OJSC Dixy Group

Unaudited interim condensed consolidated financial statements

For the six months ended 30 June 2011

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Contents

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Report on review of interim condensed consolidated financial statements

To the Board of Directors of OJSC Dixy Group

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Dixy Group and its subsidiaries (the "Group") as at 30 June 2011, which comprise the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, cash flows and changes in equity for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

15 September 2011

OJSC Dixy Group

Interim consolidated statement of financial position at 30 June 2011

(in thousands of Russian roubles, unless otherwise indicated)

	Note	30 June 2011 (unaudited)	31 December 2010 (audited)
Assets			
Non-current assets			
Property, plant and equipment	7	22,322,132	12,835,446
Capital advances		1,096,794	942,112
Goodwill	4	14,592,922	358,478
Other intangible assets	8	5,819,551	298,851
Initial lease costs		124,477	144,205
Loans		4,725	5,047
Trade and other receivables		–	2,724
Deferred tax asset		599,240	397,482
		44,559,841	**14,984,345**
Current assets			
Inventories	9	5,709,371	3,873,123
Trade and other receivables		2,418,836	1,514,900
Taxes recoverable and prepayments		1,542,801	1,113,736
Loans		913,597	134,066
Initial lease costs		37,502	45,446
Cash and cash equivalents	10	1,917,901	1,596,680
		12,540,008	**8,277,951**
Total assets		**57,099,849**	**23,262,296**
Equity and liabilities			
Equity attributable to equity holders of the Parent			
Share capital	11	1,248	860
Additional paid-in capital	11	20,437,555	4,111,405
Retained earnings		2,473,220	1,916,147
		22,912,023	**6,028,412**
Non-current liabilities			
Borrowings	12	12,907,578	6,038,938
Finance leases		152,974	242,377
Unfavourable operating lease commitments	4	143,200	–
Deferred tax liability		2,168,108	234,733
		15,371,860	**6,516,048**
Current liabilities			
Trade and other payables		11,233,979	7,208,994
Contingent consideration payable	4	1,000,000	–
Borrowings	12	5,078,468	6,442
Current portion of Bonds		–	2,929,452
Finance leases		150,396	161,878
Advances from customers		157,953	69,270
Tax liability, other than income tax		850,217	278,217
Income taxes payable		255,055	62,375
Unfavourable operating lease commitments	4	54,748	–
Provisions for liabilities and charges	14	35,150	1,208
		18,815,966	**10,717,836**
Total equity and liabilities		**57,099,849**	**23,262,296**

Signed and authorised for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 15 September 2011

Fedor Rybasov,
General Director

Irina Kobyakina,
Head of IFRS Reporting

The accompanying notes on pages 7 to 19 are an integral part of these interim condensed consolidated financial statements.

OJSC Dixy Group

Interim consolidated statement of comprehensive income

For the six months ended 30 June 2011

(in thousands of Russian roubles, unless otherwise indicated)

	Note	For the six months ended 30 June 2011 (unaudited)	For the six months ended 30 June 2010 (unaudited)
Revenue		39,168,557	30,691,996
Cost of sales		(29,223,911)	(23,421,526)
Gross profit		**9,944,646**	**7,270,470**
Selling, general and administrative expenses		(8,525,197)	(6,370,932)
Operating profit		**1,419,449**	**899,538**
Finance income		23,185	18,995
Finance costs		(461,919)	(359,048)
Foreign exchange loss, net		(10,145)	(94,960)
Profit before income tax		**970,570**	**464,525**
Income tax expense	13	(413,497)	(338,285)
Profit for the period		**557,073**	**126,240**
Total comprehensive income for the period		**557,073**	**126,240**
Attributable to:			
Equity holders of the Parent		557,073	125,940
Equity holders of the non-controlling interest		–	300
Profit per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)		**6.24**	**1.50**

The accompanying notes on pages 7 to 19 are an integral part of these interim condensed consolidated financial statements.

