature stores and decreases gradually as the store matures. In 2012 we also cancelled a warehousing contract and moved merchandise from one St. Petersburg warehouse to another which resulted in additional losses.

The tenth anniversary campaign also led to the gross margin expansion during the second half of 2012. A greater number of promotions and sales during the campaign also resulted in additional gross margin improvements. The impact of this factor on gross margin is estimated around 0.1% of revenue.

General, Selling and Administrative Expenses
These expenses for the year ended 31 December 2012 totalled RUB 20,363.9 million, representing a 29.3% increase on RUB 15,749.9 million reported in year ended 31 December 2011.

In the following table, we provide further details relating to our general, selling and administrative expenses for the years ended 31 December 2012 and 2011:

	Year ended 31 December 2012 (RUB millions)	Percentage of revenue (%)	Year ended 31 December 2011 (RUB millions	Percentage of revenue (%)	Change, p.p.
Personnel costs	**(10,235.9)**	**8.7**	(7,538.3)	8.1	0.6
Depreciation and amortisation	**(2,149.9)**	**1.8**	(1,977.3)	2.1	(0.2)
Operating leases	**(2,298.0)**	**2.0**	(1,672.6)	1.8	0.2
Communication and utilities	**(1,812.4)**	**1.5**	(1,503.2)	1.6	(0.1)
Security expenses	**(707.3)**	**0.6**	(659.7)	0.7	(0.1)
Advertising and marketing	**(990.3)**	**0.8**	(508.3)	0.5	0.3
Materials and supplies	**(258.8)**	**0.2**	(404.6)	0.4	(0.2)
Operating taxes	**(497.6)**	**0.4**	(369.1)	0.4	0.0
Insurance and bank commission	**(505.8)**	**0.4**	(349.4)	0.4	0.0
Repairs and maintenance costs	**(452.2)**	**0.4**	(308.1)	0.3	0.0
Legal and professional expenses	**(306.1)**	**0.3**	(262.0)	0.3	(0.1)
Other costs	**(149.6)**	**0.1**	(197.3)	0.2	(0.1)
Total general, selling and administrative expenses	**(20,363.9)**	**17.4**	**(15,749.9)**	**16.9**	**0.5**

In 2012 general, selling and administrative expenses increased mainly due to the growth of our operations and increased costs related to personnel, operating leases and advertising costs.

As a percentage of revenue, our general, selling and administrative expenses increased by 0.5 percentage points to 17.4% for the year ended 31 December 2012. We give more detail below on those categories of expenses where significant changes were seen in 2012.

Personnel Costs

2012 saw a 35.8% increase in personnel costs to RUB 10,235.9 million. Payroll costs mainly increased due to staffing requirements for the 12 stores we opened in 2012 and an indexation of salaries that took place in July 2012. In 2012 headcount increased by approximately 20% as a result of new store openings and office expansion, which constitutes the largest part of the increase in personnel costs. Mid-year salary indexation of 8%, higher pre-store opening costs due to delays, the addition of local offices in four new cities and growing expenses of the supermarket project further accelerated growth in this expense.

Due to the above factors, as a percentage of revenue, personnel costs increased in 2012 by 0.6 p.p. to 8.7%.

Operating Leases

Expenses for operating lease equalled RUB 2,298.0 million in 2012, an increase of RUB 625.3 over the 2011 figure. The opening of 11 rented stores in 2011, which completed their first full year of operations in 2012 were the largest contributors to this increase. A second major contributor by size of impact is the increase in rents of existing stores which grew in line with their revenue growth. Lastly, during 2012 we opened 5 rented hypermarkets and 2 supermarkets and increased leased areas by 17% which resulted in additional lease expenses.

Advertising and Marketing

Advertising and marketing costs increased to RUB 990.3 million in 2012, representing an 94.8% increase over the previous period. Half of this increase relates to advertising and marketing support behind the tenth anniversary campaign. The campaign included dedicated advertising in media, distribution of printed materials, decorations and promotions inside the stores as well as gifts and presents for the customers.

The other half is tied to intensified promotional activities in existing locations and the addition of new cities. In 2012 we significantly intensified our billboard and media advertising in cities like St. Petersburg, Moscow, N.Novgorod, Togliatti, Murmansk, Krasnoyarsk and Ufa. During 2012 we also started advertising activities in new cities like Ekaterinburg, Tumen, Surgut, Sochi, Saratov and Omsk.

Communications and Utilities

Communications and utility charges increased to RUB 1,812.3 million in 2011, representing a 20.6% increase over the previous period. Most of this cost increase is due to the addition of new stores during the year. As a result of the tariff freeze during the first half of 2012, communication and utilities declined as a percent of revenue to 1.5%.

Security

Security costs equalled RUB 707.3 million in 2012, representing a 7.2% increase over the previous period which is below the revenue and space growth for 2012. We managed to reduce security cost to 0.6% of revenues by reviewing responsibilities and optimizing the number of security posts per store.

Other Operating Income and Expenses

Net other operating income and expenses resulted in a gain of RUB 63.2 million in the year ended 31 December 2012, compared to a loss in the year ended 31 December 2011. In 2011 we had other operating expenses of RUB 174.3 million associated with the accident at one of our stores. These expenses were one-off and did not recur in 2012, which led to a significant improvement in this line.

Financial Overview continued

Operating Profit/(Loss)

In the year ended 31 December 2012 operating profit increased by RUB 1,937.7 million to RUB 7,326.2 million. Operating profit increased ahead of the revenue growth due to a strong increase in gross profit described above which exceeded the increase in operating expenses.

Finance Costs

Finance costs increased by RUB 257.7 million to RUB 1,035.2 million in the year ended 31 December 2012, in principle due to the Group having higher average loan portfolio in 2012 and increasing interest rates. Following the IPO we used part of the cash proceeds to reduce our loan portfolio at the beginning of 2011 and resumed borrowings in the second part of the year. As a result the average loan balance in 2011 was below 2012 levels. With regards to effective interest rate, it increased from 8.1% for the year ended 31 December 2011 to 9.4% for the year ended 31 December 2012 driven by changing market conditions and issuance of the rouble bonds.

Profit Before Income Tax

Profit before income tax increased by RUB 2,098.5 million to RUB 6,468.1 million in the year ended 31 December 2012, with the improvement over operating profit was achieved due to the gains on foreign exchange which was partially offset by growing finance costs.

The table below sets out our income tax expense in the years ended 31 December 2010 and 2011.

Reconciliation of Effective Tax Rate:

	2012	2011
Profit/(loss) before income tax	**6,468.1**	**4,369.7**
Income tax at applicable tax rate (2012: 20%, 2011: 20%)	**(1,293.6)**	(873.9)
Effect of income taxed at different rates	**(6.4)**	2.9
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Inventory shrinkage expenses	**(429.3)**	(307.3)
– Other non-deductible expenses	**(60.5)**	(58.7)
Tax withheld on dividends received from subsidiaries	**(266.3)**	(91.2)
Adjustments to current income tax for previous periods	**–**	201.4
Tax concessions	**246.0**	
Other items	**20.8**	(2.9)
Income tax expense for the year	**(1,789.3)**	**(1,129.7)**

The total income tax expense increased by 58.4% to RUB 1,789.3 million in the year ended 31 December 2012, primarily due to the growth in profit before income tax.

The effective income tax rate amounted to 27.7% in the year ended 31 December 2012, which compares to 25.9% in 2011. The effective tax rate increased mostly due to the substantial increase in the amount of tax withheld on dividends. In 2012 O'KEY received tax concessions for operations in St. Petersburg, which reduced the amount of income tax expense. Such tax concessions provides a reduction in the income tax rate once a certain level of capital expenses and investment is reached in a region.

Profit for the Year

As a result of the various developments and changes described above, our profit for the year ending 31 December 2012 increased by 44.4% to RUB 4,678.9 million ahead of the revenue and operating profit growth.

Liquidity and Capital Resources

Our liquidity needs arise principally in relation to financing our existing retail operations, the acquisition of land plots to enable new stores to be built, the acquisition or construction of new stores, the purchase of the machinery and equipment we need to support the growth of our operations and financing on-going improvements to our IT systems. In 2012 we partly met our liquidity needs through net cash generated from operations and proceeds from borrowings.

We continue to expect that net cash generated from our retail operations, short and long-term loans, bond issuances and leasing will represent important sources of cash in the years ahead.

Cash Flows and Working Capital

The following table sets out summary cash flow information for the years ended 31 December, 2012 and 2011:

(RUB millions)	2012	2011
Net cash from operating activities	**8,937.7**	6,400.9
Net cash used in investing activities	**(8,491.0)**	(8,692.5)
Net cash used in financing activities	**1,135.7**	(449.3)
Net increase/(decrease) in cash and cash equivalents	**(1,582.3)**	(2,740.9)
Effect of exchange rate fluctuations on cash and cash equivalents	**11.4**	(24.4)

Cash Flows from Operating Activities

In 2012 net cash from operating activities increased by RUB 2,536.8 to RUB 8,937.7 million compared to 2011. Higher profitability and better working capital secured the increase in operating cash flow.

This higher level of profitability generated RUB 1,507.4 million of additional operating cash in 2012, while working capital accounted for the remaining part of the improvement or RUB 1,029.4 million. Profitability has been reviewed in the previous sections of this report, while working capital changes are analysed below.

Trade and other payables increased ahead of the sales volumes as a result of improved purchasing conditions and generated cash inflow of RUB 4,416.8 million. Uptake in payables was partially offset by growing inventories and trade and other receivables. Increase in inventories was below the revenue growth due to a lower number of upcoming openings and better inventory management at the year-end. Prepayments for current assets increased significantly which resulted in cash outflow for net trade and other receivables. The increase in prepayments is mostly due to a larger number of rented stores in 2012 resulting in higher rent prepayments and medical insurance pre-paid under the new contract.

Cash Flows from Investing Activities

Cash used in investing activities was principally used for purchases of property, plant and equipment, and increased to RUB 8,491.0 million in 2012. The major part of this was spent on the completion of the ten new hypermarkets, of which six were constructed, and the two supermarkets that were opened during the year. Significant investments were made in acquiring plots and long-term lease rights on land and into intangible assets, which is reflected in the increase of other non-current assets by the end of 2012.

Cash Flows from Financing Activities

Financing activities generated RUB 1,135.7 million of cash inflow mostly due to the issuance of rouble bonds at the end of 2012. The Group raised bonds as a source of long-term financing for the expansion program and as a mean to optimise the structure of borrowings.

Working Capital

Our primary sources of liquidity are cash derived from operating activities and debt financing. As of 31 December 2012, our working capital, defined as current assets (excluding cash and cash equivalents and short-term investments) less current liabilities (excluding short-term loans), was negative RUB 7,923.0 million. Working capital figures in the food retail industry are usually negative, and we intend to maintain a negative working capital position.

We consider the ratio of net debt to EBITDA as the principal means for evaluating the impact of the total size of our borrowings on our operations. At 31 December 2012, our net debt to EBITDA ratio was 1.0.

RUB million	2012	2011
Total debt	**13,690**	12,071
Short-term debt	**3,826**	5,303
Long-term debt	**9,864**	6,768
Less, cash and cash equivalents	**(4,536)**	(2,942)
Net debt	**9,154**	9,129
EBITDA	**9,427**	7,510
Net debt/EBITDA	**1.0**	1.2

Research and Development

In the period under review, and as of the date of this report, while the Company was not involved in any material research and development activities, O'KEY does monitor market trends on an on-going basis to identify additional areas of opportunity and ensure the Company has the flexibility to respond to the needs of its customers and the potential of all its local market places.

