

O'Key Group S.A.

**Condensed Consolidated Interim Financial
Statements
for the six months ended 30 June 2013**



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To the Shareholders of
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Report of the Réviseur d'Entreprises agréé on the review of condensed consolidated interim financial information

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of O'Key Group S.A. as at 30 June 2013 and the related condensed consolidated interim statements of profit and loss and comprehensive income, changes in equity and cash flows for the six month period then ended, and the notes thereto ("the condensed consolidated interim financial statements"). The Board of Directors is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2013 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, August 29, 2013

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



Jean-Manuel Séris

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Condensed Consolidated Interim Statement of Financial Position as at 30 June 2013

'000 RUB	Note	30 June 2013	31 December 2012
ASSETS			
Non-current assets			
Investment property	13	632 465	632 000
Property, plant and equipment	11	25 536 029	25 692 464
Construction in progress	11	2 354 161	1 720 181
Intangible assets	12	538 104	566 595
Deferred tax assets	15	483 613	375 126
Other non-current assets	14	9 462 506	7 905 066
Total non-current assets		39 006 878	36 891 432
Current assets			
Inventories	16	7 781 579	9 212 315
Trade and other receivables	17	1 764 305	1 917 634
Prepayments		1 041 635	856 948
Cash and cash equivalents		2 547 543	4 535 693
Total current assets		13 135 062	16 522 590
Total assets		52 141 940	53 414 022

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2013

'000 RUB	Note	30 June 2013	31 December 2012
EQUITY AND LIABILITIES			
Equity	18	18 155 023	18 090 056
Non-current liabilities			
Loans and borrowings	20	12 808 694	9 863 769
Deferred tax liabilities	15	608 410	667 719
Other non-current liabilities		1 110 032	1 056 447
Total non-current liabilities		14 527 136	11 587 935
Current liabilities			
Loans and borrowings	20	3 193 540	3 826 135
Trade and other payables	21	16 062 242	19 613 734
Current income tax payable		203 999	296 162
Total current liabilities		19 459 781	23 736 031
Total liabilities		33 986 917	35 323 966
Total equity and liabilities		52 141 940	53 414 022

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the six months ended
30 June 2013

For the six months ended 30 June

'000 RUB	Note	2013	2012
Revenue	6	64 713 993	54 121 609
Cost of goods sold		(49 851 750)	(41 946 202)
Gross profit		14 862 243	12 175 407
General, selling and administrative expenses	7	(11 854 748)	(9 515 849)
Other operating income and expenses	8	17 874	62 641
Operating profit		3 025 369	2 722 199
Finance income		36 452	8 598
Finance costs		(600 633)	(502 762)
Foreign exchange (losses)/gains		(52 500)	20 327
Profit before income tax		2 408 688	2 248 362
Income tax expense	10	(795 179)	(778 559)
Profit for the period		1 613 509	1 469 803
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences for foreign operations		(37 142)	(32 819)
Change in fair value of hedges and reclassification from hedging reserve		33 295	(32 903)
Income tax on other comprehensive income	10	(6 659)	6 581
Other comprehensive income for the period, net of income tax		(10 506)	(59 141)
Total comprehensive income for the period		1 603 003	1 410 662
Earnings per share			
Basic and diluted earnings per share (RUB)	19	6.0	5.5

The condensed consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 31.

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2013

'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 period								
Profit for the period		-	-	-	-	1 469 803	-	1 469 803
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(32 819)	(32 819)
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	(32 903)	-	-	(32 903)
Income tax on other comprehensive income	10	-	-	-	6 581	-	-	6 581
Total other comprehensive income		-	-	-	(26 322)	-	(32 819)	(59 141)
Total comprehensive income for the period		-	-	-	(26 322)	1 469 803	(32 819)	1 410 662
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	18	-	-	-	-	(833 514)	-	(833 514)
Total contributions by and distributions to owners		-	-	-	-	(833 514)	-	(833 514)
Balance at 30 June 2012		119 440	10 597	8 903 606	142 300	5 539 648	165 300	14 880 891

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 31.