OJSC Dixy Group

Interim consolidated statement of cash flows

For the six months ended 30 June 2011

(in thousands of Russian roubles, unless otherwise indicated)

	Note	For the six months ended 30 June 2011	2010 (unaudited)
Cash flows from operating activities:			
Profit before income tax		970,570	464,525
Adjustments for:			
Depreciation of property, plant and equipment	7	907,483	779,139
Amortisation of intangible assets	8	64,083	40,453
Amortisation of initial lease costs		31,471	49,060
Amortisation of unfavorable lease commitments		(2,808)	–
Gains less losses on disposals of property, plant and equipment and intangible assets		(2,119)	(27,807)
Provision for impairment of assets under construction	7	113,662	–
Increase in provision for impairment of taxes recoverable and prepayments		2,849	5,112
Increase in provision for impairment of trade and other receivables		21,119	5,433
Reversal of write-down of inventory to net realizable value		(421)	(11,983)
Finance costs		461,919	359,048
Finance income		(23,185)	(18,995)
Unrealised foreign exchange losses on borrowings		10,145	94,960
Operating cash flows before working capital changes		**2,554,768**	**1,738,945**
(Increase) / decrease in trade and other receivables		(35,676)	86,645
(Increase) / decrease in inventories		(45,327)	402,580
Increase in taxes recoverable and prepayments		(146,841)	(18,318)
Decrease in trade and other payables		(203,567)	(660,116)
Increase in tax liability, other than income tax		54,217	83,314
Increase / (decrease) in advances from customers		29,500	(34,924)
Cash generated from operations		**2,207,074**	**1,598,126**
Income tax paid		(415,085)	(418,770)
Interest paid		(484,129)	(377,790)
Net cash from operating activities		**1,307,860**	**801,566**
Cash flows from investing activities:			
Acquisition of subsidiaries, net of cash acquired	4	(12,411,963)	–
Purchase of property, plant and equipment		(2,078,609)	(632,943)
Proceeds from sale of property, plant and equipment		67,731	42,418
Initial lease costs paid		(3,799)	(3,959)
Loans repaid		547,984	378,061
Disbursement of loans		(529,800)	(380,595)
Interest received		13,066	11,957
Purchases of intangible assets		(16,926)	(12,910)
Net cash used in investing activities		**(14,412,316)**	**(597,971)**

The accompanying notes on pages 7 to 19 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flows (continued)

	Note	For the six months ended 30 June 2011 (unaudited)	2010 (unaudited)
Cash flows from financing activities:			
Proceeds from loans and borrowings		6,448,788	5,092,634
Repayment of loans and borrowings		(2,633)	(6,027,637)
Repayment of bonds		(2,852,822)	–
Buy-out of shares	11	(411,010)	–
Proceeds from sales of treasury shares	11	1,220,973	–
Contribution from shareholders	11	392,258	–
Proceeds from new issuance of shares		8,734,892	–
Finance lease payments		(104,769)	(65,829)
Net cash from / (used in) financing activities		**13,425,677**	**(1,000,832)**
Net increase / (decrease) in cash and cash equivalents		**321,221**	**(797,237)**
Cash and cash equivalents at the beginning of the period	10	**1,596,680**	**1,331,856**
Cash and cash equivalents at the end of the period	10	**1,917,901**	**534,619**

The accompanying notes on pages 7 to 19 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity

For the six months ended 30 June 2011

(in thousands of Russian roubles, unless otherwise indicated)