Risk Management

Risk management at O'KEY is based on a comprehensive and management-oriented Enterprise Risk Management (ERM) approach. Our ERM approach is based on the globally accepted "Enterprise Risk Management- Integrated Framework" developed by the "Committee of Sponsoring Organisation of the Treadway Commission" (COSO).

Our risk management process helps us to achieve our business objectives and deliver long-term value to our shareholders. By implementing a risk management process we provide more confidence to our shareholders, employees, customers and suppliers.

Our risk management policy stems from a philosophy of pursuing sustainable growth while avoiding and managing risks at an appropriate level.

Risk management plays an integral part of how we plan and execute our business strategies.

Our risk management process aims to identify, evaluate and respond to, those risks and opportunities that could materially affect the achievement of our business objectives as early as possible. Our operational directors review and consider the risk register for the whole business twice a year and within the framework of the Risk Committee meeting.

Our risk register covers strategic, operational, financial and compliance risks. Risks are identified, analysed and rated in a consistent manner using common methodology. For every risk we develop, initiate and monitor the appropriate response measures. Our risk management process is based on a net risk approach, covering risks and opportunities that remain after the execution of existing control measures.

Below we describe the risks that could have a material adverse effect on our business, our financial condition and the results of our operations, the price of our shares and our reputation. The order in which the risks are presented in each of the four categories reflects current estimated exposure estimates for O'KEY. It is important to note however, that risks that are currently considered to have a lower risk exposure could potentially result in a higher negative impact for O'KEY Group S.A. than risks currently considered as higher risk.

Additional risks not known to us or that we currently consider immaterial may also impair our business operations. We do not expect to incur any risks that may jeopardise the continuity of our business.

Strategic Risks

	Risk	Mitigation
1	**Risk of decreased customer demand.**	Our business is affected by uncertainties associated with changing macroeconomic conditions, particularly in the current environment, which is characterised by an on-going financial crisis and global economic instability. We may face decreases in customer demand as the income and spending capacity of customers decrease.
2	**Risk of high competition.**	The retail sector in Russia is highly competitive. We face strong competition from other retailers (Russian and international), some of which are larger and may have greater resources. Retail chains compete mainly for store locations, product assortment, price, service and store conditions. Some competitors might be more effective and faster in capturing certain market opportunities, which in turn may negatively impact our market share and our ability to achieve our performance and expansion targets. The successful expansion depends on our ability to locate, acquire or lease appropriate sites on commercially reasonable terms, open new stores in a timely manner, employ, train and retain additional store and supervisory personnel and integrate the new stores into our existing operations on a profitable basis.
3	**Risk of negative political factors in Russia.**	There is risk that political actions may adversely impact macroeconomic parameters and the market in which the Company operates. Although political stability in Russia has improved, Russia is still a state whose political, economic and financial systems are rapidly developing and changing.
4	**Risk of negative changes in industry specific conditions.**	Negative changes in industry specific conditions or standards, or negative changes in Russian legislation may alone or in combination also negatively impact our business, financial condition and results of operations.

Operational Risks

	Risk	Mitigation
1	**Risk of failure to meet customer expectations on quality, price, assortment, etc.**	We strive to provide our customers with the best quality of goods and services, the most competitive prices and a product assortment they require. We are constantly assessing and improving our business processes to meet this goal. We understand that key to this success is to identify and adapt to the following in a timely manner: > changes in consumer preferences and demands; and > changes in overall economic conditions that impact consumer spending.
2	**Risk of failure to hire and retain highly qualified management and store personnel.**	Competition for highly qualified management and store personnel remains intense in Russia. To meet our expansion plans we need highly skilled employees. Our future success depends in part on our continued ability to hire, assimilate and retain new employees. We understand that any inability to attract and retain highly qualified employees and key personnel in the future could have a material adverse effect on our business. To retain our employees we constantly organise and improve training programs and personnel development courses.

3	**Risk of suppliers being unable to deliver merchandise and risk of rising purchase prices.**	Our financial performance depends in part on reliable and effective supply chain management. Our supply chain approach is based on direct delivery to stores organised from suppliers. This model combined with large proportion of local suppliers allows us to achieve good shelf-availability at our stores. Nevertheless, we rely on third parties to supply us with merchandise and services. The third parties that supply us with merchandise and services also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems in the future or that we will be able to replace a supplier that is not able to meet demand. Shortages and delays could materially harm our business. Unanticipated increases in prices could also adversely affect our performance. Furthermore, we may be exposed to risk of delays and interruptions to our supply chain as a consequence of natural disasters, in case we are unable to identify alternative sources of supply in a timely manner.
4	**Increased IT security threats and higher levels of professionalism in computer crime could pose a risk to our systems and solutions as well as to those of our contra-agents.**	We are observing a global increase in IT security threats and higher levels of professionalism in computer crime. We attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems and maintenance of backup and protective systems such as firewalls and virus scanners. Also in order to meet our strategic plans and to reduce the risk of non-sufficient IT facilities to provide business continuity we are planning the long-term development of our business support processes and the necessary infrastructure we will require. Nonetheless, our systems and solutions, as well as those of our contra-agents remain potentially vulnerable to attacks. Depending on their nature and scope, such attacks could potentially lead to the leakage of confidential information, improper use of our systems, manipulation and destruction of data, sales downtimes and supply shortages, which in turn could adversely affect our reputation, competitiveness, business, financial condition and the results of our operations.
5	**Risk of construction delays.**	The achievement of our expansion strategy depends in part upon our ability to construct new stores in a timely fashion. Although we have taken proper precautions to meet construction deadlines, there are several factors which may affect our ability to open new stores: > weather conditions (windows for construction); > increasing real estate, construction and development costs; > risks associated with developers' ability to execute projects; > local land use and other regulations restricting the construction of the type of buildings in which we operate our formats; and > local community action opposed to the location of specific stores at specific sites, etc. These factors alone or in combination may negatively impact our business, financial condition and the results of our operations.

Financial Risks

	Risk	Mitigation
1	**Exposure to currency and interest rate risks.**	We are exposed to fluctuations in exchange rates because of loans received in USD and that some businesses operate using USD and EUR. Certain currency risks as well as interest rate risks are hedged using derivative financial instruments. Interest rate risks are managed also by borrowing money at both variable and fixed interest rates. Although measures are taken to minimise this risk, there can be no assurance that exchange rate and interest rate fluctuations will not negatively influence our results.
2	**Risk of non-compliance with tax regulations resulting in adverse tax consequences.**	Russian tax law has complex tax rules which may be interpreted in different ways and tax rules are subject to frequent changes. Examinations by tax authorities and changes in tax regulations could adversely affect our business, financial condition and the results of our operations. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. Our tax and legal specialists regularly review compliance with applicable tax regulations, current interpretations issued by the authorities and judicial precedents resulting from tax disputes.
3	**Risk of misstatements in financial statements.**	We regularly test internal controls over financial reporting to prevent misstatements in financial statements. We have a qualified team of finance professionals preparing our financial statements and we are currently implementing a new accounting system that will help us improve automation during the preparation of our consolidated IFRS financial statements. Nevertheless, we are still exposed to risks relating to failures in proper financial reporting and the classification of accounting entries, and risks of making inaccurate accounting estimates.

Compliance Risks

	Risk	Mitigation
1	**Risk of non-compliance with all applicable international and statutory laws and regulations resulting in loss of reputation.**	Our operations are subject to various government regulations with respect to quality, packaging, health and safety, labeling, distribution and other standards. Some regulations are still being developed in Russia. Current and future government regulations or changes thereto may require us to change the way we run our operations and could result in cost increases. Our goal in this environment is to organise compliance to all applicable regulations, monitor regulatory developments and changes, and follow up to and respond to changes in regulations and standards in a timely manner.

Board of Directors

In 2012 O'KEY consolidated the progress previously made in creating a professional, visionary Board of Directors who focus on the implementation of good corporate governance practices and risk management in O'KEY's day-to-day business. The Board is always looking ahead to ensure that Company's strategy leaves O'KEY well-placed to take maximum advantage of a developing market and sector, thus continuing to build long-term value for shareholders.

Members of the Board of Directors at the end of 2012

Dmitrii Troitckii
Director

Dmitrii was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. From 2005 until 2007, he served as a member of the Board of Directors of the Ochakovo Dairy Plant. He also serves as a member of the Supervisory Board of Bank Saint Petersburg, a position he has held since December 2005 and as Development Director of Neva-Rus, a position he has held since 2005. He graduated from Leningrad Shipbuilding Institute, currently known as the State Marine Technical University of St. Petersburg, and holds a degree in engineering. Dmitrii indirectly owns 24.91% of the shares of O'KEY Group S.A.

Dmitry Korzhev
Director

Dmitry was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. From 2005 until April 2010, he served as a member of the Supervisory Board of Bank St. Petersburg. He graduated from Leningrad Shipbuilding Institute, currently known as the State Marine Technical University of St. Petersburg, and holds a degree in engineering. Dmitry indirectly owns 24.91% of the shares of O'KEY Group S.A.

Boris Volchek
Director

Boris was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. He has also served as President of the Union Group of companies since 1995. In addition, since 2000 he has served as General Director of St. Petersburg Automobile Museum. He graduated from the Leningrad Institute of Railway Engineers, currently known as the St. Petersburg State University of Communications, and holds a degree in engineering. Boris indirectly owns 24.78% of the shares of O'KEY Group S.A.

Heigo Kera
Independent Director, Chairman of the Board

Heigo was elected as a member of the Company's Board of Directors on 30 June 2010, with effect from 13 July 2010. He is the owner and, since 2008, a member of the Board of Directors of Silverko Consult OU, an Estonian consulting company specialising in providing consulting services in different countries. Since 2008 he has been working as a Retail Projects Manager with HT Project Management OU and is responsible for starting a gourmet supermarket in Ukraine. Prior to that, from 2002 until 2008, he provided private consulting services, including research on retail markets in Belarus, Kazakhstan and China. He was hired by O'KEY management to provide consultation on the development of a hypermarket format concept in Russia from 1998 until 2002. Heigo is a graduate of the Tallinn Technical University (Estonia) and holds a degree in economics.

Mykola Buinyckyi
Independent Director

Mykola was elected as a member of the Company's Board of Directors on 6 October 2010, with his effective date of appointment being 2 November 2010. His experience includes more than 35 years in international financial management with major companies in Moscow, London, Paris, Brussels, Prague, Vilnius and Lagos. He has more than 18 years of experience working in Russia for both Russian and international companies. Prior to Russia, he worked for seven years as a management consultant with Coopers & Lybrand and prior to that for a number of years in senior financial management positions in oil support services, construction, and the IT and retail sectors. He also has experience in corporate finance including investment appraisals, raising funds on public and private equity/debt markets, as well as in dealing with international financial institutions/ agencies, commercial and investment banks, the International Finance Corporation, the European Bank for Reconstruction and Development and various rating agencies. He is a graduate of Edinburgh University (UK) and is also a fellow of the Chartered Institute of Management Accountants and a member of the Institute of British Management. Mykola holds a Joint Diploma in Management Accounting.

