Lenta Limited and subsidiaries

Consolidated financial statements

for the year ended 31 December 2012

Consolidated financial statements for the year ended 31 December 2012

Contents

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2012

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of Lenta Limited and its subsidiaries (the "Group") as at 31 December 2012 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2012 were approved by management on 24 September 2013:

On behalf of the Management as authorized by the Board of Directors:

Jan Dunning (CEO of Lenta Ltd)	Jago Lemmens (Chief Financial Officer/Financial Director of Lenta Ltd)

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Independent auditors' report

To the Shareholders of Lenta Ltd

We have audited the accompanying consolidated financial statements of Lenta Ltd and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, 2011 and 2010 and the consolidated statements of comprehensive income, statements of changes in equity and cash flow statements for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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 management, 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 2011 and 2010 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

24 September 2013

Consolidated statement of financial position as at 31 December 2012

(in thousands of Russian Roubles (RR))

	Note	31 December 2012	31 December 2011	31 December 2010
Assets				
Non-current assets:				
Property, plant and equipment	8	30,582,875	18,305,464	17,003,770
Prepayments for construction	9	1,459,501	646,300	293,856
Leasehold rights	10	2,214,195	1,619,142	1,221,199
Intangible assets other than leasehold rights	11	446,200	240,770	172,923
Deferred tax asset	21	–	–	41,924
Total non-current assets		**34,702,771**	**20,811,676**	**18,733,672**
Current assets:				
Inventories	12	9,373,700	7,569,262	6,745,591
Trade and other receivable	13	5,448,429	3,873,283	3,978,886
Advances paid	14	808,090	311,293	384,040
Taxes recoverable	15	1,121,760	112,199	69,800
Prepaid expenses		50,904	38,852	32,246
Cash and cash equivalents	16	3,536,464	5,136,419	770,794
Total current assets		**20,339,347**	**17,041,308**	**11,981,357**
Total assets		**55,042,118**	**37,852,984**	**30,715,029**
Equity				
Share capital	17,18	284	284	284
Additional paid-in capital	7, 17	3,972,544	3,693,595	462,438
Share options reserve	19	978,698	978,698	–
Treasury shares	17	(15,724,392)	(15,724,392)	–
Retained earnings		9,809,527	4,673,729	2,219,550
Total equity		**(963,339)**	**(6,378,086)**	**2,682,272**
Non-current liabilities:				
Long-term borrowings	20	24,978,988	24,884,900	–
Deferred tax liabilities	21	705,323	114,641	–
Financial instruments at fair value through profit or loss	7, 20	130,089	201,047	–
Long-term obligations under finance leases		65,420	76,256	–
Total non-current liabilities		**25,879,820**	**25,276,844**	**–**
Current liabilities:				
Trade and other payables	22	25,044,300	18,125,776	14,617,999
Advances received		156,671	145,923	219,532
Other taxes payable	23	547,509	278,833	208,212
Current income tax payable		402,595	230,764	398,038
Short-term portion of financial instruments at fair value through profit or loss	7, 20	141,558	172,930	–
Short-term borrowings and short-term portion of long-term borrowings	7, 20	3,833,004	–	7,725,920
Put option liability	17	–	–	4,863,056
Total current liabilities		**30,125,637**	**18,954,226**	**28,032,757**
Total liabilities		**56,005,457**	**44,231,070**	**28,032,757**
Total liabilities and equity		**55,042,118**	**37,852,984**	**30,715,029**

The accompanying notes on pages 8-57 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2012

(in thousands of Russian Roubles (RR))