		Attributable to equity holders of the parent					
	Note	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
At 1 January 2010		**860**	**4,119,422**	**1,652,342**	**5,772,624**	**11,797**	**5,784,421**
Total comprehensive income for the period		–	–	125,940	125,940	300	**126,240**
At 30 June 2010 (unaudited)		**860**	**4,119,422**	**1,778,282**	**5,898,564**	**12,097**	**5,910,661**
At 1 January 2011		**860**	**4,111,405**	**1,916,147**	**6,028,412**	**–**	**6,028,412**
Total comprehensive income for the period		–	–	557,073	557,073	–	**557,073**
Issue of shares	11	388	15,123,929	–	15,124,317	–	**15,124,317**
Contribution from shareholders	11	–	392,258	–	392,258	–	**392,258**
Buy-out of shares	11	–	(411,010)	–	(411,010)	–	**(411,010)**
Sale of treasury shares	11	–	1,220,973	–	1,220,973	–	**1,220,973**
At 30 June 2011 (unaudited)		**1,248**	**20,437,555**	**2,473,220**	**22,912,023**	**–**	**22,912,023**

The accompanying notes on pages 7 to 19 are an integral part of these interim condensed consolidated financial statements.

1. Corporate information

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

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

As at 30 June 2011 and 31 December 2010 the OJSC Dixy Group and its subsidiaries ("the Group") were controlled by Dixy Holding Limited (Cyprus), which as at 30 June 2011 owned 54.42% (31 December 2010: 61.09%) in OJSC Dixy Group.

As of 30 June 2011 and 31 December 2010 Dixy Holding Limited (Cyprus) was 100% owned by Dixy Retail Limited (BVI), which is in its turn 100% owned by Closed Joint Stock Company "Trade Company Megapolis". CJSC "Trade Company Megapolis" is a part of the Mercury Group. Mercury Group is ultimately controlled by Mr. Igor Kesaev.

These interim condensed consolidated financial statements of the Company were signed and authorised for release by the General Director and the Head of IFRS Reporting of OJSC Dixy Group on 15 September 2011.

2. Basis of preparation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

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

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010, except for the reclassifications and the adoption of new Standards and Interpretation noted below:

2. Basis of preparation and accounting policies (continued)

Significant accounting policies (continued)

Reclassifications

- *Reclassification of transportation expenses and inventory write-down due to shrinkages and write off to net realizable value*

During six months ended 30 June 2011 the Group changed of its previous presentation format of presentation of transportation expenses and inventory write-down due to shrinkages and write off to net realizable value in the statement of comprehensive income that were reclassified from selling, general and administrative expenses to cost of sales. The Group believes that the reclassification will provide more useful information to users of the consolidated financial statements. The comparative statement of comprehensive income for the six months ended 30 June 2010 was prepared in a consistent format. For the six months ended 30 June 2011 and 30 June 2010 transportation expenses amounted to 179,005 and 139,664, respectively. Inventory write-down due to shrinkages and write off to net realizable value for six the months ended 30 June 2011 and 30 June 2010 amounted to 803,612 and 677,034, respectively.

- *Reclassification of revenue from marketing services*

During the six months ended 30 June 2011 the Group changed of its previous presentation format of presentation of revenue from marketing services, which was reclassified by the Group from revenue to deduction from cost of sales. The Group believes that the reclassification will provide more useful information to users of the interim condensed consolidated financial statements and make the Group's interim condensed consolidated financial statements more consistent with best accounting practices adopted in retail industry. For the six months ended 30 June 2011 and 30 June 2010 revenue from marketing services amounted to 402,305 and 168,883, respectively.

Adoption of new Standards and Interpretation

- IAS 24 *Related Party Transactions* (Amendment)

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

- IAS 32 *Financial Instruments: Presentation* (Amendment)

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

2. Basis of preparation and accounting policies (continued)

Significant accounting policies (continued)

- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group is not subject to minimum funding requirements. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

- *Improvements to IFRSs (issued in May 2010)*

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 *Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. This amendment has no effect of the Group's financial statement disclosures.
- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. This amendment has no effect of the Group's financial statement disclosures.
- IAS 34 *Interim Financial Statements:* The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

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

- IFRS 3 *Business Combinations* — Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005)
- IFRS 3 *Business Combinations* — Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination
- IAS 27 *Consolidated and Separate Financial Statements* — applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards
- IFRIC 13 *Customer Loyalty Programmes* — in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme)

2. Basis of preparation and accounting policies (continued)

Significant accounting policies (continued)

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

3. Seasonality of operation

Due to the seasonal nature of the Group's operations, higher revenues in all operating segments (Note 5) are usually expected in the second half of the year than in the first six months. Higher sales during the fourth quarter are mainly attributable to the increase customer demand for food and beverages during the peak holiday season (Christmas and New Year eve period).