Senior Management

O'KEY firmly believes that the experience, expertise and enthusiasm of our management team drive our success. We have recruited within Russia and in other countries to ensure we have the best people, who are able to bring a global perspective on the business combined with deep knowledge of local conditions and tastes. Their success is evidenced not just by our financial results, but by the look and atmosphere of our stores and, most importantly, by the satisfaction of our customers.

Senior Management

Patrick Longuet
CEO

> 33 years of experience in the hypermarket retail business.
> One of Europe's most experienced CEOs in the food retail industry, with a 27-year track record at Auchan, one of the leading international food retail chains.
> Previous experience as CEO of Auchan Russia, CFO of Auchan Central Europe, and various positions from store department manager to regional marketing director of Auchan France.

Sebastien Verhaeghe
Executive Director

> 23 years of retail experience.
> Supervises Finance, Performance Management, Information Systems, Organisation and Change Management, Legal, Audit, Strategic Planning and Investor Relations.
> Previously worked for 17 years for Auchan, including Business Performance and Information Systems Director of Auchan Russia, Information Systems Director of Auchan International in charge of new countries worldwide, and various positions in Auchan Poland and International.

Vladislav Kurbatov
Operations Director

> 11 years at O'KEY, since the Company started its activities.
> Now responsible for day-to-day control and the development of store operations.
> Sales Director of O'KEY Group since 2004 – prior to that held positions as Administrative Director of O'KEY Group and Director of O'KEY's first hypermarket in St. Petersburg.

Natalia Potamianos
Supply Chain Director

> 9 years of retail experience and 5 years at O'KEY.
> Responsible for organisation of supply chain, logistics activities and master data management.
> Previously worked in the field of audit, controlling & performance management in multinational environment. Held various positions in Auchan, Russia.

Georges Kowalkowski
Marketing & Sales Development Director

> 36 years of retail experience.
> Responsible for customer focus, product mix structure, marketing activity and competitor analysis.
> Previously worked for 30 years in Auchan operations, including various positions in Auchan France, Poland and Russia.

Jerome Depeille
Expansion and Real Estate Director

> 13 years of retail experience.
> Responsible for searching and negotiating new store locations for acquisition or rental schemes, construction of new stores, maintenance of existing stores, general fixed asset management.
> Companies worked for include Auchan Russia as Expansion Director, Spie Batignolles as Regional Development Director, Bouygues Construction in various roles.

Vadim Korsunskiy
Commercial Director

> Ten years of retail experience.
> Responsible for commercial strategy development, assortment policy, private label and category management.
> Held various senior positions at TESCO and Metro Cash & Carry.

Elmira Hadieva
HR Director

> Six years at O'KEY and has vast experience in HR management in a multinational environment.
> Responsible for developing the Group's HR business strategy and creating an HR-system aimed at supporting the business overall and also attracting and retaining talent in the retail industry.
> Previously worked in HR for British American Tobacco during 14 years.

Corporate Social Responsibility

At O'KEY we see sustainable growth as a key part of our business model. Our Board of Directors and Executive Management are committed to the very highest standards in CSR. For us, meeting the needs of today's consumer means ensuring future generations are equally able to meet their own needs. For this reason, we have enacted a full corporate social responsibility program covering major aspects of sustainability, anti-corruption and community work. The economic success of any business depends on the wider success of the operating region and it is on this basis that we have acted and will continue to do so in future.

Sustainability

In terms of sustainability, we have continued to pursue increasingly green friendly policies during 2012. All our stores recycle cardboard, polyethylene and fats and we use eco-friendly biodegradable shopping bags. Our stores are hubs of greenery, adding to the attractiveness of the site and contributing to a pleasant atmosphere for our customers.

Anti-corruption

In 2012, we adopted a new charter, signed by all managers, which sets out our Company guidelines regarding ethics and corruption. These guidelines explicitly commit O'KEY as a Company to the principals of open partnership and business ethics and underline our zero tolerance policy towards corruption. Managers must adhere to a strict policy concerning gifts and discounts and are encouraged to report any practice failing to meet these standards to our dedicated whistleblower e-mail address to be investigated by the internal audit and security departments.

In addition to staff vigilance, we also adhere to the strictest standards of supplier policy. Instituted in 2010, O'KEY aims to minimise any potential conflict of interest whilst choosing a supplier. With reference and due attention paid to relatives and friends (i.e people in a position to influence a decision outside of a legitimate business framework), the policy has built in additional control layers ensuring that a full-scale tender process is carried out with any executive decision being put to committee. Any business with a large-scale supply chain will always face challenges in terms of ensuring complete transparency, although we strive to maintain best practice at every step of the process. Our stringent supplier policy has been remarked upon as a particular strength compared to our peers.

In this vein, any new contract between O'KEY and a supplier now includes an addendum stipulating that the supplier will inform a specified Company representative about any cases of corruption known to the supplier. Our partners now have an obligation to report any member of our staff soliciting an unauthorised payment or bribe. Introduced in 2012, this cross-party agreement adds another level of security to our already robust anti-corruption measures.

We also have implemented internal training programmes for employees and management. Our Security Department is in the process of reiterating the Company's stance against corruption, making sure that our staff is aware of the consequences of failing to meet our high standards as well as educating our team on various procedures and safeguards. Any employee involved in drawing up budgets or choosing suppliers is obliged to attend.

With both internal and external whistle-blowing facilities in place as well as secure checks and balances at tender, O'KEY is in an increasingly secure position looking ahead to 2013 to protect its business integrity and that of its employees and suppliers.

Community Work

Our community work is extremely close to the heart of all our team at O'KEY. Concentrated mainly on the Leningrad region, we are expanding initiatives to other cities we operate in.

Our charity partners include Rodniychok, an orphanage for disabled children, the Neuropsychiatric Orphanage, the Centre for Children with Special Needs No. 16 in St. Petersburg and the Social Rehabilitation Centre for Disabled Children in the Central district of St. Petersburg amongst many others.

We continue to work closely with larger charities too such as the Red Cross, Caritas (a Catholic charity offering social and medical support and rehabilitation programmes and assistance for young people in need, the homeless, the addicted and the unemployed) and RETOHope, a Moscow-based association.

As part of our commitment to the wider community, we sponsored the annual event 'Step Forward' for the second consecutive year in 2012. 'Step Forward' is a festival that takes place annually in St. Petersburg, which showcases the creative talents of children with disabilities. With the guidance of internationally renowned disabled musicians and artists, the children are able to focus their creative abilities instead of on how they are limited by their respective disabilities. Our sponsorship money covers the accommodation and transportation costs for children attending the festival from Russia's regions. Without such a contribution, it would be difficult for children from outside St. Petersburg to attend the festival.

Recruitment

In terms of being an equal opportunity employer, O'KEY made tremendous progress in 2012 by implementing an officially authorised Recruitment Policy that prohibits any discrimination on the grounds of race, age, sex or religious diversity. Our HR Department is now formally entitled to monitor the execution of this policy.

We also introduced Graduate Recruitment and Development Programme that targets talented graduates who are showing genuine interest in building up their careers in retail. Last year we had 20 placements for the graduates to go through the one year learning and development cycle at St. Petersburg. We also made a commitment to run the programme in every location in the year 2013.

However, this is not the only way to run mutually beneficial relations in between the Company and educational institutions; we did seize numerous opportunities to organise short-term internship activities in almost all locations – more than 100 short-term internship programmes were run locally last year.

Retention
Retention rates varied by department in 2012. For example, our sales department set the highest standard across the Company with almost 90% of all managerial vacancies filled internally in like for like stores.

In 2012 we introduced a Talent Management system which aims to unlock the full potential of our management pool. With assessment of over 2,000 managers completed, we are continually updating our awareness of staff’s capabilities, aspirations and performance and adjusted our plans accordingly.

Health and Safety
The Company takes full responsibility for providing more than 23,000 employees with decent working condition adhering to all health and safety norms and regulations. In practice, over the course of 2012, we have certified all our places of work, complying with Federal Law on Health and Safety in the work place.

Motivation
Leveraging the full potential of our workforce has and will remain central to meeting our commitments to the customer. With this in mind, we have a introduced a new pay and incentive scheme to maximise performance. Apart from social security norms as guaranteed by law, O’KEY provides additional benefits to its employees such as medical insurance, access to sports facilities and a provision for one-off fiscal aid for those in the O’KEY family finding themselves unfortunate circumstances.

Depending on individual performance, all employees are part of a variety of incentive schemes. Moreover, we conduct an annual root and branch salary review every July, ensuring that salaries reflect performance, responsibility and wider labour trends.

Open dialogue and trust between staff and management is key to maintaining motivation. In order to achieve this, we have created a performance appraisal that manages the way performance objectives are set, regularly monitored and evaluated against management’s quarterly targets. There are currently almost 4,000 employees in the Company whose performance is managed through the system.

Finally, 2012 saw the introduction of innovative ‘Social Committees’. Looking to resolve any labour related issues arising between management and employees at the earliest possible moment, these committees ensure that the O’KEY team is pulling together and heading in the same direction. In the last year, we ran 20 such Social Committee meetings.

Training and Development
Over the last year, we have instigated a new training programme for our 30 most senior managers: the Top Team Development Programme. Adhering to the principals of constant learning and growth, the programme focuses on strategic vision and leadership qualities. As opposed to a one-off box-ticking exercise, the programme is held throughout the year including modules on personal executive coaching and business simulation.

For middle and junior management, we created REX (Retail Excellence Programme) and REX Light which over 1,500 managers now attend. Aimed at developing managerial skills with a retail focus, the uptake and feedback from this scheme has been overwhelmingly positive.

Equality
At O’KEY, we are particularly proud of our managerial gender balance: in 2012, more than 60% of store directors were women, whilst women constitute more than 70% of the Company’s entire workforce. Of our 30 most senior managers, 15% are women. This executive equality is logical for any forward-thinking 21st century business and, although it remains an area of weakness for many of our peers, our diversity is one of the key strengths of our managerial team.

Outreach
In what is rapidly becoming an O’KEY tradition, we held anniversary celebrations for all employees in 2012. Held at every store, a variety of events were staged for employees and their families.

In addition, in 2012, we also re-launched our corporate newspaper in a new format and with a larger print run to keep employees up to date with key Company news.

Corporate Governance

O'KEY Group is committed to managing and conducting its operations in accordance with internationally recognised principles of corporate governance. The Company not only strives to ensure that its Board of Directors follows such guidelines, but also that management teams within the Company adopt these principles. As a Company listed on London stock exchange we recognise our obligation to our shareholders to put such systems in place.

Key elements of O'KEY's corporate governance policy include:

> Having experienced people as independent directors on our Board of Directors – they occupy key positions and thus participate fully in the most senior level of management in the Company (the members of our Board are listed in the section of this Annual Report entitled "Board of Directors").
> Key decisions relating to strategy are made by the Board.
> Having a comprehensive system of Board committees, which ensures that due consideration is given to important decisions by experienced people and that a good system of checks and balances exists, including in the areas of remuneration and incentives (the committees, their functions and their membership are also listed in the "Board of Directors" section).
> The Board exercising oversight of the Company's well-defined control and risk management procedures.

Composition of the Board of Directors
There are five members of our Board, including two independent Directors. The General Meeting of Shareholders appoints Board members by a simple majority of votes cast, for a period not exceeding six years or until their successors are elected.