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2013

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2013		119 440	10 597	8 903 606	85 625	8 748 706	222 082	18 090 056
Total comprehensive income for the period								
Profit for the period		-	-	-	-	1 613 509	-	1 613 509
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(37 142)	(37 142)
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	33 295	-	-	33 295
Income tax on other comprehensive income	10	-	-	-	(6 659)	-	-	(6 659)
Total other comprehensive income		-	-	-	26 636	-	(37 142)	(10 506)
Total comprehensive income for the period		-	-	-	26 636	1 613 509	(37 142)	1 603 003
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	18	-	-	-	-	(1 538 036)	-	(1 538 036)
Total contributions by and distributions to owners		-	-	-	-	(1 538 036)	-	(1 538 036)
Balance at 30 June 2013		119 440	10 597	8 903 606	112 261	8 824 179	184 940	18 155 023

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 10 to 31.

Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2013

For the six months ended 30 June			
'000 RUB	Note	2013	2012
		<hr/>	<hr/>
Cash flows from operating activities			
Profit before income tax		2 408 688	2 248 362
<i>Adjustments for:</i>			
Depreciation and amortisation	11, 12, 14	1 222 460	1 040 959
Loss on disposal of non-current assets	8	1 401	12 810
Finance income		(36 452)	(8 598)
Finance costs		600 633	502 762
Foreign exchange losses/(gains)		52 500	(20 327)
		<hr/>	<hr/>
Cash from operating activities before changes in working capital and provisions		4 249 230	3 775 968
		<hr/>	<hr/>
Change in trade and other receivables		341 281	(166 758)
Change in inventories		1 430 736	1 259 260
Change in trade and other payables		(3 745 604)	(3 140 523)
		<hr/>	<hr/>
Cash flows from operations before income taxes and interest paid		2 275 643	1 727 947
Interest paid		(743 862)	(571 604)
Income tax paid		(1 088 187)	(1 085 133)
		<hr/>	<hr/>
Net cash from operating activities		443 594	71 210
		<hr/>	<hr/>

Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2013

For the six months ended 30 June

'000 RUB	Note	2013	2012
Cash flows from investing activities			
Purchase of property, plant and equipment and initial cost of land lease		(2 863 010)	(2 527 741)
Purchase of intangible assets		(57 218)	(14 417)
Proceeds from sales of property, plant and equipment		-	34 236
Interest received		36 452	8 598
Net cash used in investing activities		(2 883 776)	(2 499 324)
Cash flows used in financing activities			
Proceeds from borrowings	20	5 000 000	5 351 706
Repayment of borrowings	20	(3 025 556)	(3 479 216)
Dividends paid	18	(1 538 036)	(833 514)
Net cash from financing activities		436 408	1 038 976
Net decrease in cash and cash equivalents		(2 003 774)	(1 389 138)
Cash and cash equivalents at beginning of the period		4 535 693	2 941 947
Effect of exchange rate fluctuations on cash and cash equivalents		15 624	7 779
Cash and cash equivalents at end of the period		2 547 543	1 560 588

1 Background

(a) Organisation and operations

The O'Key Group S. A. (the "Company") is incorporated and domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as the "Group"). The main part of the Group is located and conducts its business in the Russian Federation.

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

As at 30 June 2013 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 26.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'KEY". At 30 June 2013 the Group operated 85 stores (31 December 2012: 83 stores).

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

(b) Business environment

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

(c) Seasonality

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

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

2 Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2012 which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 29 August 2013.

(b) Use of estimates and judgements

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

3 Significant accounting policies

Except for the adoption of the new standards and interpretations effective as of 1 January 2013, the accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2012.

Adoption of IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements* which are effective as of 1 January 2013 did not have impact on financial position and performance of the Group and had insignificant impact on presentation of these condensed consolidated interim financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the condensed consolidated interim financial statements of the Group.