4. Business combination

On 15 June 2011, the Group acquired a 100% equity interest in OJSC GK Victoria, a holding company that operates the neighbourhood store, supermarket and cash&carry formats. As at 15 June 2011 OJSC GK Victoria and its subsidiaries had 251 stores with total space of over 277,242 thousand square meters in Moscow, St. Petersburg and also in Kaliningrad and Tula regions. The purpose of this transaction is increase in concentration in Moscow and St. Petersburg and extension of the Group operations to Kaliningrad and Tula regions.

The provisional fair value of the identifiable assets and liabilities of OJSC GK Victoria as at the date of acquisition was:

	Fair value recognised on acquisition (unaudited)
Property, plant and equipment (Note 7)	8,552,159
Capital advances	62,348
Intangible assets (Note 8)	5,580,740
Deferred tax asset	143,291
Other non-current assets	4,558
Inventories	1,808,151
Trade and other receivables	887,901
Taxes recoverable and prepayments	375,560
Loans	799,226
Cash and cash equivalents	1,051,541
	19,265,475
Borrowings	(5,456,851)
Finance leases	(3,687)
Unfavourable operating lease commitments	(200,756)
Trade and other payables	(4,228,552)
Advances from customers	(59,181)
Tax liability, other than income taxes	(517,783)
Income taxes payable	(195,101)
Provisions for liabilities and charges	(33,942)
Deferred tax liabilities	(1,951,137)
	(12,646,990)
Total identifiable net assets at fair value	**6,618,485**
Goodwill arising on acquisition	14,234,444
Purchase consideration	**20,852,929**

4. Business combination (continued)

	Six months ended 30 June 2011 (unaudited)
Purchase consideration	20,852,929
Less contingent consideration payable as at 30 June 2011	(1,000,000)
Less cash acquired with acquisition of subsidiary	(1,051,541)
Less consideration settled through transfer of OJSC Dixy Group shares (16,341,254 number of shares transferred)	(6,389,425)
Net cash used in acquisition, net of cash acquired	**12,411,963**

The Group assigned provisional values to net assets acquired based on estimates of the independent appraiser. The Group will finalize the purchase price allocation within 12 months from the acquisition date.

The fair value of the trade and other receivables excluding indemnification asset of 219,249 amounts to 668,652. The gross amount of trade receivables is 796,242 excluding indemnification asset. As at the acquisition date trade and other receivables at nominal value of 127,590 were impaired and fully provided for.

The purchase consideration comprises cash and cash equivalents paid of 13,463,504, fair value of the Group's shares transferred to former owners of OJSC GK Victoria in the amount of 6,389,425 (16,341,254 number of shares transferred) and contingent consideration of 1,000,000.

The contingent consideration arrangement requires the Group to pay to former owners of OJSC GK Victoria the lower of cash and cash equivalents as at acquisition date or 1,000,000. The contingent consideration arrangement also requires the former owners of OJSC GK Victoria to pay the Group in case financial debt and/or working capital would exceed certain amounts. The fair value of the contingent consideration arrangement was estimated based on unaudited interim condensed financial statements of the acquiree.

The selling shareholders of OJSC GK Victoria have contractually agreed to indemnify potential tax, operating lease and other contingencies that may become payable in respect of the OJSC GK Victoria companies. Indemnification arrangement is unlimited for potential tax and title contingencies, however is capped to certain other risks. As collateral for the above indemnification arrangement part of the consideration in the amount of 3,000,000 was transferred by the Group to an escrow fund, which will become available in full amount to former shareholders of OJSC GK Victoria within three years. An indemnification asset of 219,249, equivalent to the fair value of the indemnified liability, has been recognised by the Group in trade and other receivables.