Structure of the Board and Committees
Our Board of Directors is responsible for the Company's overall strategic development, and ultimately for ensuring that O'KEY achieves long-term growth for its shareholders. The Board generally plans four meetings per year, to enable regularly review of financial reporting, the Company's strategic performance and proposed new initiatives.

The Board's committees conduct an initial review and discussion of the issues for which they are responsible, before making recommendations to the full Board.

The key responsibilities of the Board's committees are described below:

Remuneration Committee
Members

Heigo Kera
Chairman

Boris Volchek
Member

Dmitrii Troitckii
Member

Alvidas Brusokas
Member, non-director
appointed April 2011

Ilya Ilin
Member, non-director
appointed August 2012

The responsibilities of the Remuneration Committee include reviewing compensation policy, making proposals to the full Board regarding the remuneration of executive Directors and management, and advising on any benefit or incentive schemes. The remuneration and any bonuses paid to the Chief Executive Officer of O'KEY Group LLC are also determined by the Board.

Audit Committee
Members

Mykola Buinyckyi
Chairman

Boris Volchek
Member

Dmitriy Korzhev
Member

Ilya Ilin
Member, non-director
appointed April 2013

Sergey Eganov
Member, non-director
appointed April 2011

The Audit Committee has oversight responsibilities relating to the integrity of the Company's financial statements, including periodically reporting to the full Board of Directors on its activities and on the adequacy of internal control systems over financial reporting. The committee also makes recommendations regarding the appointment, compensation, retention and supervision of the external auditors, and monitors their independence. The committee performs such other duties as are imposed by applicable laws and regulations of the regulated market or markets on which the Company's shares or global depositary receipts may be listed, as well as any other duties entrusted to it by the Board of Directors. The ultimate responsibility for preparing the annual report and accounts and the half yearly reports remains with the full Board of Directors.

Board of Directors and Management Remuneration
In 2012, O'KEY management were paid an aggregate amount of RUB 242 million remuneration and other compensation. Members of the Board of Directors were paid a net fee of US$ 232,246. No more than US$ 300,000 is to be paid per year in compensation to the entire Board.

Corporate Governance continued

Legal and Ownership Structure

13.9%
Freefloat

24.78%
GSU Ltd

54.04%
NISEMAX Co Ltd

7.28%
Bytenem

O'KEY Group S.A. (Luxembourg)

O'KEY LLC
- Retail operations
- Employer of all store personnel

O'KEY Group LLC
- Employer for senior management

Dorinda JSC
- Owner of real estate and long-term lease rights

Mir Torgovil CJSC
- Owner of assets under construction
- Holder of short-term lease rights

O'KEY Logistics LLC
- Import operations
- Supplier of non-food products, non-branded and private label goods

Fresh Market LLC
- Employer of personnel and holder of properties for new supermarket projects

Management and Directors Responsibility Statement

We confirm, to the best of our knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of O’KEY Group S.A. and the undertakings included in the consolidation taken as a whole, and that the consolidated Directors’ report includes a fair review of the development and performance of the business and the position of O’KEY Group S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Luxembourg, 26 April 2013

Member of the Board of Directors

Member of the Board of Directors

CEO
Patrick Longuet

Financial Director
Dmitry Pryanikov

O’Key Group S.A.

Consolidated Financial Statements
for the year ended 31 December 2011

(with the report of the Réviseur d’Entreprises Agréé thereon)

Contents

To the Shareholders of
O’KEY GROUP S.A.
23, rue Beaumont
L-1219 Luxembourg

Report of the Reviseur D’entreprises Agree

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of O’KEY GROUP S.A., which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors’ responsibility for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d’Entreprises agréé
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of O’KEY GROUP S.A. as of December 31, 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements
The consolidated Directors’ report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The Corporate Governance Statement on pages 36 to 39 of the Annual Report 2012 which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law.

Luxembourg, April 25, 2013

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

Thierry Ravasio

Consolidated Statement of Financial Position
as at 31 December 2012

'000 RUB	Note	2012	2011
Assets			
Non-current assets			
Investment property	16	632,000	573,000
Property, plant and equipment	14	25,692,464	20,435,107
Construction in progress	14	1,720,181	3,136,848
Intangible assets	15	566,595	518,099
Deferred tax asset	18	375,126	356,034
Other non-current assets	17	7,905,066	5,530,502
Total non-current assets		**36,891,432**	**30,549,590**
Current assets			
Inventories	19	9,212,315	7,917,657
Trade and other receivables	20	1,917,634	1,924,108
Prepayments for current assets		856,948	398,595
Cash and cash equivalents	21	4,535,693	2,941,947
Total current assets		**16,522,590**	**13,182,307**
Total assets		**53,414,022**	**43,731,897**
Equity and liabilities			
Equity	22	**18,090,056**	**14,303,743**
Non-current liabilities			
Loans and borrowings	24	9,863,769	6,768,282
Deferred income tax liability	18	667,719	470,839
Other non-current liabilities		1,056,447	1,137,192
Total non-current liabilities		**11,587,935**	**8,376,313**
Current liabilities			
Loans and borrowings	24	3,826,135	5,302,948
Trade and other payables	25	19,613,734	15,337,559
Current income tax payable		296,162	411,334
Total current liabilities		**23,736,031**	**21,051,841**
Total liabilities		**35,323,966**	**29,428,154**
Total equity and liabilities		**53,414,022**	**43,731,897**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 46 to 73.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2012

'000 RUB	Note	2012	2011
Revenue	6	117,333,236	93,134,430
Cost of goods sold		(89,706,251)	(71,853,387)
Gross profit		**27,626,985**	**21,281,043**
General, selling and administrative expenses	7	(20,363,950)	(15,749,895)
Other operating income and expenses	8	63,180	(142,628)
Operating profit		**7,326,215**	**5,388,520**
Finance income	11	11,428	25,216
Finance costs	11	(1,035,206)	(777,463)
Foreign exchange gain/(losses)	12	165,683	(266,619)
Profit before income tax		**6,468,120**	**4,369,654**
Income tax expense	13	(1,789,259)	(1,129,774)
Profit for the year		**4,678,861**	**3,239,880**
Other comprehensive income			
Foreign currency translation differences for foreign operations		23,963	(58,636)
Change in fair value of hedges and reclassification from hedging reserve	11	(103,746)	201,422
Income tax on other comprehensive income	13	20,749	(40,285)
Other comprehensive income for the year, net of income tax		**(59,034)**	**102,501**
Total comprehensive income for the year		**4,619,827**	**3,342,381**
Earnings per share			
Basic and diluted earnings per share (RUB)	23	**17.4**	**12.0**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 46 to 73.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2012

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2011		**119,440**	**111**	**8,903,606**	**7,485**	**2,446,795**	**256,755**	**11,734,192**
Total comprehensive income for the year								
Profit for the year		–	–	–	–	3,239,880	–	**3,239,880**
Other comprehensive income								
Foreign currency translation differences		–	–	–	–	–	(58,636)	**(58,636)**
Change in fair value of hedges and reclassification from hedging reserve	11	–	–	–	201,422	–	–	**201,422**
Income tax on other comprehensive income	13	–	–	–	(40,285)	–	–	**(40,285)**
Total other comprehensive income		–	–	–	**161,137**	–	**(58,636)**	**102,501**
Total comprehensive income for the year		–	–	–	**161,137**	**3,239,880**	**(58,636)**	**3,342,381**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	22	–	–	–	–	(772,830)	–	**(772,830)**
Allocation to legal reserve	22	–	10,486	–	–	(10,486)	–	–
Total contributions by and distributions to owners		–	**10,486**	–	–	**(783,316)**	–	**(772,830)**
Balance at 31 December 2011		**119,440**	**10,597**	**8,903,606**	**168,622**	**4,903,359**	**198,119**	**14,303,743**

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2012		**119,440**	**10,597**	**8,903,606**	**168,622**	**4,903,359**	**198,119**	**14,303,743**
Total comprehensive income for the year								
Profit for the year		–	–	–	–	4,678,861	–	**4,678,861**
Other comprehensive income								
Foreign currency translation differences		–	–	–	–	–	23,963	**23,963**
Change in fair value of hedges and reclassification from hedging reserve	11	–	–	–	(103,746)	–	–	**(103,746)**
Income tax on other comprehensive income	13	–	–	–	20,749	–	–	**20,749**
Total other comprehensive income		–	–	–	**(82,997)**	–	**23,963**	**(59,034)**
Total comprehensive income for the year		–	–	–	**(82,997)**	**4,678,861**	**23,963**	**4,619,827**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Interim dividends paid	22	–	–	–	–	(833,514)	–	(833,514)
Total contributions by and distributions to owners		–	–	–	–	**(833,514)**	–	**(833,514)**
Balance at 31 December 2012		**119,440**	**10,597**	**8,903,606**	**85,625**	**8,748,706**	**222,082**	**18,090,056**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 46 to 73.

Consolidated Statement of Cash Flows
for the year ended 31 December 2012

'000 RUB	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		6,468,120	4,369,654
Adjustments for:			
Depreciation and amortisation	14, 15, 17	2,149,949	1,977,278
Loss on disposal of property, plant and equipment, investment property, intangible assets and other non-current assets	8	40,267	18,620
Gain from revaluation of investment property	16	(50,350)	(18,633)
Finance income	11	(11,428)	(25,216)
Finance costs	11	1,035,206	777,463
Foreign exchange (gain)/losses	12	(165,683)	266,619
Cash from operating activities before changes in working capital and provisions		**9,466,081**	**7,365,785**
Change in net trade and other receivables		(759,441)	113,696
Change in inventories		(1,294,658)	(1,922,449)
Change in trade and other payables		4,416,811	3,142,085
Cash flows from operations before income taxes and interest paid		**11,828,793**	**8,699,117**
Interest paid		(1,231,380)	(902,149)
Income tax paid		(1,659,749)	(1,396,052)
Net cash from operating activities		**8,937,664**	**6,400,916**
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(8,350,612)	(8,623,578)
Purchase of intangible assets		(168,478)	(115,249)
Proceeds from sales of property, plant and equipment and investment property		16,640	19,703
Loans issued		–	1,369
Interest received		11,428	25,216
Net cash used in investing activities		**(8,491,022)**	**(8,692,539)**
Cash flows from financing activities			
Proceeds from borrowings		7,500,000	16,971,297
Repayment of borrowings		(5,530,804)	(16,800,281)
Dividends paid		(833,514)	(772,830)
Proceeds from issue of shares in 2010		–	152,568
Net cash from/(used in) financing activities		**1,135,682**	**(449,246)**
Net increase/(decrease) in cash and cash equivalents		**1,582,324**	**(2,740,869)**
Cash and cash equivalents at beginning of year		2,941,947	5,707,185
Effect of exchange rate fluctuations on cash and cash equivalents		11,422	(24,369)
Cash and cash equivalents at end of year	21	**4,535,693**	**2,941,947**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 46 to 73.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

1 Background

(a) Organisation and operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union for the year ended 31 December 2012 for O'KEY Group S.A. and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

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

As at 31 December 2012 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts ("GDRs").

Related party transactions are detailed in note 30.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'KEY". At 31 December 2012 the Group operated 83 stores (31 December 2011: 71 stores).