	Note	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Sales		109,909,902	89,766,025	70,628,291
Cost of goods sold	24	(87,233,080)	(73,055,318)	(57,876,195)
Gross profit		**22,676,822**	**16,710,707**	**12,752,096**
Selling, general and administrative expenses	25	(13,506,345)	(11,224,598)	(9,214,186)
Reversal of impairment of non-financial assets		401	44,200	–
Other operating income	26	1,118,420	1,011,229	784,213
Other operating expense		(124,618)	(122,476)	(100,525)
Operating profit		**10,164,680**	**6,419,062**	**4,221,598**
Interest expense		(3,217,459)	(1,310,778)	(986,276)
Interest income		77,779	23,294	7,173
Change in fair value of financial instruments at fair value through profit or loss	7, 20	102,330	(373,977)	–
Put option revaluation	17	–	682,980	(259,415)
Other expenses	19	(215,122)	(2,572,534)	–
Foreign exchange gains/(losses)		69,967	(3,932)	33,493
Profit before income tax		**6,982,175**	**2,864,115**	**3,016,573**
Income tax expense	21	(1,846,377)	(1,167,611)	(796,452)
Profit for the year		**5,135,798**	**1,696,504**	**2,220,121**
Other comprehensive income for the year, net of tax		**–**	**–**	**–**
Total comprehensive income for the year, net of tax		**5,135,798**	**1,696,504**	**2,220,121**
Earnings per share (in RR per share) - basic and diluted, for profit for the year attributable to equity holders of the parent		0.060	0.017	0.021

The accompanying notes on pages 8-57 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2012

(in thousands of Russian Roubles (RR))

	Note	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities				
Profit before income tax		**6,982,175**	**2,864,115**	**3,016,573**
Adjustments for:				
Loss/(gain) on disposal of property, plant and equipment		15,000	(19,063)	19,624
Loss from disposal of leasehold rights		–	–	41,549
Interest expense		3,217,459	1,310,778	986,276
Interest income		(77,779)	(23,294)	(7,173)
Inventory write-down to NRV		42,400	191,183	71,896
Change in bad debt allowance		(3,639)	24,745	2,622
Depreciation and amortisation	8,25	1,576,364	1,963,551	1,911,306
Reverse of impairment of non-financial assets		(401)	(44,200)	
Net foreign exchange gain attributable to financing activities		–	–	(33,493)
Share Options expense	19	–	978,698	–
Change in fair value of financial instruments at fair value through profit or loss	7,20	(102,330)	373,977	–
Put option revaluation	17	–	(682,980)	259,415
		11,649,249	**6,937,510**	**6,268,595**
Movements in working capital:				
(Increase) / decrease in trade and other receivables		(1,571,933)	83,721	(1,320,717)
(Increase) / decrease in advances paid	14	(496,797)	72,747	38,128
Increase in prepaid expenses		(12,052)	(6,607)	(8,692)
Increase in inventories	12	(1,846,838)	(1,014,854)	(1,853,515)
Increase in trade and other payables		6,373,866	3,701,153	2,586,713
Increase/(decrease) in advances received		10,748	(73,609)	63,361
(Decrease)/increase in net other taxes payable	15, 23	(740,885)	28,222	(46,926)
Cash generated from operating activities		**13,365,358**	**9,728,283**	**5,726,947**
Income taxes paid		(1,083,862)	(1,219,903)	(591,881)
Interest paid		(3,099,041)	(1,760,526)	(999,329)
Interest received		78,202	20,431	6,307
Net cash generated from operating activities		**9,260,657**	**6,768,285**	**4,142,044**
Cash flows from investing activities				
Purchase of property, plant and equipment		(14,061,626)	(3,543,559)	(1,180,921)
Purchase of intangible assets other than leasehold rights		(262,709)	(121,672)	(46,946)
Purchase of leasehold rights		(638,074)	(386,368)	(85,389)
Proceeds from sale of property, plant and equipment		680	214,344	1,981
Net cash used in investing activities		**(14,961,729)**	**(3,837,255)**	**(1,311,275)**
Cash flows from financing activities				
Proceeds from borrowings		26,670,004	71,733,200	40,471,310
Repayment of borrowings		(22,837,000)	(54,574,220)	(43,243,958)
Repayment of obligations under finance lease		(10,836)	–	–
Proceeds from issue of new shares	7, 17	278,949	7	–
Purchase of treasury shares	17	–	(15,724,392)	–
Net cash generated from / (used in) financing activities		**4,101,117**	**1,434,595**	**(2,772,648)**
Net (decrease)/increase in cash and cash equivalents		**(1,599,955)**	**4,365,625**	**58,121**
Cash and cash equivalents at the beginning of the period	16	**5,136,419**	**770,794**	**712,673**
Cash and cash equivalents at the end of the period	16	**3,536,464**	**5,136,419**	**770,794**