Acquisition-related costs recognised as selling, general and administrative expenses in the consolidated statement of comprehensive income amounted to 36,683.

Goodwill in the amount of 14,234,444 is attributable to the business concentration in the Moscow and St. Petersburg and to expected cost synergies from the business combination. None of the goodwill recognised is expected to be deductible for tax purposes, whether in whole or in part.

During the six months ended 30 June 2011, the acquired retail business contributed 1,779,203 and 2,580 to the Group's revenues and profit for the period, respectively, from the date of acquisition. If the acquisition of OJSC GK Victoria had occurred on 1 January 2011, the Group's revenues and profit for the six months ended 30 June 2011 would have amounted to 58,817,936 and 773,296, respectively.

5. Segment information

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

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

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

Segment information for the main reportable business segments of the Group for the six months ended 30 June 2011 and 30 June 2010 is set out below:

	Dixy - Moscow	**Dixy - St.Petersburg**	**Dixy - Chelyabinsk**	**Megamart**	**Adjustments**	**Group**
Six months ended 30 June 2011 (unaudited)						
Total segment revenue	20,802,526	9,920,377	1,625,394	5,041,057	1,779,203 (A)	39,168,557
Profit before income tax	832,083	509,791	123,322	480,375	(975,001) (B)	970,570
Depreciation and amortisation	602,399	193,460	28,708	81,714	65,285 (C)	971,566
Other non-cash expenses:						
Amortisation of initial lease costs	26,665	4,524	282	–	–	31,471
Provision for impairment of assets under construction	–	113,662	–	–	–	113,662

(A) Segment revenue does not include revenue for OJSC GK Victoria since the acquisition date to 30 June 2011.

(B) Segment profit before taxation does not include corporate expenses of 532,061 finance expense of 461,919, finance income of 23,185, net foreign exchange loss of 10,145 and operating profit for the period since the acquisition date to 30 June 2011 in the amount of 5,939 incurred by OJSC GK Victoria.

(C) Segment depreciation and amortisation do not include depreciation and amortisation of OJSC GK Victoria.

5. Segment information (continued)

	Dixy - Moscow	Dixy - St.Petersburg	Dixy - Chelyabinsk	Megamart	Adjustments	Group
Six months ended 30 June 2010 (unaudited)						
Total segment revenue	15,851,948	8,846,815	1,442,324	4,550,909	–	30,691,996
Profit before income tax	280,503	513,863	(20,290)	471,719	(781,270)[(D)]	464,525
Depreciation and amortisation	534,892	166,546	32,056	86,098	–	819,592
Other non-cash expenses:						
Amortisation of initial Lease costs	42,894	5,436	280	450	–	49,060

(D) Segment profit before taxation does not include corporate expenses of 346,257, finance expense of 359,048, finance income of 18,995 and net foreign exchange loss of 94,960.

6. Balances and transactions with related parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the six-month period ended 30 June 2011 and 30 June 2010 or had significant balances outstanding at 30 June 2011 and 31 December 2010 are detailed below:

	30 June 2011 (unaudited)	31 December 2010 (audited)
Gross amount of trade receivables (entities under common control)	8,311	15,059
Gross amount of prepayments (entities under common control)	4,876	9,557
Gross amount of other receivables (entities under common control)	7,167	7,142
Gross amount of loans (entities under common control) – current	106,906	106,464
Gross amount of loans (key management personnel) – current	–	5,450
Capital advances (entities under common control)	71,561	71,561
Trade and other payables (entities under common control)	179,409	97,298

The income and expense items with related parties for the six months ended 30 June 2011 and 30 June 2010 were as follows:

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Interest income (entities under common control)	9,604	11,938
Interest income (key management personnel)	–	12
Interest expense (entities under common control)	–	1,031
Revenue (entities under common control)	–	2,647
Purchase of goods (entities under common control)	648,007	284,843
Sale of treasury shares (entities under common control) (refer to Note 11)	785,458	–

Loans issued to parties under common control

At 30 June 2011 and 31 December 2010 the Group had several loans issued to parties under common control of the Group's ultimate shareholder. These loans are payable in 2011 and are mainly denominated in US dollars. The interest rate on these loans is 11.5% (31 December 2010: 11.5%).

6. Balances and transactions with related parties (continued)

Purchase of goods

During the six months ended 30 June 2011 and 30 June 2010 the Group purchased goods for resale in the normal course of business in the amount of 648,007 and 284,843 respectively from entities under control of its controlling shareholder Group Megapolis. The Group's controlling shareholder operates in the wholesale business specializing in distribution of tobacco goods.

Compensation to key management personnel

During the six months ended 30 June 2011 compensation paid to eight (during the six months ended 30 June 2010: eight) directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results, all of which represent short-term employee benefits as defined in IAS 19, *Employee Benefits*. Total compensation to key management personnel included in selling, general and administrative expenses in the interim consolidated income statement for the six months ended 30 June 2011 and 2010 amounted to 101,325 and 67,942, respectively.

7. Property, plant and equipment

As at 30 June 2011, property, plant and equipment and related accumulated depreciation consisted of the following:

	Land	**Buildings**	**Renovation of stores**	**Equipment**	**Assets under construction and uninstalled equipment**	**Total**
Cost						
At 31 December 2010	**395,774**	**9,305,824**	**2,640,517**	**5,248,162**	**401,979**	**17,992,256**
Additions through business combinations (Note 4)	163,006	5,518,509	994,969	1,875,675	–	8,552,159
Additions	–	–	–	–	2,012,219	2,012,219
Transfers	34,762	790,832	431,535	729,355	(1,986,484)	–
Provision for impairment of assets under construction	–	–	–	–	(113,662)	(113,662)
Disposals	–	(6,304)	(96,045)	(196,975)	(6,621)	(305,945)
At 30 June 2011 (unaudited)	**593,542**	**15,608,861**	**3,970,976**	**7,656,217**	**307,431**	**28,137,027**
Accumulated depreciation						
At 31 December 2010	**–**	**992,293**	**1,378,380**	**2,786,137**	**–**	**5,156,810**
Depreciation charge	–	175,359	230,703	501,421	–	907,483
Disposals	–	(4,797)	(83,210)	(161,391)	–	(249,398)
At 30 June 2011 (unaudited)	**–**	**1,162,855**	**1,525,873**	**3,126,167**	**–**	**5,814,895**
Net book value						
At 31 December 2010	**395,774**	**8,313,531**	**1,262,137**	**2,462,025**	**401,979**	**12,835,446**
At 30 June 2011 (unaudited)	**593,542**	**14,446,006**	**2,445,103**	**4,530,050**	**307,431**	**22,322,132**

During the six months of 2011 the Group accrued provision for impairment of a store under construction in the amount of 113,662 due to change in plans for its completion resulted from change in perception of its economic perspectives.

7. Property, plant and equipment (continued)

The carrying value of equipment and buildings held under finance lease contracts at 30 June 2011 was 462,931 (31 December 2010: 358,541). Additions during the six months ended 30 June 2011 include 63,393 of equipment held under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

At 30 June 2011 and 31 December 2010 buildings carried at 3,343,865 and nil, respectively, were pledged to third parties as collateral for loans and borrowings (refer to Note 12).

During the six months ended 30 June 2011 and 2010 the Group capitalized interest of 2,382 and nil, respectively.