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

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and were authorised for issue by the Board of Directors on 25 April 2013.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

> derivative financial instruments are stated at fair value;
> liabilities incurred in cash-settled share-based payment transactions are remeasured at fair value; and
> investment property is remeasured at fair value.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles.

The results and financial position of the Group entities, which functional currencies are different from Russian roubles, are translated into the presentation currency as follows:

> assets and liabilities for each statement of financial position presented are translated at the closing rate of the year end;
> profit and loss items for each statement of comprehensive income are translated at average exchange rates; and
> all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 30.3727; EUR 1 = RUB 40.2286 (2011: USD 1 = RUB 32.1961; EUR 1 = RUB 41.6714).

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

2 Basis of preparation continued

Tax legislation

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 29.

Revenue recognition

The Group has recognised revenue amounting to RUB 115,903 million for sales of goods during 2012 (2011: RUB 92,197 million). According to the Group's policy customers have the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

Deferred tax asset recognition

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on the expectations of future income that are believed to be reasonable under the circumstances.

Determination of net realisable value of inventory

The Group performs analysis of stock for write-off as at each reporting date and writes down inventories to their net realisable value when necessary. For details of approach used for determination of net realisable value refer to note 19.

Determination of fair value of liabilities incurred in cash-settled share-based payment transactions

The Group remeasures liabilities incurred in cash-settled share-based payment transactions at fair value as at each reporting date, which requires making judgments and assumptions about future market and vesting conditions.

3 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2012

3 Significant accounting policies continued
(c) Financial instruments
Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

(i) Non-derivative financial assets
The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities
All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments
The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

3 Significant accounting policies continued

(d) Transactions with owners

(i) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Distributions to owners/contributions from owners

The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholders) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

> Buildings	30 years
> Machinery and equipment, auxiliary facilities	2-20 years
> Motor vehicles	5-10 years
> Leasehold improvements	over the term of underlying lease
> Other fixed assets	2-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property, including investment property under construction, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss. If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2012

3 Significant accounting policies continued

(g) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Lease rights 5-10 years
- Software licenses 1-7 years
- Other intangible assets 1-5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Leased assets

(i) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortised using straight line method over the period of lease being up to 51 years.

(ii) Finance leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as other payables (long-term accounts payable for amounts due after 12 months from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of goods for resale includes its purchase price and related transportation costs, as well as other related logistic costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

3 Significant accounting policies continued

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's state pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits

Other long-term employee benefits represent long-service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iv) Cash-settled share-based payment transactions

The fair value of the amount payable to employees in respect of cash-settled share-based payment transactions is recognised as an employee expense in profit and loss with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes of the fair value of the liability are recognised as personnel expenses in profit or loss.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, returns and discounts.

(i) Goods sold

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register.

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2012

3 Significant accounting policies continued
(ii) Services
Revenue from services rendered is recognised in profit or loss when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(n) Cost of sales
Cost of sales include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories, primarily in the form of volume discounts and slotting fees. These bonuses are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of sales.

(o) Finance income and costs
Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income tax
Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Earnings per share
The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3 Significant accounting policies continued

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Value added tax

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013 and the amendments to IFRS 9 introduced in December 2011 will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2014. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012. The Group has not yet analysed the likely impact of the amendment to IAS 1 on its financial position or performance.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

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4 Determination of fair values
A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investment property
An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the allocation of maintenance and insurance responsibilities between the Group and the lessee.

(b) Non-derivative financial assets
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Derivatives
The fair value of interest rate and foreign exchange swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(d) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(e) Share-based payment transactions
The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of Company's historic volatility), expected term of the instruments, expected dividends and the risk-free interest rate.

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

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

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

The Group operating segments represent individual retail stores. Due to similar economic characteristics (refer below) they were aggregated in one reportable segment.

Within the reportable segment all business components demonstrate similar characteristics:

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

5 Operating segments continued

The CEO assesses the performance of the operating segment based on earnings before interest, tax, depreciation and amortisation (EBITDA) adjusted for one-off items. EBITDA is non-GAAP measure. Other information provided to the CEO is measured in a manner consistent with that in the consolidated financial statements.

The accounting policies used for the segment are the same as accounting policies applied for the consolidated financial statements as described in note 3.

The segment information for the year ended 31 December 2012 is as follows:

'000 RUB	2012	2011
Revenue	117,333,236	93,134,430
EBITDA	**9,426,587**	**7,510,137**

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

'000 RUB	2012	2011
EBITDA	9,426,587	7,510,137
Revaluation of investment property	50,350	18,633
Loss from disposal of non-current assets	(40,267)	(18,620)
Loss from write-off of receivables	–	(31,973)
Reversal of impairment of receivables	39,494	61,884
Depreciation and amortisation	(2,149,949)	(1,977,278)
Impairment of raw materials (one-off)	–	(101,205)
Finance income	11,428	25,216
Finance costs	(1,035,206)	(777,463)
Foreign exchange gain/(losses)	165,683	(266,619)
Hypermarket Ozerki-accident expenses	–	(73,058)
Profit before income tax	6,468,120	4,369,654
Income tax	(1,789,259)	(1,129,774)
Profit for the year	**4,678,861**	**3,239,880**

In January 2011 section of roof of Group's hypermarket in Ozerki, St. Petersburg collapsed. The store was closed for repairs until September 2011. Hypermarket Ozerki-accident expenses comprise repairs and other expenses related to this accident.

6 Revenue

'000 RUB	2012	2011
Sales of trading stock	110,238,301	87,796,613
Sales of self-produced catering products	5,665,084	4,400,126
Revenue from sale of goods	115,903,385	92,196,739
Rental income	1,013,754	733,164
Revenue from advertising services	416,097	204,527
Total revenues	**117,333,236**	**93,134,430**

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

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2012

7 General, selling and administrative expenses

'000 RUB	Note	2012	2011
Personnel costs	9	(10,235,867)	(7,538,304)
Depreciation and amortisation		(2,149,949)	(1,977,278)
Operating leases		(2,297,963)	(1,672,616)
Communication and utilities		(1,812,353)	(1,503,215)
Security expenses		(707,348)	(659,657)
Advertising and marketing		(990,342)	(508,338)
Materials and supplies		(258,840)	(404,607)
Operating taxes		(497,603)	(369,119)
Insurance and bank commission		(505,810)	(349,383)
Repairs and maintenance costs		(452,157)	(308,122)
Legal and professional expenses		(306,150)	(261,981)
Other costs		(149,568)	(197,275)
		(20,363,950)	**(15,749,895)**

Fees billed to the Company and its subsidiaries by KPMG Luxembourg S.à r.l., and other member firms of the KPMG network during the year are as follows:

'000 RUB	2012	2011
Auditors' remuneration for annual and consolidated accounts	9,277	15,207
Auditors' remuneration for other assurance services	5,180	7,255
Auditors' remuneration for tax advisory services	816	79
Auditors' remuneration for non-audit services	–	3,735
	15,273	**26,276**

8 Other operating income and expenses

'000 RUB	Note	2012	2011
Loss from disposal of non-current assets		(40,267)	(18,620)
Loss from write-off of receivables		–	(31,973)
Reversal of impairment of receivables	26	39,494	61,884
Gain from revaluation of investment property	16	50,350	18,633
Impairment of raw materials (one-off)		–	(101,205)
Ozerki-accident expenses		–	(73,058)
Sundry income		13,603	1,711
		63,180	**(142,628)**

9 Personnel costs

'000 RUB	Note	2012	2011
Wages and salaries		(6,298,681)	(4,503,911)
Social security contributions		(2,111,328)	(1,647,603)
Employee benefits		(1,493,137)	(1,207,964)
Share-based payments	10	(81,846)	(50,961)
Other		(250,875)	(127,865)
Total personnel costs		**(10,235,867)**	**(7,538,304)**

During the year ended 31 December 2012 the Group employed 21 thousand employees on average (2011: 17 thousand employees on average). Approximately 96% of employees are store and warehouse employees and the remaining part is office employees.

10 Share-based payment arrangements

During the year ended 31 December 2011 the Group granted share appreciation rights to key management personnel and senior employees that entitle them to cash payment in the years ending 31 December 2012 and 31 December 2013. The amount of cash payments is based on share price of the Company at the dates of exercise. The payments are subject to service conditions which require employees to stay with the Group until settlement date.

The fair value of the rights granted to the employees was measured as at 31 December 2012 based on Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

The inputs used in the measurement of the fair value at 31 December 2012 were as follows:

Share price	USD 11.70
Exercise price	USD 8.88
Expected volatility	58.8%
Risk-free rate	2.5%
Annual dividend yield	0.68%
Term until exercise date	0.85 years

Total expense on share appreciation rights recognised as personnel costs in general, selling and administrative expenses in profit and loss amounted to RUB 81,846 thousand for the year ended 31 December 2012 (2011: RUB 50,961). Carrying amount of liabilities as at 31 December 2012 amounted to RUB 76,835 thousand (2011: RUB 50,961).

11 Finance income and finance costs

'000 RUB	2012	2011
Recognised in profit or loss		
Interest income on loans and receivables	10,784	24,800
Other finance income	644	416
Finance income	**11,428**	**25,216**
Interest costs on loans and borrowings	(1,014,184)	(811,783)
Reclassification from hedging reserve	(21,022)	34,320
Finance costs	**(1,035,206)**	**(777,463)**
Net finance costs recognised in profit or loss	**(1,023,778)**	**(752,247)**

The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:

Total interest income on financial assets	**11,428**	**25,216**
Total interest expense on financial liabilities	**(1,035,206)**	**(777,463)**

'000 RUB	2012	2011
Recognised in other comprehensive income		
Change in fair value of hedges	(352,721)	310,811
Reclassification to profit and loss	248,975	(109,389)
Income tax on income and expense recognised in other comprehensive income	20,749	(40,285)
Finance (costs)/income recognised in other comprehensive income, net of tax	**(82,997)**	**161,137**

During 2012 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 229,652 thousand (2011: RUB 101,627 thousand).

In 2012 capitalisation rate of 6.97% was used to determine the amount of borrowing costs eligible for capitalisation (2011: 5.16%).

Notes to the Consolidated Financial Statements continued
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12 Foreign exchange gain/(losses)
During 2012 the Group had significant borrowings denominated in US dollars. The strengthening of the Russian rouble during 2012 has resulted in foreign exchange gain for the year amounting to RUB 165,683 thousand (2011: loss RUB 266,619 thousand). In 2012 and 2011 the Group has used hedging instruments to hedge foreign exchange risks.

The Group's risk management policy is to convert part of its USD denominated debt into RUB denominated debt. In order to comply with the Group's risk management policy, the foreign exchange risk arising from repayment of long-term USD denominated bank loan is hedged.