Consolidated statement of changes in equity for the year ended 31 December 2012

(in thousands of Russian Roubles (RR))

	Share capital	Additional paid–in capital	Treasury shares	Share options reserve	Retained earnings/ (Accumulated deficit)	Total equity
Balance at 1 January 2010	**284**	**462,438**	**–**	**–**	**(571)**	**462,151**
Profit for the period	–	–	–	–	2,220,121	**2,220,121**
Other comprehensive income	–	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	2,220,121	**2,220,121**
Balance at 31 December 2010	**284**	**462,438**	**–**	**–**	**2,219,550**	**2,682,272**
Profit for the period	–	–	–	–	1,696,504	**1,696,504**
Other comprehensive income	–	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	1,696,504	**1,696,504**
Issue of shares	–	7	–	–	–	**7**
Put option cancellation (Note 17)	–	3,231,150	–	–	757,675	**3,988,825**
Purchase of own shares (Note 17)	–	–	(15,724,392)	–	–	**(15,724,392)**
Share-based payment transaction (Note 19, 27)	–	–	–	978,698	–	**978,698**
Balance at 31 December 2011	**284**	**3,693,595**	**(15,724,392)**	**978,698**	**4,673,729**	**(6,378,086)**
Profit for the period	–	–	–	–	5,135,798	**5,135,798**
Other comprehensive income	–	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**–**	**–**	5,135,798	**5,135,798**
Issue of shares (Note 17)	–	278,949	–	–	–	**278,949**
Balance at 31 December 2012	**284**	**3,972,544**	**(15,724,392)**	**978,698**	**9,809,527**	**(963,339)**

<u>Notes</u>

Additional paid-in capital: Additional paid-in capital is the difference between the fair value of consideration received and nominal value of the issued shares.

Treasury shares: Treasury shares are own equity instruments that are reacquired by the Group.

2. Corporate information

The Lenta Group (the "Group") comprises Lenta Limited (formerly Istochnik Limited) (the "Company") and its subsidiaries. The Group's principal business activity is the development and operation of food retail stores in Russia.

The Company was incorporated as a limited company under the laws of the British Virgin Islands (BVI) on 16 July 2003. The Company's registered address is at Road Town, Tortola, BVI. The registered office of the Group's main operating entity, LLC Lenta, is located at 112, Savushkina Street, 197374, Saint Petersburg, Russia.

At 31 December 2010, 31 December 2011 and 31 December 2012 the Group had one main operational fully-owned subsidiary, LLC Lenta, a legal entity registered under the laws of the Russian Federation. The principal activity of LLC Lenta is retail trade.

3. Basis of preparation of the financial statements

2.1. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for as described in accounting policies below. The consolidated financial statements are presented in Russian Roubles and all values are rounded to the nearest thousand (RR 000), except when otherwise indicated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

The Company does not prepare stand-alone financial statements, as BVI law does not require it. Its accounting records are kept only for the Group financial reporting purposes. The Russian Group companies maintain their accounting records in Russian Roubles and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation.

These consolidated financial statements have been prepared on a going concern basis.

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

2.1. Basis of preparation (continued)

At 31 December 2012, the Group had net current liabilities of approximately RR 9,786,290 (31 December 2011: RR 1,912,918, 31 December 2010: RR 16,051,400).

Unused credit facilities available as of 31 December 2012 were RR 11,817,000. Management believes that operating cash flows and available borrowing capacity will provide it adequate resources to fund its liabilities for the next year.