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. In these condensed consolidated interim financial statements the fair values have been determined based on the principles, which are consistent with those applied in the consolidated financial statements for the year ended 31 December 2012.

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 analyze 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 centralized;
- the Group's activities are mainly limited to Russia which has a uniform regulatory environment.

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

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

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

'000 RUB	2013	2012
Revenue	64 713 993	54 121 609
EBITDA	4 239 487	3 704 783

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

For six months ended 30 June

'000 RUB	2013	2012
EBITDA	4 239 487	3 704 783
Loss from disposal of non-current assets	(1 401)	(12 810)
Reversal of impairment of receivables	9 743	71 185
Depreciation and amortisation	(1 222 460)	(1 040 959)
Finance income	36 452	8 598
Finance costs	(600 633)	(502 762)
Foreign exchange (losses)/gains	(52 500)	20 327
Profit before income tax	2 408 688	2 248 362
Income tax expense	(795 179)	(778 559)
Profit for the period	1 613 509	1 469 803

6 Revenue

For six months ended 30 June

'000 RUB	2013	2012
Sales of trading stock	60 760 227	50 932 429
Sales of self-produced catering products	3 093 152	2 594 155
Subtotal of retail revenue	63 853 379	53 526 584
Rental income	645 860	474 732
Revenue from advertising services	214 754	120 293
Total revenues	64 713 993	54 121 609

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.

7 General, selling and administrative expenses**For six months ended 30 June**

'000 RUB	Note	2013	2012
Personnel costs	9	(6 083 442)	(4 833 285)
Operating leases		(1 390 427)	(1 090 267)
Depreciation and amortization	11, 12, 14	(1 222 460)	(1 040 959)
Communication and utilities		(1 128 960)	(869 307)
Advertising and marketing		(505 505)	(340 150)
Security expenses		(398 974)	(342 024)
Insurance and bank commission		(287 060)	(227 626)
Operating taxes		(287 027)	(249 181)
Repairs and maintenance costs		(268 749)	(201 572)
Materials and supplies		(139 723)	(110 557)
Legal and professional expenses		(123 758)	(151 961)
Other costs		(18 663)	(58 960)
		(11 854 748)	(9 515 849)

8 Other operating income and expenses**For six months ended 30 June**

'000 RUB	2013	2012
Loss from disposal of non-current assets	(1 401)	(12 810)
Reversal of impairment of receivables	9 743	71 185
Sundry income	9 532	4 266
	17 874	62 641

9 Personnel costs**For six months ended 30 June**

'000 RUB	2013	2012
Wages and salaries	(3 738 999)	(3 028 138)
Social security contributions	(1 279 981)	(1 021 755)
Employee benefits	(794 372)	(716 781)
Share-based payments	(25 005)	(22 307)
Other	(245 085)	(44 304)
Total personnel costs	(6 083 442)	(4 833 285)

10 Income tax expense

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

Income tax recognised in profit and loss**For six months ended 30 June**

'000 RUB	2013	2012
Current tax expense	(969 634)	(688 968)
Deferred tax expense	174 455	(89 591)
Total income tax expense	(795 179)	(778 559)

Income tax recognised directly in other comprehensive income**For six months ended 30 June**

'000 RUB	2013			2012		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(37 142)	-	(37 142)	(32 819)	-	(32 819)
Change in fair value of hedges and reclassification from hedging reserve	33 295	(6 659)	26 636	(32 903)	6 581	(26 322)
	(3 847)	(6 659)	(10 506)	(65 722)	6 581	(59 141)

Reconciliation of effective tax rate:**For six months ended 30 June**

'000 RUB	2013	2012
Profit before income tax	2 408 688	2 248 362
Income tax at applicable tax rate (20%)	(481 738)	(449 672)
Effect of income taxed at different rates	(5 015)	1 171
Inventory shrinkage expenses	(254 143)	(205 280)
Other non-deductible expenses	(20 940)	(18 308)
Tax withheld on dividends received from subsidiaries	(33 343)	(106 470)
Income tax expense for the period	(795 179)	(778 559)