13 Income tax expense
The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2011: 20%).

'000 RUB	2012	2011
Current tax expense	(1,590,722)	(1,170,595)
Deferred tax (expense)/benefit	(198,537)	40,821
Total income tax expense	**(1,789,259)**	**(1,129,774)**

Income tax recognised directly in other comprehensive income

	2012			2011		
'000 RUB	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	23,963	–	23,963	(58,636)	–	(58,636)
Change in fair value of hedges	(103,746)	20,749	(82,997)	201,422	(40,285)	161,137
	(79,783)	**20,749**	**(59,034)**	**142,786**	**(40,285)**	**102,501**

Reconciliation of effective tax rate:

'000 RUB	2012	2011
Profit before income tax	**6,468,120**	**4,369,654**
Income tax at applicable tax rate (2012: 20%, 2011: 20%)	(1,293,624)	(873,931)
Effect of income taxed at different rates	(6,364)	2,867
Tax effect of items which are not deductible for taxation purposes:		
– Inventory shrinkage expenses	(429,269)	(307,301)
– Other non-deductible expenses	(60,507)	(58,702)
Tax withheld on dividends received from subsidiaries	(266,339)	(91,204)
Tax concessions	246,042	–
Adjustments to current income tax for previous periods	–	201,441
Other items	20,802	(2,944)
Income tax expense for the year	**(1,789,259)**	**(1,129,774)**

14 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2011	2,025,851	11,891,015	1,642,159	5,638,832	1,204,602	22,402,459
Additions	839,019	2,034,256	832,645	1,528,951	2,328,914	7,563,785
Transfers	–	267,896	51,922	51,937	(371,755)	–
Transfers to investment property	–	–	–	–	(9,260)	(9,260)
Disposals	–	–	–	(97,600)	(15,653)	(113,253)
Balance at 31 December 2011	**2,864,870**	**14,193,167**	**2,526,726**	**7,122,120**	**3,136,848**	**29,843,731**
Balance at 1 January 2012	2,864,870	14,193,167	2,526,726	7,122,120	3,136,848	29,843,731
Additions	365,412	2,191,281	826,464	1,369,292	1,085,745	5,838,194
Transfers	–	2,061,994	42,260	353,063	(2,457,317)	–
Transfers to investment property	–	–	–	–	(6,616)	(6,616)
Disposals	–	–	(2,698)	(79,851)	(38,479)	(121,028)
Balance at 31 December 2012	**3,230,282**	**18,446,442**	**3,392,752**	**8,764,624**	**1,720,181**	**35,554,281**
Depreciation and impairment losses						
Balance at 1 January 2011	–	(1,344,602)	(128,930)	(3,124,760)	–	(4,598,292)
Depreciation for the year	–	(408,279)	(190,238)	(1,161,621)	–	(1,760,138)
Transfers	–	(13)	13	–	–	–
Disposals	–	–	–	86,654	–	86,654
Balance at 31 December 2011	**–**	**(1,752,894)**	**(319,155)**	**(4,199,727)**	**–**	**(6,271,776)**
Balance at 1 January 2012	–	(1,752,894)	(319,155)	(4,199,727)	–	(6,271,776)
Depreciation for the year	–	(512,673)	(294,997)	(1,131,568)	–	(1,939,238)
Transfers	–	(5,131)	(6,599)	11,730	–	–
Disposals	–	–	101	69,277	–	69,378
Balance at 31 December 2012	**–**	**(2,270,698)**	**(620,650)**	**(5,250,288)**	**–**	**(8,141,636)**
Carrying amounts						
At 1 January 2011	**2,025,851**	**10,546,413**	**1,513,229**	**2,514,072**	**1,204,602**	**17,804,167**
At 31 December 2011	**2,864,870**	**12,440,273**	**2,207,571**	**2,922,393**	**3,136,848**	**23,571,955**
At 31 December 2012	**3,230,282**	**16,175,744**	**2,772,102**	**3,514,336**	**1,720,181**	**27,412,645**

Depreciation expense of RUB 1,939,238 thousand has been charged to selling, general and administrative expenses (2011: RUB 1,760,138 thousand).

Security

At 31 December 2012 property, plant and equipment carried at RUB 6,404,435 thousand (2011: RUB 4,214,640 thousand) have been pledged to third parties as collateral for borrowings. Refer to notes 24 and 29.

In 2010 the Group has entered into agreement with third party in relation to one of its land plots with carrying value of RUB 554,967 thousand as at 31 December 2012. Under terms of this agreement the third party will build a trade center on this land plot. Upon completion of construction the Group will exchange part of land plot for part of trade center and will locate O'KEY hypermarket there. In 2010 the Group received guarantee payment in relation to this transaction. Guarantee received was included in other non-current liabilities and amounted to RUB 914,307 thousand as at the date of receipt and to RUB 911,181 thousand as at 31 December 2012.

Notes to the Consolidated Financial Statements continued
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15 Intangible assets

'000 RUB	Software	Lease rights	Other intangible assets	Total
Cost				
Balance at 1 January 2011	416,206	491,475	–	907,681
Additions	101,219	–	14,030	115,249
Balance at 31 December 2011	**517,425**	**491,475**	**14,030**	**1,022,930**
Balance at 1 January 2012	517,425	491,475	14,030	1,022,930
Additions	168,478	–	–	168,478
Balance at 31 December 2012	**685,903**	**491,475**	**14,030**	**1,191,408**
Amortisation and impairment losses				
Balance at 1 January 2011	(192,744)	(155,685)	–	(348,429)
Amortisation for the year	(91,778)	(63,930)	(694)	(156,402)
Balance at 31 December 2011	**(284,522)**	**(219,615)**	**(694)**	**(504,831)**
Balance at 1 January 2012	(284,522)	(219,615)	(694)	(504,831)
Amortisation for the year	(54,248)	(62,975)	(2,759)	(119,982)
Balance at 31 December 2012	**(338,770)**	**(282,590)**	**(3,453)**	**(624,813)**
Carrying amounts				
At 1 January 2011	**223,462**	**335,790**	**–**	**559,252**
At 31 December 2011	**232,903**	**271,860**	**13,336**	**518,099**
At 31 December 2012	**347,133**	**208,885**	**10,577**	**566,595**

Amortisation and impairment losses
Amortisation of RUB 119,982 thousand has been charged to selling, general and administrative expenses (2011: RUB 156,402 thousand).

16 Investment property

'000 RUB	Investment property
Investment properties at fair value as at 1 January 2011	**517,000**
Transfers from property, plant and equipment	9,260
Expenditure on subsequent improvements	28,107
Fair value gain	18,633
Investment properties at fair value as at 31 December 2011	**573,000**
Investment properties at fair value as at 1 January 2012	**573,000**
Transfers from property, plant and equipment	6,616
Expenditure on subsequent improvements	2,034
Fair value gain	50,350
Investment properties at fair value as at 31 December 2012	**632,000**

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued.

The appraisers used income approach for determining the fair value. An estimate was made of annual net operating income for five years which is mainly based on annual net rent rate of RUB 4,600 per m^2 (2011: RUB 5,400) and expected occupancy of 93% (2011: 60-80%). The annual net operating income was assumed to be constant from year six to perpetuity. Discount rate of 17.8% (2011: 17%) was applied to discount future cash flows.

Direct operating expenses arising from investment property that generated rental income amounted to RUB 83,363 thousand for the year ended 31 December 2012 (2011: RUB 70,773 thousand). There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2012 (2011: Nil).

17 Other non-current assets

'000 RUB	2012	2011
Initial cost of land lease	3,991,382	3,369,934
Long-term prepayments to entities under control of shareholder group	952,302	1,045,171
Prepayments for non-current assets	2,677,459	978,490
Long-term deposits to lessors	159,525	125,406
Deferred bank commissions	–	11,501
Other non-current receivables	124,398	–
	7,905,066	**5,530,502**

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

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2017. Related party transactions are detailed in note 30.

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

'000 RUB	2012	2011
Cost		
Balance at 1 January	**3,946,624**	**2,950,601**
Additions	717,434	1,008,702
Disposals	(19,501)	(12,679)
Balance at 31 December	**4,644,557**	**3,946,624**
Amortisation and impairment losses		
Balance at 1 January	**(576,690)**	**(516,907)**
Amortisation charge	(90,729)	(60,738)
Disposals	14,244	955
Balance at 31 December	**(653,175)**	**(576,690)**
Net book value	**3,991,382**	**3,369,934**

At 31 December 2012 initial cost of land lease carried at RUB 456,971 thousand (2011: RUB 349,591 thousand) have been pledged to third parties as collateral for borrowings. Refer to note 24.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	2012	2011	2012	2011	2012	2011
Investment property	–	9,391	(21,135)	–	(21,135)	9,391
Property, plant and equipment	–	33,711	(448,858)	(520,773)	(448,858)	(487,062)
Construction in progress	–	–	(59,064)	(20,325)	(59,064)	(20,325)
Intangible assets	–	–	(1,609)	(2,667)	(1,609)	(2,667)
Other non-current assets	54,320	88,621	–	(104,065)	54,320	(15,444)
Inventories	232,008	257,552	–	–	232,008	257,552
Trade and other receivables	160,769	110,865	(285,600)	(49,493)	(124,831)	61,372
Trade and other payables	158,138	82,378	(81,562)	–	76,576	82,378
Tax assets/(liabilities)	**605,235**	**582,518**	**(897,828)**	**(697,323)**	**(292,593)**	**(114,805)**
Set off of tax	(230,109)	(226,484)	230,109	226,484	–	–
Net tax assets/(liabilities)	**375,126**	**356,034**	**(667,719)**	**(470,839)**	**(292,593)**	**(114,805)**

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18 Deferred tax assets and liabilities continued

(b) Unrecognised deferred tax liability

As at 31 December 2012 a temporary difference of RUB 16,851,838 thousand (2011: RUB 14,104,538 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 10-15% would apply.

(c) Movement in temporary differences during the year

'000 RUB	1 January 2012	Recognised in profit or loss	Recognised in hedging reserve	31 December 2012
Investment property	9,391	(30,526)	–	(21,135)
Property, plant and equipment	(487,062)	38,204	–	(448,858)
Construction in progress	(20,325)	(38,739)	–	(59,064)
Intangible assets	(2,667)	1,058	–	(1,609)
Other non-current assets	(15,444)	69,764	–	54,320
Inventories	257,552	(25,544)	–	232,008
Trade and other receivables	61,372	(206,952)	20,749	(124,831)
Trade and other payables	82,378	(5,802)	–	76,576
	(114,805)	**(198,537)**	**20,749**	**(292,593)**

'000 RUB	1 January 2011	Recognised in profit or loss	Recognised in hedging reserve	31 December 2011
Investment property	55,309	(45,918)	–	9,391
Property, plant and equipment	(473,818)	(13,244)	–	(487,062)
Construction in progress	–	(20,325)	–	(20,325)
Intangible assets	–	(2,667)	–	(2,667)
Investments	3,365	(3,365)	–	–
Other non-current assets	5,522	(20,966)	–	(15,444)
Inventories	156,748	100,804	–	257,552
Trade and other receivables	69,037	32,620	(40,285)	61,372
Trade and other payables	68,496	13,882	–	82,378
	(115,341)	**40,821**	**(40,285)**	**(114,805)**

19 Inventories

'000 RUB	2012	2011
Goods for resale	9,128,059	7,955,952
Raw materials and consumables	341,346	344,634
Write-down to net realisable value	(257,090)	(382,929)
	9,212,315	**7,917,657**

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 257,090 thousand as at 31 December 2012 (2011: RUB 382,929 thousand). The write-down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the best management estimate following the experience of the discount sales.

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

20 Trade and other receivables

'000 RUB	Note	2012	2011
Trade receivables		98,370	45,883
VAT receivable		1,196,210	936,920
Prepaid taxes		197,935	183,433
Foreign exchange and interest rate swap receivables	26	–	320,167
Other receivables		425,119	437,705
		1,917,634	**1,924,108**

Taxes prepaid include RUB 130,638 thousand of prepaid income tax (2011: RUB 176,783 thousand).