2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

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

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

2.2. Basis of consolidation (continued)

Business combinations and goodwill (continued)

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments*: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

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

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

2.3. Summary of significant accounting policies

Functional and presentation currency

The presentation and functional currency of all Group entities is the Russian Rouble ("RR"), the national currency of the Russian Federation, the primary economic environment in which operating entities function.

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rates at the date the transaction first qualifies for recognition.

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

2.3. Summary of significant accounting policies (continued)

Functional and presentation currency (continued)

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Consolidated financial statements

Subsidiaries are those companies (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits and which are neither associates nor joint ventures. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Property, plant and equipment

Property, plant and equipment are initially recorded at purchase or construction cost. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. All other repair and maintenance costs are expensed as incurred.

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Gains and losses on disposals determined by comparing net proceeds with the respective carrying amount are recognised in profit or loss.

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

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

2.3. Summary of significant accounting policies (continued)

Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method to write off their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	30
Land improvements	30
Machinery and equipment	5 to 15
Other	3 to 5

Leasehold rights

Leasehold rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortisation and accumulated impairment losses. These leasehold rights are amortized to profit or loss over the term of the lease, which is 49 years. If the Group further purchases the land plot previously leased, the carrying amount of the related leasehold right as of the date of purchase transaction is reclassified to the cost of land plot purchased.

Finance leases

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

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

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

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

2.3. Summary of significant accounting policies (continued)

Intangible assets (continued)

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement as the expense category that is consistent with the function of the intangible assets or included into the carrying amount of an asset as appropriate.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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

2.3. Summary of significant accounting policies (continued)

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with management's interpretation of the relevant legislation enacted or substantively enacted as at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is recorded using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

2.3. Summary of significant accounting policies (continued)

Income taxes (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Cost comprises the direct cost of goods, transportation and handling costs. Cost of sales comprises only cost of inventories sold through retail stores and inventory write-downs made during the period.

Borrowing costs

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

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

Revenue recognition

The sole source of revenue is retail sales. Revenue from the sale of goods is recognised at the point of sale.

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

Income generated from rental of spaces for small trading outlets within the Group’s stores is recognised in the end of each month on a straight-line basis over the period of the lease, in accordance with the terms of the relevant lease agreements.

Interest income is recognised on a time-proportion basis using the effective interest rate method. Interest income is included into the Interest income line in the statement of comprehensive income.

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

2.3. Summary of significant accounting policies (continued)

Suppliers' allowances

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

Employee benefits

The Group is subject to mandatory contributions to the Russian Federation defined contribution state pension benefit fund. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Share-based payments

To deal with agency issues between shareholders and those charged with governance, long-term incentive schemes in the form of Share Option Plans have been put in place by the Group. By aligning individual goals with those of the Group, more assurance regarding the protection of long-term shareholder value can be achieved. The accounting treatment of the share-based payment depends on how the transaction will be settled: by the issuance of equity, cash, or equity and cash.

For equity-settled share-based payment transactions, the Group measures the value of services received and the corresponding increase in equity, directly, at the fair value of the services received or indirectly by reference to the fair value of the equity instruments granted. The fair value of the share-based payment is determined at the grant date with no further revaluation and expensed over the vesting period.

Cash-settled share-based payment transactions (phantom options) are treated as a liability rather than equity. Until the liability is settled, the entity is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognised in profit or loss for the period.

Where there is an alternative to settle the transaction in cash or by issuing shares, debt and equity components of the instrument are to be identified and treated appropriately.

In 2011 the Group granted an equity option that represents a share-based payment transaction with cash alternative. The option was recognised in equity (Note 27).

Pre-opening costs

Operating expenses incurred during the process of opening of new stores were recorded in the Group's consolidated statement of comprehensive income. These expenses do not meet capitalisation criteria under IAS 16 *Property, Plant and Equipment* and include rent, utilities and other operating expenses.