11 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Cost or deemed cost</i>						
Balance at 1 January 2012	2 864 870	14 193 167	2 526 726	7 122 120	3 136 848	29 843 731
Additions	323 693	247 996	94 405	267 276	1 528 959	2 462 329
Transfers	-	638 927	110 292	311 302	(1 060 521)	-
Transfers to investment property	-	-	-	-	(6 616)	(6 616)
Disposals	-	-	(2 698)	(34 664)	(44 108)	(81 470)
Balance at 30 June 2012	3 188 563	15 080 090	2 728 725	7 666 034	3 554 562	32 217 974
Balance at 1 January 2013	3 230 282	18 446 442	3 392 752	8 764 624	1 720 181	35 554 281
Additions	-	47 902	128 873	351 890	1 037 303	1 565 968
Transfers	-	4 016	237 977	160 585	(402 578)	-
Disposals	-	-	-	(71 642)	(745)	(72 387)
Balance at 30 June 2013	3 230 282	18 498 360	3 759 602	9 205 457	2 354 161	37 047 862

Notes to the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2013
(continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2012	-	(1 752 894)	(319 155)	(4 199 727)	-	(6 271 776)
Depreciation for the period	-	(246 286)	(131 574)	(551 092)	-	(928 952)
Disposals	-	-	476	33 952	-	34 428
Balance at 30 June 2012	-	(1 999 180)	(450 253)	(4 716 867)	-	(7 166 300)
Balance at 1 January 2013	-	(2 270 698)	(620 650)	(5 250 288)	-	(8 141 636)
Depreciation for the period	-	(304 443)	(181 847)	(601 388)	-	(1 087 678)
Disposals	-	-	-	71 642	-	71 642
Balance at 30 June 2013	-	(2 575 141)	(802 497)	(5 780 034)	-	(9 157 672)
<i>Net book value</i>						
At 1 January 2012	2 864 870	12 440 273	2 207 571	2 922 393	3 136 848	23 571 955
At 30 June 2012	3 188 563	13 080 910	2 278 472	2 949 167	3 554 562	25 051 674
At 1 January 2013	3 230 282	16 175 744	2 772 102	3 514 336	1 720 181	27 412 645
At 30 June 2013	3 230 282	15 923 219	2 957 105	3 425 423	2 354 161	27 890 190

Depreciation expense of RUB 1 087 678 thousand has been charged to selling, general and administrative expenses (six months ended 30 June 2012: RUB 928 952 thousand).

12 Intangible assets

'000 RUB	Software	Lease rights	Other Intangible assets	Total
<i>Cost</i>				
Balance at 1 January 2012	517 425	491 475	14 030	1 022 930
Additions	14 417	-	-	14 417
Transfers	(277)	-	277	-
Disposals	(5)	-	-	(5)
Balance at 30 June 2012	531 560	491 475	14 307	1 037 342
Balance at 1 January 2013	685 903	491 475	14 030	1 191 408
Additions	57 218	-	-	57 218
Balance at 30 June 2013	743 121	491 475	14 030	1 248 626
<i>Amortization and impairment losses</i>				
Balance at 1 January 2012	(284 522)	(219 615)	(694)	(504 831)
Amortization for the period	(40 310)	(32 154)	(1 403)	(73 867)
Balance at 30 June 2012	(324 832)	(251 769)	(2 097)	(578 698)
Balance at 1 January 2013	(338 770)	(282 590)	(3 453)	(624 813)
Amortization for the period	(54 998)	(29 331)	(1 380)	(85 709)
Balance at 30 June 2013	(393 768)	(311 921)	(4 833)	(710 522)
<i>Carrying amounts</i>				
At 1 January 2012	232 903	271 860	13 336	518 099
At 30 June 2012	206 728	239 706	12 210	458 644
At 1 January 2013	347 133	208 885	10 577	566 595
At 30 June 2013	349 353	179 554	9 197	538 104

Amortization and impairment charge

Amortization of RUB 85 709 thousand has been charged to selling, general and administrative expenses (six months ended 30 June 2012: RUB 73 867 thousand).