Other receivables include RUB 345,814 thousand (2011: RUB 336,279 thousand) of bonuses receivable from suppliers.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

21 Cash and cash equivalents

'000 RUB	2012	2011
Cash on hand	341,447	283,846
RUB denominated bank current account	957,771	558,846
USD denominated bank current account	15,824	100,426
RUB term deposits (interest rate: 1.77%; 2011: 3.5%-7.06%p.a.)	65,679	151,425
Cash in transit	3,154,972	1,847,404
Cash and cash equivalents	**4,535,693**	**2,941,947**

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: Bank Saint-Petersburg, Nordea bank, OTP bank, Bank Otkrytie, Promservice bank, Sberbank, Baltiysky Bank, Raiffeisen bank, VTB bank, Credit Evropa bank, Swedbank, TransCredit bank, BSGV, Hansa Bank, Unicredit bank and Uralsib bank.

The Group's exposure to credit and currency risks related to cash and cash equivalents is disclosed in note 26.

22 Equity

Reconciliation of number of shares from 1 January to 31 December is provided in the table below.

	Ordinary shares	
Number of shares unless otherwise stated	2012	2011
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269,074,000	269,074,000
On issue at 31 December, fully paid	**269,074,000**	**269,074,000**

As at 31 December 2012 the Group's subscribed share capital of RUB 119,440 thousand (EUR 2,691 thousand, 2011: EUR 2,691 thousand) is represented by 269,074,000 shares with a par value of 0.01 EUR each.

In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During the year ended 31 December 2012 there were no transfers to legal reserve (2011: RUB 10,486 thousand).

In February 2012 the Group paid interim dividends to shareholders in amount of RUB 833,514 thousand. Interim dividends paid were recognised as distribution to shareholders in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2012 amounted to RUB 3.1 (2011: RUB 2.9).

In June 2012 shareholders of the Company approved annual dividends for the year ended 31 December 2011. The amount of annual dividends for 2011 was paid by the Group to shareholders as interim dividends in 2011 in the amount of RUB 772,830 thousand.

There were no movements in additional paid-in capital during the year ended 31 December 2012.

Notes to the Consolidated Financial Statements continued
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23 Earnings per share
The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of RUB 4,678,861 thousand (2011: RUB 3,239,880 thousand), and a weighted average number of ordinary shares outstanding of 269,074,000, calculated as shown below. The Company has no dilutive potential ordinary shares.

Number of shares	2012	2011
Issued shares at 1 January	269,074,000	269,074,000
Weighted average number of shares for the year ended 31 December	**269,074,000**	**269,074,000**

24 Loans and borrowings
This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

'000 RUB	2012	2011
Non-current liabilities		
Secured bank loans	6,236,313	5,807,982
Unsecured bonds	3,009,934	–
Unsecured loans from related parties	617,522	960,300
	9,863,769	**6,768,282**
Current liabilities		
Secured bank loans	1,819,810	1,417,354
Unsecured bank facilities	2,003,457	3,877,808
Unsecured loans from third parties	2,868	7,786
	3,826,135	**5,302,948**

As at 31 December 2012 loans and borrowings with carrying value of RUB 8,056,123 thousand (2011: RUB 7,225,336 thousand) were secured by property, plant and equipment and initial cost of land lease. Refer to note 29.

(a) Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

				31 December 2012		31 December 2011	
'000 RUB	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	USD	LIBOR + 3.9-5%	2013	432,541	432,541	671,941	671,941
Secured bank loan	USD	LIBOR + 3.15%	2010-2015	3,954,901	3,954,901	5,095,856	5,095,856
Secured bank loan	RUB	8.5%	2015	1,168,681	1,168,681	1,457,539	1,457,539
Secured bank loan	RUB	Mosprime 1m + 3.5%	2013-2017	2,500,000	2,500,000	–	–
Unsecured bonds	RUB	10.1%	2017	3,009,934	3,009,934	–	–
Unsecured bank facility	RUB	8%	2012	–	–	302	302
Unsecured bank facility	RUB	8.85-9.85%	2012	–	–	370,090	370,090
Unsecured bank facility	RUB	6.35-7.9%	2012	–	–	3,507,416	3,507,416
Unsecured bank facility	RUB	8.45-9.03%	2013	503,457	503,457	–	–
Unsecured bank facility	RUB	8,6%	2013	1,500,000	1,500,000	–	–
Unsecured loans from related parties	USD	8%	2016	617,522	617,522	654,595	654,595
Unsecured loans from related parties	USD	8%	2013	–	–	305,705	305,705
Unsecured loans from other companies	RUB	0%	2013	2,865	2,865	2,862	2,862
Unsecured loans from other companies	RUB	7-12%	2013	3	3	10	10
Unsecured loans from other companies	RUB	0%	2012	–	–	4,914	4,914
				13,689,904	**13,689,904**	**12,071,230**	**12,071,230**

During 2012 the Group placed unsecured bonds on MICEX which expire after five years in 2017, however bonds holders have an option to claim repayment of bonds after three years.

24 Loans and borrowings continued

(b) Compliance with loan covenants

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

At 31 December 2012 and during the year then ended the Group complied with all loan covenants.

25 Trade and other payables

'000 RUB	Note	2012	2011
Trade payables		17,344,008	13,885,863
Advances received		181,083	120,456
Taxes payable (other than income tax)		650,827	395,160
Payables to staff		1,099,639	791,050
Foreing exchange and interest rate swap liabilities	26	32,554	–
Short-term liabilities incurred in share-based payment transactions	10	76,835	33,334
Deferred income		28,365	34,309
Other current payables		200,423	77,387
		19,613,734	**15,337,559**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

26 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

> credit risk
> liquidity risk
> market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
'000 RUB	Note	2012	2011
Trade and other receivables	20	523,489	483,588
Interest rate and foreign exchange swap receivables		–	320,167
Cash and cash equivalents	21	4,535,693	2,941,947
		5,059,182	**3,745,702**

Due to the fact that the Group's principal activities are located in Russian Federation the credit risk is mainly associated with domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditability.

Notes to the Consolidated Financial Statements continued
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26 Financial instruments and risk management continued

(ii) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of the customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'KEY outlets. Thus, the credit risk in part of trade receivables is mostly managed through procedures for selection of suppliers and tenants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Impairment losses

The aging of trade and other receivables at the reporting date was:

'000 RUB	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not overdue and past due less than 90 days	436,509	–	422,770	–
Past due 90-180 days	22,227	–	21,527	–
Past due 180-360 days	10,595	–	10,262	–
More than 360 days	75,635	(21,477)	73,255	(44,226)
	544,966	**(21,477)**	**527,814**	**(44,226)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 RUB	2012	2011
Balance at beginning of the year	44,226	108,422
Impairment loss recognised	–	31,973
Impairment loss reversed	(22,749)	(61,884)
Impairment loss utilised	–	(34,285)
Balance at end of the year	**21,477**	**44,226**

The management has performed thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than one year. Based on past experience the management believes that normally the balances outstanding less than 360 days should not be impaired.

(iii) Cash and cash equivalents

The Group held cash and cash equivalents of RUB 4,535,693 thousand at 31 December 2012 (2011: RUB 2,941,947 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated AAA based on Standard and Poor's national rating for Russian Federation and AAA based on Moody's Investors Service national rating for Russian Federation.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

> maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
> maintaining financial stability: the ratio DEBT/EBITDA should not exceed 2.5;
> monitoring of compliance with debt covenants; and
> planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

26 Financial instruments and risk management continued

(i) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including future interest payments:

2012

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loans	8,056,123	(9,172,269)	(1,054,656)	(1,113,462)	(7,004,151)
Unsecured bonds	3,009,934	(3,916,444)	(151,085)	(151,085)	(3,614,274)
Unsecured bank facilities	2,003,457	(2,046,007)	(2,046,007)	–	–
Unsecured loans from related parties	617,522	(769,789)	(24,363)	(24,363)	(721,063)
Unsecured loans from other companies	2,868	(2,868)	(1)	(2,867)	–
Trade and other payables	18,644,070	(18,644,070)	(18,644,070)	–	–
Other non-current liabilities	911,181	(911,181)	–	–	(911,181)
Derivative financial assets					
Foreign exchange and interest rate swap liability	32,554	(466,376)	(114,132)	(102,648)	(249,596)
	33,277,709	**(35,929,004)**	**(22,034,314)**	**(1,394,425)**	**(12,500,265)**

During 2012 the Group placed unsecured bonds on MICEX which expire after five years in 2017, however bonds holders have an option to claim repayment of bonds after three years, thus three years period is used for contractual cash flows calculation purposes.

2011

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loans	7,225,336	(8,077,028)	(885,672)	(853,208)	(6,338,148)
Unsecured bank facilities	3,877,808	(4,026,728)	(3,994,472)	(32,256)	–
Unsecured loans from related parties	960,300	(1,047,602)	(37,886)	(37,886)	(971,830)
Unsecured loans from other companies	7,786	(7,798)	(4,935)	(2,863)	–
Trade and other payables	14,754,300	(14,754,300)	(14,754,300)	–	–
Other non-current liabilities	965,883	(965,883)	–	–	(965,883)
Derivative financial assets					
Foreign exchange and interest rate swap receivables	(320,167)	(350,286)	(101,830)	(87,244)	(161,212)
	27,471,246	**(29,229,625)**	**(19,779,095)**	**(1,013,457)**	**(8,437,073)**

There are no payments due after five years.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys derivatives in order to manage market risk. All such transactions are carried out within the guidelines set in Group's policy on hedging market risk. The Group applies hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group holds its business in Russian Federation and mainly collects receivables nominated in Russian roubles. However financial assets and liabilities of the Group are also denominated in other currencies, primarily US dollar.

Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to acceptable level by keeping proportion of financial assets and liabilities in foreign currencies to total financial liabilities at acceptable level. From time to time the Group converts assets and liabilities from one currency to another. The Group regularly considers necessity of using derivatives to hedge its exposure to currency risk. During 2012 the Group used currency swap in order to hedge currency risk on loan denominated in US dollars.

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26 Financial instruments and risk management continued
Exposure to currency risk
The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 RUB	USD-denominated 2012	USD-denominated 2011
Trade and other receivables	3,346	41,632
Secured bank loans	(4,387,442)	(5,767,797)
Unsecured loans from related parties	(617,522)	(960,300)
Trade and other payables	(11,250)	(118,925)
Other non-current liabilities	(911,181)	(965,883)
Foreign exchange and interest rate swap receivables	–	320,167
Foreign exchange and interest rate swap liabilities	(32,554)	–
Gross exposure	**(5,956,603)**	**(7,451,106)**
Of which carrying amount of hedged secured bank loans	(3,954,901)	5,095,856
Net exposure	**(2,001,702)**	**(2,355,250)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
Russian rouble equals	**2012**	**2011**	**2012**	**2011**
US dollar	31.0930	29.3874	30.3727	32.1961

Sensitivity analysis
A 10% strengthening of the RUB against USD at 31 December 2012 would have increased equity by RUB 592,405 thousand (2011: RUB 745,111 thousand) and profit or loss by RUB 196,915 thousand (2011: RUB 267,542 thousand). This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

A weakening of the RUB against USD at 31 December would have had the equal but opposite effect on equity and profit and loss, on the basis that all other variables remain constant.