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

2.3. Summary of significant accounting policies (continued)

Development projects on behalf of third parties

Where the Group undertakes a short-term development project for a new store construction on behalf of a third party, expenditure incurred on construction of the store is recorded within other receivables while on-account payments received from the third party are recorded as advances received. The net result of such projects is recognised as other operating income upon completion of the project.

Segment reporting

The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different stores and in various regions within the Russian Federation, the Group's chief operating decision maker reviews the Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on a measure of revenue and earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is non-IFRS measure. Other information is measured in a manner consistent with that in the consolidated financial statements.

Seasonality

The Group's business operations are stable during the year with limited seasonal impact, except for a significant increase of business activities in December.

Financial assets

General description

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

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

Effective interest rate method

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

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

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

2.3. Summary of significant accounting policies (continued)

Financial assets (continued)

Loans and receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

A financial asset is derecognised when:

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

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

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

2.3. Summary of significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

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

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

Financial liabilities and equity instruments issued by the Group

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share capital

Ordinary shares are classified as equity. Transaction costs of a share issue, other than on a business combination, are shown within equity as a deduction from the proceeds.

Additional paid-in capital

Additional paid-in capital represents the difference between the fair value of consideration received and the nominal value of the issued shares.

Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of transaction costs.

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

2.3. Summary of significant accounting policies (continued)

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

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially recognised at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

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

Fair value of financial instruments

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

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps and caps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

3. Significant accounting judgements and estimates

In the application of the Group's accounting policies, which are described in Note 2 above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Judgements that have the most significant effect on the amounts recognised in these 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:

Judgements

Operating lease commitments – Group as lessor

The Group has entered into land and premises leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Assets versus business acquisition

From time to time in the normal course of business the Group acquires the companies that are a party to a lease contract or own the land plot in which the Group is interested. If at the date of acquisition by the Group, the company does not constitute a business, the Group treats such acquisitions as a purchase of assets (a leasehold right or a land plot) in the consolidated financial statements. The exercise of judgment determines whether a particular transaction is treated as a business combination or as a purchase of assets.

Estimation uncertainty

Useful life of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Useful lives are reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Leases renewal assumption

It is presumed that the initial land leases contracted for 3 years will be renewed for 49 years after completion of construction of stores. Thus, any long-term prepayments at the inception of the leases are presumed to have a 49-year useful life. Should the Group fail to renew the land lease contracts for a 49-year period, leasehold rights would have to be written off at the end of the initial lease term.

Inventory valuation

Management reviews inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review also includes the identification of slow moving inventories, which is an evidence of inventory net realizable value being lower than its carrying amount.

Tax legislation

Russian tax, currency and customs legislation is subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 28 for further discussion.

Impairment of non-financial assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (continued)

The value in use calculation is based on a discounted cash flow model. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available. The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

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

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

4. Adoption of new or revised standards and interpretations

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2012:

IAS 12 Income Taxes (amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

4. Adoption of new or revised standards and interpretations (continued)

IFRS 7 Financial Instruments: Disclosures − Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

5. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments become effective for annual periods beginning on or after 1 January 2013. The Group management believes that the amendment will have no impact on the Group's financial position or performance.

IAS 27 Separate Financial Statements (revised)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (revised)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

5. Standards issued but not yet effective (continued)

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures − Offsetting Financial Assets and Financial Liabilities − Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will not have an impact on classification and measurements of financial assets and financial liabilities.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation − Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

5. Standards issued but not yet effective (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities − Non-monetary Contributions by Venturers*.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact on the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 21 Levies

The interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 and the accounting for a liability to pay a levy whose timing and amount is certain. If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is only recognised when that minimum activity threshold is reached. If the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time), the liability to pay a levy is recognised progressively. The Interpretation is applicable for annual periods beginning on or after 1 January 2014 and will not have significant impact on the Group's financial position or performance.

IAS 36 Impairment of Assets – Amendments to IAS 36

The amendment relates to disclosures in respect of fair value less costs of disposal. When IAS 36 was originally changed as a consequence of IFRS 13 Fair Value Measurement, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount were based on fair value less costs of disposal. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by this amendment. The amendment is applicable for annual periods beginning on or after 1 January 2014. The amendment is not expected to have any impact on the Group's financial position and performance.