13 Investment property

'000 RUB	<u>Investment property</u>
Investment properties at fair value as at 1 January 2012	573 000
Expenditure on subsequent improvements	1 196
Transfers from property, plant and equipment	6 616
Investment properties at fair value as at 30 June 2012	580 812
Investment properties at fair value as at 1 January 2013	632 000
Expenditure on subsequent improvements	465
Investment properties at fair value as at 30 June 2013	632 465

As at 1 January 2012 and 2013 the fair value of investment property has been determined by independent appraisers. The fair value of investment property as at 30 June 2013 and 30 June 2012 was updated by the Group applying income approach.

There were no significant changes in assumptions used for determination of fair value of investment property as at 30 June 2013 compared to 1 January 2013.

Fair value of investment property as at 30 June 2013 and 30 June 2012 did not significantly change as compared to 1 January 2013 and 1 January 2012, respectively. Therefore, no fair value gain/(loss) was recognized as at 30 June 2013 (30 June 2012: Nil).

14 Other non-current assets

'000 RUB	<u>30 June 2013</u>	<u>31 December 2012</u>
Initial cost of land lease	4 051 655	3 991 382
Long-term prepayments to entities under control of shareholder group	844 102	952 302
Prepayments for non-current assets	4 229 473	2 677 459
Long-term deposits to lessors	206 440	159 525
Other non-current receivables	130 836	124 398
	9 462 506	7 905 066

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

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

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

'000 RUB	2013	2012
<i>Cost</i>		
Balance at 1 January	4 644 557	3 946 624
Additions	109 346	650 421
Balance at 30 June	4 753 903	4 597 045
<i>Amortization and impairment losses</i>		
Balance at 1 January	(653 175)	(576 690)
Amortization charge	(49 073)	(38 140)
Balance at 30 June	(702 248)	(614 830)
Net book value at 30 June	4 051 655	3 982 215

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012	30 June 2013	31 December 2012
Investment property	-	-	(24 385)	(21 135)	(24 385)	(21 135)
Property, plant and equipment	-	-	(413 942)	(448 858)	(413 942)	(448 858)
Construction in progress	-	-	(97 240)	(59 064)	(97 240)	(59 064)
Intangible assets	4 353	-	(3 180)	(1 609)	1 173	(1 609)
Other non-current assets	32 619	54 320	-	-	32 619	54 320
Inventories	252 472	232 008	-	-	252 472	232 008
Trade and other receivables	123 977	160 769	(91 083)	(285 600)	32 894	(124 831)
Trade and other payables	91 612	158 138	-	(81 562)	91 612	76 576
Tax assets/(liabilities)	505 033	605 235	(629 830)	(897 828)	(124 797)	(292 593)
Set off of tax	(21 420)	(230 109)	21 420	230 109	-	-
Net tax assets/(liabilities)	483 613	375 126	(608 410)	(667 719)	(124 797)	(292 593)

(b) Unrecognised deferred tax liability

As at 30 June 2013 a temporary difference of RUB 18 250 438 thousand (31 December 2012: RUB 16 851 838 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.

16 Inventories

'000 RUB	30 June 2013	31 December 2012
Goods for resale	7 892 195	9 128 059
Raw materials and consumables	219 059	341 346
Write-down to net realisable value	(329 675)	(257 090)
	7 781 579	9 212 315

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 329 675 thousand as at 30 June 2013 (31 December 2012: RUB 257 090 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-off 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.

17 Trade and other receivables

'000 RUB	30 June 2013	31 December 2012
Trade receivables	102 128	98 370
VAT receivable	591 122	1 196 210
Prepaid taxes	251 975	197 935
Foreign exchange and interest rate swap receivables	291 399	-
Other receivables	527 681	425 119
	1 764 305	1 917 634

Taxes prepaid include RUB 157 028 thousand of prepaid income tax (31 December 2012: RUB 130 638 thousand).