8. Other intangible assets

As at 30 June 2011, other intangible assets and related accumulated amortisation consisted of the following:

	Trade marks	Licenses	Favourable operating lease agreements	Total
Cost				
At 31 December 2010	**–**	**152,163**	**417,210**	**569,373**
Additions through business combinations (Note 4)	4,627,400	725,808	227,532	5,580,740
Additions	–	16,578	348	16,926
Disposals	–	(2,561)	(14,629)	(17,190)
At 30 June 2011 (unaudited)	**4,627,400**	**891,988**	**630,461**	**6,149,849**
Amortisation				
At 31 December 2010	**–**	**46,326**	**224,196**	**270,522**
Amortisation charge	19,202	14,812	30,069	64,083
Disposals	–	(701)	(3,606)	(4,307)
At 30 June 2011 (unaudited)	**19,202**	**60,437**	**250,659**	**330,298**
Carrying amount				
At 31 December 2010	**–**	**105,837**	**193,014**	**298,851**
At 30 June 2011 (unaudited)	**4,608,198**	**831,551**	**379,802**	**5,819,551**

9. Inventories

	30 June 2011 (unaudited)	31 December 2010 (audited)
Goods for resale (net of write-down to net realizable value of 170,430 (31 December 2010:99,916)	5,622,069	3,861,716
Raw materials and operating supplies	87,302	11,407
Total inventories at the lower of cost or net realisable value	**5,709,371**	**3,873,123**

Inventory write-down due to shrinkages identified during the physical inventory counting during the six months ended 30 June 2011 and 2010 comprised 804,033 and 689,017, respectively. No inventory was pledged as at 30 June 2011 and 31 December 2010.

10. Cash and cash equivalents

	30 June 2011 (unaudited)	31 December 2010 (audited)
Cash on hand – Russian roubles	193,982	162,371
Russian rouble denominated bank balances due on demand	495,391	440,173
US$ denominated bank balances due on demand	1,584	2,961
Russian rouble denominated time deposits	870,069	549,625
Cash in transit – Russian roubles	356,875	441,550
	1,917,901	**1,596,680**

11. Share capital and equity

Issued and additional paid-in capital

As at 30 June 2011 the Group had 124,750,000 (31 December 2010: 86,000,000) authorised ordinary shares of which nil (31 December 2010: 1,963,646) ordinary shares were held as treasury stock. All ordinary shares are fully paid. Ordinary shares have par value of 0.01 Russian rouble per share. The shares rank equally. Each share carries one vote.

On 21 January 2011 the Group sold 1,963,646 treasury shares for 785,458 to the entity under common control Dixy Holding Limited.

On 1 March 2011 the entity under common control of controlling shareholders of the Group made repayment of the loan previously written off in the amount of 392,258. The transaction aimed to increase share capital and therefore was recognised as a contribution to additional paid in capital.

On 7 June 2011 the Group made buy-out of 1,113,849 shares for 411,010, which were on 14 June 2011 sold through an open subscription for 435,515.

On 14 June 2011 the Group issued 38,750,000 new shares worth 15,124,317, net of the transaction cost of 26,876. Of the new shares, 16,341,254 were exchanged for 1,016,426 shares of OJSC GK Victoria. The value of this share-based consideration, transferred to former shareholders of OJSC GK Victoria, amounted to 6,389,425 and was estimated as the market value of the Group's transferred shares. Refer to Note 4 for details.

Dividends paid and proposed

No dividends were paid during the six months ended 30 June 2011 and 2010. No dividends were declared or paid subsequent to 30 June 2011 up to the date of authorisation of these interim condensed consolidated financial statements for issue.