5. Standards issued but not yet effective (continued)

IAS 39 Financial Instruments: Recognition and Measurement - Amendments to IAS 39

The amendment eliminates the requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment is applicable for annual periods beginning on or after 1 January 2014. The amendment is not expected to have any impact on the Group, as it does not apply hedge accounting.

Annual improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

(in thousands of Russian Roubles (RR))

6. Operating segments

The Group's principal business activity is the development and operation of food retail stores located in Russia. Risks and returns are affected primarily by economic development in Russia and by the development of Russian food retail industry. The Group has no significant assets outside the Russian Federation (excluding investments in its foreign subsidiaries Lakatomo Holdings and Lenta Luxemburg, which are eliminated on consolidation). Due to the similar economic characteristics of food retail stores, the Group's management has aggregated its operating segment represented by stores into one reportable segment. Within the segment all business components are similar in respect of:

- the products;
- the customers;
- centralized Group structure (commercial, operational, logistic, finance, HR and IT functions are centralized).

The Group's operations are regularly reviewed by the chief operating decision maker, represented by the CEO, to analyze performance and allocate resources within the Group. The CEO assesses the performance of operating segments based on the dynamics of revenue and earnings before interest, tax, depreciation, amortisation (EBITDA).

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

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

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Sales	109,909,902	89,766,025	70,628,291
EBITDA	11,740,643	8,338,413	6,132,904

Reconciliation of EBITDA to IFRS profit for the year is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
EBITDA	**11,740,643**	**8,338,413**	**6,132,904**
Interest expense	(3,217,459)	(1,310,778)	(986,276)
Interest income	77,779	23,294	7,173
Income tax expense (see Note 21)	(1,846,377)	(1,167,611)	(796,452)
Depreciation / amortisation (see Note 8,25)	(1,576,364)	(1,963,551)	(1,911,306)
Other expenses (see Note 19)	(215,122)	(2,572,534)	–
Reversal of impairment of non-financial assets	401	44,200	–
Revaluation of financial instruments at fair value through profit or loss (see Note 7,20)	102,330	(373,977)	–
Put option revaluation (see Note 17)	–	682,980	(259,415)
Foreign exchange gains/(losses)	69,967	(3,932)	33,493
Profit for the year	**5,135,798**	**1,696,504**	**2,220,121**

(in thousands of Russian Roubles (RR))

7. Balances and transactions with related parties

Related parties may enter into transactions, which unrelated parties might not. Transactions between related parties might not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

On 20 September 2012 the Board of Directors of the Group approved the plan for the reorganisation of the corporate structure of the Group. During 2012 the following steps were performed:

1. A new holding company was established outside the Lenta Group by TPG/Luna: Lenta Holdings Ltd (a BVI Company).
2. Lenta Holdings Ltd incorporated a new Cypriot company called Zoronvo Holdings Ltd.
3. Zoronvo Holdings Ltd (99%) and Lenta Holdings Ltd (1%) set up a new Russian company “Lenta-2 LLC”.
4. Lenta Holdings Ltd sold its 100% interest in Zoronvo Holdings Ltd and 1% interest in Lenta-2 LLC to Lenta Ltd.
5. Lenta LLC was moved to the new ownership structure by Lenta-2 LLC purchasing Lenta LLC from Lenta Ltd and paying in consideration A Promissory Notes of RR141,000,000.

On 20 September 2012 360,231 ordinary shares of zero par value were issued to the CEO in return for the consideration of USD 9,038,196 (RR 278,949). These shares are held subject to first fixed charge created pursuant to Share Pledge Agreement dated 18 September 2012 between Jan Dunning (as chargor), Luna Inc., Luna Holdings Inc and EBRD.