Other receivables include RUB 402 347 thousand of bonuses receivable from suppliers (31 December 2012: RUB 345 814 thousand).

18 Equity

As at 30 June 2013 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 31 December 2012: EUR 2 691 thousand) is represented by 269 074 000 shares (31 December 2012: 269 074 000 shares) with a par value of 0.01 EUR each.

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

In accordance with Luxembourg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During six months ended 30 June 2013 there were no transfers to legal reserve from net profits.

There were no movements in additional paid-in capital during six months ended 30 June 2013.

In February 2013 the Group paid interim dividends to shareholders in the amount of USD 50 997 595 (RUB 1 538 036 thousand). Interim dividends paid were recognised as distribution to shareholders in the Condensed Consolidated Interim Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for six months ended 30 June 2013 amounted to RUB 5.7 (six months ended 30 June 2012: RUB 3.1).

In June 2013 shareholders of the Company approved annual dividends for the year ended 31 December 2012. The amount of annual dividends for 2012 was paid by the Group to shareholders as interim dividends in 2012 in the amount of RUB 833 514 thousand.

19 Earnings per share

The calculation of basic earnings per share for six months ended 30 June 2013 was based on the profit attributable to ordinary shareholders of RUB 1 613 509 thousand (six months ended 30 June 2012: RUB 1 469 803 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000 (six months ended 30 June 2012: 269 074 000), calculated as shown below. The Company has no dilutive potential ordinary shares.

For six months ended 30 June

	<u>2013</u>	<u>2012</u>
<i>Number of shares</i>		
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for six months ended 30 June	<u>269 074 000</u>	<u>269 074 000</u>

20 Loans and borrowings

'000 RUB	<u>30 June 2013</u>	<u>31 December 2012</u>
<i>Non-current liabilities</i>		
Secured bank loans	5 633 712	6 236 313
Unsecured bank facilities	3 500 000	-
Unsecured bonds	3 009 960	3 009 934
Unsecured loans from related parties	665 022	617 522
	<u>12 808 694</u>	<u>9 863 769</u>
<i>Current liabilities</i>		
Secured bank loans	1 690 674	1 819 810
Unsecured bank facilities	1 500 000	2 003 457
Unsecured loans from third parties	2 866	2 868
	<u>3 193 540</u>	<u>3 826 135</u>

As at 30 June 2013 loans and borrowings with carrying value of RUB 7 324 386 thousand (31 December 2012: RUB 8 056 123 thousand) were secured by property, plant and equipment and initial cost of land lease.

The Group has a number of loan and revolving credit line agreements with local banks. Net increase of borrowings under these agreements amounted to RUB 3 000 000 thousand for six months ended 30 June 2013.

During six months ended 30 June 2013 the Group also repaid RUB 1 025 556 thousand of secured bank loans.

Other changes of loans and borrowings for six months ended 30 June 2013 comprised interest charges and the effect of exchange rate fluctuations and resulted in increase of loans and borrowings of RUB 337 886 thousand.

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

At 30 June 2013 and for the six months then ended the Group complied with all loan covenants.

21 Trade and other payables

'000 RUB	<u>30 June 2013</u>	<u>31 December 2012</u>
Trade payables	13 398 650	17 344 008
Advances received	175 057	181 083
Taxes payable (other than income tax)	909 679	650 827
Payables to staff	1 249 820	1 099 639
Foreign exchange and interest rate swap liabilities	-	32 554
Short-term liabilities incurred in share-based payment transactions	101 840	76 835
Deferred income	34 633	28 365
Other current payables	192 563	200 423
	<u>16 062 242</u>	<u>19 613 734</u>

22 Non-cancellable operating leases

During six months ended 30 June 2013 the Group entered into several non-cancellable operating leases of land plots.

Non-cancellable operating lease rentals are payable as follows:

RUB 000'	<u>30 June 2013</u>	<u>31 December 2012</u>
Less than one year	307 239	278 099
Between one and five years	896 265	765 382
More than five years	5 161 644	4 847 572
	<u>6 365 148</u>	<u>5 891 053</u>

23 Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUB 9 505 701 thousand as at 30 June 2013 (31 December 2012: RUB 5 796 762 thousand).