12. Loans and borrowings

Terms and conditions in respect of borrowings are detailed below:

Source of financing	Maturity date	Currency	Interest rate 30 June 2011 (unaudited)	Interest rate 31 December 2010 (audited)	Collateral 30 June 2011 (unaudited)	Collateral 31 December 2010 (audited)	30 June 2011 (unaudited)	31 December 2010 (audited)
RR syndicated bank loan	June 2014	RR	MOSPRIME +4%	MOSPRIME +4%	–	–	6,054,593	6,041,803
RR bank loan	June 2012	RR	5.77%	–	–	–	4,455,704	–
RR bank loan from OJSC GK Victoria acquisition	September 2013	RR	MOSPRIME 3M+3%-4.5%	–	Buildings for 1,114,133	–	2,068,942	–
RR bank loan	March 2013	RR	8.8%	–	–	–	1,998,985	–
RR bank loan from OJSC GK Victoria acquisition	April 2013	RR	MOSPRIME 3M+4.4%	–	Buildings for 984,978	–	1,212,241	–
RR bank loan from OJSC GK Victoria acquisition	December 2013	RR	MOSPRIME 3M+4.75%	–	–	–	1,035,717	–
RR bank loan from OJSC GK Victoria acquisition	April 2012	RR	MOSPRIME 3M+3.7%	–	–	–	580,985	–
RR bank loan from OJSC GK Victoria acquisition	December 2012	RR	MOSPRIME 3M+4.75%	–	Buildings for 1,244,754	–	558,446	–
Other	2011	RR			–	–	20,433	3,577
							17,986,046	**6,045,380**

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

13. Income taxes

Income tax expense comprises the following:

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Current income tax charge	489,726	411,453
Deferred income tax credit charge	(76,229)	(73,168)
Income tax expense	**413,497**	**338,285**

14. Contingencies, commitments and operating risks

Operating environment of the Group

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

14. Contingencies, commitments and operating risks (continued)

Operating environment of the Group (continued)

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Environmental matters

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

Tax legislation

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

As at 31 December 2010 provision for income tax liabilities and provision for taxes other than income comprised 5,201 and 1,208 respectively.

During the six months ended 30 June 2011 the Group recognised a provision for income tax liabilities and taxes other than income tax in the amount of 185,307 and 33,942, respectively, arisen as a result of acquisition of OJSC GK Victoria (refer to Note 4).

During the six months ended 30 June 2011 and 2010 the Group did not accrue or release any additional tax provisions for unsustainable tax positions related to income tax liabilities and taxes other than income tax.

Management believes that these provisions will be sufficient to cover any additional tax payments it may need to make in the future. The balances at 30 June 2011 are expected to be either utilized or released within three years.

14. Contingencies, commitments and operating risks (continued)

Tax legislation (continued)

Although historically there have been no significant liabilities arising from tax assessments, the potential for assessments over amounts provided or accrued remains. Management estimates that the order of magnitude as at 30 June 2011 of potential liabilities that have not been provided for because management believes they are less than probable amounts to 383,218 (31 December 2010: 344,617).

Litigation

During the six months ended 30 June 2011 the Group was involved in litigation with tax authorities in respect of tax claims arisen as a result of tax audits. The Group believes that the risk that they would not be able to defend their position in court is possible and the amount of related tax risks not recognised in these consolidated statements amounted to 121,839 as at 30 June 2011 (31 December 2010: 83,069).

15. Events after the reporting date

In July 2011 the Group settled bank loans from acquisition of OJSC GK Victoria in the total amount of 1,398,056.

In July 2011 former shareholders and entities under common control of former shareholders of OJSC GK Victoria fully repaid their loans in the total amount of 569,226 as at 30 June 2011.

In August 2011 the Group received the 1-st tranche of 2 billion rubles bank loan in the amount of 500 million rubles for 180 days bearing an interest rate of 6.95% and the 2-nd tranche in the amount of 670 million rubles for 180 days bearing an interest rate of 7.2%.

In August 2011 the Group signed an agreement with developer “Industrial park “Vnukovo-3” (belongs to PNK Group, one of the leading warehouse developers in Russia) on construction of the distribution warehouse in Moscow region. Total space of this warehouse should exceed 44,000 square meters, and expected investments in this project amounts 2.6 billion rubles.