The Group’s ownership structure is as follows:

Shareholders	Percentage of shares held, 31 December 2012	Percentage of shares held, 31 December 2011	Percentage of shares held, 31 December 2010
Luna Inc. (1)	40.17%	38.45%	30.78%
Svoboda Corporation (2)	–	–	41.04%
Lakatomo Holdings Limited (subsidiary of Lenta Ltd)	19.89%	19.96%	
European Bank for Reconstruction and Development	17.32%	17.38%	11.11%
Luna Holdings Inc.(3)	9.45%	9.48%	
Others	13.17%	14.73%	17.07%
Total shareholders’ equity	**100.00%**	**100.00%**	**100.00%**

(1) As at 1 December 2010, an investment vehicle for TPG Capital and VTB Capital together, and as at 31 December 2011 and 31 December 2012, an investment vehicle (subsidiary) for TPG Capital alone

(2) An investment vehicle for A. Meyer

(3) An investment vehicle (subsidiary) for VTB Capital

(in thousands of Russian Roubles (RR))

7. Balances and transactions with related parties (continued)

The consolidated financial statements include the following balances with related parties:

Entities with significant influence over the Group:

	31 December 2012	31 December 2011	31 December 2010
VTB Capital			
Cash and cash equivalents	2,564,946	3,330,342	199,604
Long-term loans payable	24,978,988	24,884,900	–
Short-term loans payable	2,833,000	–	5,226,053
Finance lease liability	63,511	73,291	–
Liability on swaps and caps at fair value through profit or loss	271,647	373,977	–
Interest accrued	7,975	8,180	5,485
Interest prepayments	–	11,887	–
EBRD			
Accrued liabilities	–	191,445	290
Put option liability	–	–	4,863,056
TPG Capital			
Accrued liabilities	–	542,926	–
Prepayments	39,451	–	–
Luna Holdings Inc.			
Accrued liabilities	4,591	95,625	–

Outstanding balances were originated from the transactions with related parties stated below.

The following transactions were carried out with related parties:

Entities with significant influence over the Group:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
VTB Capital			
Interest expense and commission on loans	2,957,497	1,179,049	474,210
Finance leasing charge	10,538	4,000	–
Financial charges on swaps	155,156	37,934	–
Loss/(income) on financial instruments at fair value through profit or loss (swaps and caps)	(102,330)	373,977	–
EBRD			
Put option revaluation	–	682,980	(259,415)
Other expenses	–	31,875	290
TPG Capital			
Other expenses	72,426	799,508	–
Luna Holdings Inc.			
Other expenses	–	127,500	–

(in thousands of Russian Roubles (RR))

7. Balances and transactions with related parties (continued)

Remuneration to the members of the Board of Directors and key management personnel was as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Short-term benefits	1,051,783	505,668	166,060
Termination benefits	1,124	13,593	76,849
Total remuneration	**1,052,907**	**519,261**	**242,909**

8. Property, plant and equipment

Cost	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2010	**1,921,776**	**1,753,439**	**12,388,199**	**5,599,884**	**654,455**	**22,317,753**
Additions	–	–	–	37	1,420,305	**1,420,342**
Transfers from construction in progress	170,544	131,144	680,193	414,638	(1,396,519)	**–**
Disposals	–	–	(592)	(56,567)	(198,790)	**(255,949)**
Balance at 31 December 2010	**2,092,320**	**1,884,583**	**13,067,800**	**5,957,992**	**479,451**	**23,482,146**
Accumulated depreciation and impairment						
Balance at 1 January 2010	**156,202**	**303,915**	**2,186,437**	**2,092,163**	**122,099**	**4,860,816**
Charge for the year	–	117,095	878,401	767,461	–	**1,762,957**
Disposals	–	–	(97)	(47,811)	(97,489)	**(145,397)**
Balance at 31 December 2010	**156,202**	**421,010**	**3,064,742**	**2,811,813**	**24,610**	**6,478,376**
Net book value						
Balance at 1 January 2010	**1,765,574**	**1,449,524**	**10,201,762**	**3,507,721**	**532,355**	**17,456,936**
Balance at 31 December 2010	**1,936,117**	**1,463,573**	**10,003,059**	**3,146,179**	**454,841**	**17,003,770**