24 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.

The Group companies entered into intragroup transactions which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax and interest. The 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.

25 Financial instruments and risk management

(a) 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.

(b) 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 (Level 2). The Group has no financial assets and liabilities measured at fair value based on unobservable inputs.

Fair value of swap changed from RUB 32 554 thousand as at 31 December 2012 (liability) to RUB 291 399 thousand as at 30 June 2013 (receivable) due to change of forward foreign exchange rates.

26 Related party transactions

(a) Control relationships

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

(b) Transactions with management**(i) Management remuneration**

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

For the six months ended 30 June

'000 RUB	2013	2012
Salaries and bonuses	53 155	56 075
Social security contributions	1 355	2 717
Long-service bonus	59 770	53 039
Share-based payments	14 885	16 745
	129 165	128 576

In addition members of Board of Directors received remuneration of RUB 6 734 thousand (six months ended 30 June 2012: RUB 6 830 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. The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	Six months ended	Six months ended		
	30 June 2013	30 June 2012	30 June 2013	31 December 2012
Services provided:				
Other related parties	21 023	12 790	(1 203)	(5 110)
	21 023	12 790	(1 203)	(5 110)

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

(ii) Expenses

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	Six months ended 30 June 2013	Six months ended 30 June 2012	30 June 2013	31 December 2012
Lease of premises				
Other related parties	(361 797)	(335 855)	1 072 005	1 109 960
Including:				
Rental fee	(303 002)	(281 423)	-	-
Reimbursement of utilities	(28 439)	(25 060)	-	-
Reimbursement of other expenses	(30 356)	(29 372)	-	-
Other services received:				
Other related parties	(2 113)	(14 339)	331	608
Finance costs:				
Other related parties	(25 178)	(30 998)	-	-
	(389 088)	(381 192)	1 072 336	1 110 568

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

Outstanding balance of RUB 1 072 005 thousand represents prepayments for rent of hypermarkets for the period until 2017. Long-term part of prepayments is RUB 844 102 thousand, refer to note 14. Terms of the leases are such that the Group pays rentals which include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

Interest costs on loans from related parties amounted to RUB 25 178 thousand for six months ended 30 June 2013 (six months ended 30 June 2012: RUB 30 998 thousand) and were recorded as finance costs in profit or loss.

(iii) Loans

'000 RUB	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	For six months ended 30 June			
	2013	2012	30 June 2013	31 December 2012
Loans received:				
Other related parties	-	-	(665 022)	(617 522)

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.

27 Subsidiaries

Subsidiary	Country of incorporation	30 June 2013	31 December 2012
		Ownership/voting	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%
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%
LLC Skladservis	Russian Federation	-	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 Donskaya Zvezda	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	100%
LLC PKF Photon	Russian Federation	100%	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%

Subsidiary	Country of incorporation	30 June 2013	31 December 2012
		Ownership/voting	Ownership/voting
JCS START Krasnoselsky	Russian Federation	100%	100%
LLC Fresh Market	Russian Federation	100%	100%
LLC TC Djemir	Russian Federation	100%	100%
JCS START Primorsky	Russian Federation	100%	100%
LLC O'Key Delta	Russian Federation	100%	-

During six months ended 30 June 2013 the Group liquidated subsidiaries LLC Krona and LLC Skladservis. Contribution of liquidated subsidiaries to Group's profit for the period and effect on Group's assets and liabilities were not significant.

LLC O'Key Delta was established during six months ended 30 June 2013 as managing company for construction of several stores.

28 Events subsequent to the reporting date

In July 2013 fire occurred in one of Group's hypermarkets in Saint-Petersburg. No employees or customers were injured. The store was closed for repairs. Losses from fire comprise mainly lost goods and repair expenses. The evaluation of the total amount of losses is in progress.

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