(ii) Interest rate risk
The Group has material exposure to interest rate risk. As at 31 December 2012 66% of the Group's interest-bearing financial liabilities were subject to re-pricing within six months after the reporting date (2011: 76%).

The Group uses swaps to hedge its exposure to variability of interest and exchange rates. As at 31 December 2012 the Group had foreign exchange and interest swap agreement with a bank. Under this agreement the Group swaps LIBOR rate for fixed rate and swaps USD for RUB at fixed rate. At inception, the swap had maturity of five years.

The Group hedged 57% (2011: 88%) of its borrowings with variable rate applying this hedge.

Profile
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
'000 RUB	**2012**	**2011**
Fixed rate instruments		
Financial assets	–	–
Financial liabilities	(6,802,462)	(6,303,433)
Variable rate instruments		
Financial assets	–	320,167
Financial liabilities	(6,919,996)	(5,767,797)

26 Financial instruments and risk management continued

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	Profit or loss		Equity	
'000 RUB	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2012				
Variable rate instruments	(68,801)	68,801	–	–
Interest rate swap	39,485	(39,485)	40,618	5,160
Cash flow sensitivity (net)	(29,316)	29,316	40,618	5,160
2011				
Variable rate instruments	(57,575)	57,575	–	–
Interest rate swap	50,870	(50,870)	80,942	(57,177)
Cash flow sensitivity (net)	(6,705)	6,705	80,942	(57,177)

(e) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 4. Fair value of Group's financial assets and liabilities approximates their carrying amounts.

(f) Fair value hierarchy

Group's derivative financial assets and liabilities comprise foreign exchange and interest rate swap which is carried at fair value. Fair value of swap was determined based on observable market data, including forward foreign exchange and interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

27 Operating leases

Leases as lessee

The Group has both own and leased land plots. The own land plots are included in property, plant and equipment. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are capitalised as initial cost of land lease and are amortised over the period of the lease (49-51 years). The further information on leases is detailed below.

When the Group leases land plots under operating leases, the lessors for these leases are state authorities and third parties. The leases are typically run for 2-3 years, after which long-term operating lease contract is concluded for 49 years.

The Group also rents premises under operating leases. These leases typically run up to ten years. Some of Group's leases are non-cancellable and contain contingent rent arrangements. The Group has subleases.

During the year ended 31 December 2012 RUB 2,388,692 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUB 90,729 thousand) in the profit and loss in respect of operating leases (2011: RUB 1,733,354 thousand).

Non-cancellable operating lease rentals are payable as follows:

RUB 000'	2012	2011
Less than one year	278,099	222,673
Between one and five years	765,382	744,618
More than five years	4,847,572	5,248,576
	5,891,053	**6,215,867**

Contingent rent recognised as an expense for the year ended 31 December 2012 amounted RUB 637,255 thousand (2011: RUB 596,634 thousand). Contingent rent is determined as excess of 3%-5% of the revenue of related stores over fixed rent rate.

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2012 RUB 1,013,754 thousand was recognised as rental income in the consolidated statement of comprehensive income (2011: RUB 733,164 thousand). All leases whether the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 28,582 thousand for the year ended 31 December 2012 (2011: RUB 4,238 thousand). Contingent rent is determined as excess of 3.5%-25% of the tenant's revenue over fixed rent rate.

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28 Capital commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 5,796,762 thousand as at 31 December 2012 (2011: RUB 1,661,253 thousand).

29 Contingencies

(a) Legal proceedings

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

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20% price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

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

The Group has treated bonuses received from suppliers based on clarifications issued by the Russian Ministry of Finance, and management believes that this approach is consistent with applicable tax law. However, based on uncertainty of tax legislation and recent development of court practice, the tax authorities could take a different position and attempt to assess additional tax liabilities.

The potential amount of such assessment cannot be reasonably estimated due to uncertainty of legislation and absence of practice in determining of the amount of additional tax liabilities, but could be significant. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

(c) Assets pledged or restricted

At 31 December 2012 the Group has the following assets pledged as collateral:

'000 RUB	Note	2012	2011
Fixed assets (carrying value)	14	6,404,435	4,214,640
Initial cost of land lease (carrying value)	17	456,971	349,591
Total		**6,861,406**	**4,564,231**

30 Related party transactions

(a) Major shareholders

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

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 9):

'000 RUB	2012	2011
Salaries and bonuses	113,526	125,339
Social security contributions	778	660
Long-service bonus	85,425	71,839
Share-based payments	42,016	31,321
	241,745	**229,159**

In addition members of Board of Directors received remuneration in the amount of RUB 12,068 thousand for the year ended 31 December 2012 (2011: RUB 8,858 thousand) which is included in legal and professional expenses (see note 7).

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group (see note 1(a)).

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

(i) Revenue

'000 RUB	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Services provided:				
Other related parties	38,664	21,689	(5,110)	(3,786)
	38,664	**21,689**	**(5,110)**	**(3,786)**

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

(ii) Expenses

'000 RUB	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Lease of premises				
Other related parties	(675,140)	(647,768)	1,109,960	1,179,569
Including:				
Rental fee	(565,526)	(557,934)		
Reimbursement of utilities	(54,831)	(35,735)		
Reimbursement of other expenses	(54,783)	(54,099)		
Other services received:				
Other related parties	(15,908)	(24,036)	608	9,722
Finance costs:				
Other related parties	(49,430)	(70,169)	–	–
	(740,478)	**(741,973)**	**1,110,568**	**1,189,291**

In 2012 no finance costs from related parties were capitalised in cost of property, plant and equipment (2011: Nil).

Outstanding balance for lease of premises as at 31 December 2012 represents net balance of prepayments for rent of hypermarkets for the period until 2017 in the amount of RUB 1,168,638 thousand (2011: RUB 1,230,054 thousand) and current liabilities for rent of hypermarkets in the amount RUB 58,678 thousand (2011: RUB 50,485 thousand). Long-term part of prepayments is RUB 952,302 thousand (2011: RUB 1,045,171 thousand), refer to note 17.

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2012

30 Related party transactions continued
All other outstanding balances are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

'000 RUB	Amount loaned 2012	Amount loaned 2011	Outstanding balance 2012	Outstanding balance 2011
Loans received:				
Other related parties	**–**	**–**	**(617,522)**	**(960,300)**

The loans from other related parties bear interest at 8% per annum and are repayable in 2016.

(d) Pricing policies
Related party transactions are not necessarily based on market prices.

31 Subsidiaries

Subsidiary	Country of incorporation	2012 Ownership/voting	2011 Ownership/voting
LLC O'KEY	Russian Federation	**100%**	100%
JSC Dorinda	Russian Federation	**100%**	100%
JSC Mir Torgovli	Russian Federation	**100%**	100%
Axus Financial Ltd	BVI	**100%**	100%
Starligton Ltd	Cyprus	**100%**	100%
Batisto Ltd	Cyprus	**100%**	100%
O'KEY Investments (Cyprus) Ltd	Cyprus	**100%**	100%
Legondia Co. Limited	Cyprus	**100%**	100%
LLC O'KEY Group	Russian Federation	**100%**	100%
LLC O'KEY Logistics	Russian Federation	**100%**	100%
LLC Vendor	Russian Federation	**100%**	100%
PLC KSSK	Russian Federation	**100%**	100%
JSC DRSU-34	Russian Federation	**100%**	100%
JSC Baltika	Russian Federation	**–**	100%
LLC O'KEY-Finans	Russian Federation	**100%**	100%
LLC Vega	Russian Federation	**100%**	100%
LLC Gradstroytsentr	Russian Federation	**100%**	100%
LLC Grand	Russian Federation	**100%**	100%
LLC Invest-Neva	Russian Federation	**100%**	100%
LLC Krona	Russian Federation	**100%**	100%
LLC Skladservis	Russian Federation	**100%**	100%
LLC Sovagro	Russian Federation	**100%**	100%
LLC Stroyexpert	Russian Federation	**100%**	100%
LLC Talan	Russian Federation	**100%**	100%
LLC Tellara	Russian Federation	**100%**	100%
LLC Triumfalnaya Marka	Russian Federation	**–**	100%
LLC Donskaya Zvezda	Russian Federation	**100%**	100%
LLC Taifun	Russian Federation	**100%**	100%
LLC Photon	Russian Federation	**100%**	100%
LLC Tagar	Russian Federation	**–**	100%
LLC Tagar-City	Russian Federation	**100%**	100%
JSC Olips D	Russian Federation	**100%**	100%
LLC Lux Development	Russian Federation	**100%**	100%
LLC Djemir Invest	Russian Federation	**100%**	100%
LLC Kbr-Torg	Russian Federation	**100%**	100%
JCS START Krasnoselsky	Russian Federation	**100%**	100%
LLC Fresh Market	Russian Federation	**100%**	100%
LLC TC Djemir	Russian Federation	**100%**	–
JCS START Primorsky	Russian Federation	**100%**	–

31 Subsidiaries continued

During 2012 the Group acquired two subsidiaries LLC TC Djemir and JCS START Primorsky, for the purpose of obtaining lease rights on the land plots. The acquisition of subsidiaries was classified as acquisition of assets, because acquired entities do not constitute a business.

Several subsidiaries were liquidated at the end of 2012: LLC Tagar, LLC Triumfalnaya Marka and JSC Baltika.

The contibution of liquidated subsidiaries to the Group's profit for the year and the effect on Group's assets and liabilities were not significant.

32 Events subsequent to the reporting date

Subsequent to the reporting date the Group has opened a hypermarket in Moscow.

In February 2013 the Group paid to shareholders dividends in the amount of USD 50,997,595 (RUB 1,538,036 thousand).

Covering Analysts

Andrei Nikitin
Alfa Bank
www.alfabank.com

Ivan Nikolaev
Aton
www.aton.ru

Victor Dima
BAML
www.bankofamerica.com

Boris Vilidnitsky
Barclays
www.barcap.com

Brady Martin
Citi Bank
www.citibank.com

Victoria Petrova
Credit Suisse
ww.creditsuisse.com

Natalia Smirnova
Deutsche Bank
www.db.com

Vitaly Baikin
Gazprombank
www.gazprombank.ru

Anton Farlenkov
Goldman Sachs
www.gs.com

Elena Jouronova
J.P.Morgan
www.jpmorgan.com

Nicholas Ashworth
Morgan Stanley
www.morganstanley.com

Mikhail Terentiev
Otkritie Capital
www.otkritie.com

David Ferguson
Renaissance Capital
www.rencap.com

Mikhail Loshinin
RMG Securities
www.rmg.ru

Mikhail Krasnoperov
Sberbank
sberbank-cib.ru

Svetlana Sukhanova
UBS Limited
www.ubs.com

Maria Kolbina
VTB Capital
www.vtbcapital.com

Erik Hegedus
Wood & Company
www.wood.cz

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)20 7729 9090

Investor Relations
Maksim Kravtsov
Head of investor relations
No. +7 495 663 66 77, ext. 220
e-mail: ir@okmarket.ru

Public Relations
Artem Gluschenko
Head of public relations
No. +7 495 663 66 77, ext. 338
e-mail: corpcom@okmarket.ru

www.okmarket.ru