Cost	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2011	**2,092,320**	**1,884,583**	**13,067,800**	**5,957,992**	**479,451**	**23,482,147**
Additions	–	–	–	146	3,438,841	**3,438,987**
Transfers from construction in progress	114,400	328,944	1,605,266	1,067,149	(3,115,759)	**–**
Disposals	(360,202)	–	(34,584)	(116,936)	(26,462)	**(538,184)**
Balance at 31 December 2011	**1,846,517**	**2,213,528**	**14,638,482**	**6,908,351**	**776,071**	**26,382,949**
Accumulated depreciation and impairment						
Balance at 1 January 2011	**156,202**	**421,010**	**3,064,741**	**2,811,813**	**24,610**	**6,478,377**
Charge for the year	–	128,383	935,310	813,409	–	**1,877,102**
Disposals	(156,202)	–	(11,864)	(85,317)	(24,610)	**(277,993)**
Balance at 31 December 2011	**–**	**549,393**	**3,988,188**	**3,539,904**	**–**	**8,077,485**
Net book value						
Balance at 1 January 2011	**1,936,117**	**1,463,573**	**10,003,059**	**3,146,179**	**454,841**	**17,003,770**
Balance at 31 December 2011	**1,846,517**	**1,664,135**	**10,650,294**	**3,368,447**	**776,071**	**18,305,464**

(in thousands of Russian Roubles (RR))

8. Property, plant and equipment (continued)

Cost	Land	Land improve-ments	Buildings	Machinery and equipment	Assets under construction	Total
Balance at 1 January 2012	**1,846,517**	**2,213,528**	**14,638,482**	**6,908,351**	**776,071**	**26,382,949**
Additions	219,688	–	–	129	13,583,065	**13,802,882**
Transfers from construction in progress	1,475,481	645,211	8,103,379	2,502,336	(12,726,407)	**–**
Disposals	–	–	(4,116)	(81,983)	(31,865)	**(117,964)**
Balance at 31 December 2012	**3,541,686**	**2,858,739**	**22,737,745**	**9,328,833**	**1,600,864**	**40,067,867**
Accumulated depreciation and impairment						
Balance at 1 January 2012	**–**	**549,393**	**3,988,188**	**3,539,904**	**–**	**8,077,485**
Charge for the year	–	73,995	491,672	909,996	–	**1,475,663**
Disposals	–	–	(3,244)	(64,912)	–	**(68,156)**
Balance at 31 December 2012	**–**	**623,388**	**4,476,616**	**4,384,988**	**–**	**9,484,992**
Net book value						
Balance at 1 January 2012	**1,846,517**	**1,664,135**	**10,650,294**	**3,368,447**	**776,071**	**18,305,464**
Balance at 31 December 2012	**3,541,686**	**2,235,351**	**18,261,129**	**4,943,845**	**1,600,864**	**30,582,875**

During 2012 year the Group acquired premises in Voronezh for RR 527,500, in Yaroslavl for RR 1,007,000, in Belgorod for RR 646,900 and in Orenburg for RR 1,336,000, all previously owned by another retail chain. Hypermarkets in Voronezh, Yaroslavl (two stores) and Orenburg were opened in 2012, a hypermarket in Belgorod is currently undergoing rebranding and is expected to be launched in July 2013. Another ten stores were constructed using internal resources and opened during 2012.

The carrying amount of property, plant and equipment held under finance leases at 31 December 2012 was RR 79,251 (31 December 2011: RR 93,314, 31 December 2010: nil). Additions during the twelve months ended 31 December 2011 include RR 90,888 of property, plant and equipment under finance leases (2012: RR 0). Leased assets are pledged as security for the related finance lease.

Land and buildings with a carrying amount of RR 10,927,425 (31 December 2011: RR 8,724,323, 31 December 2010: nil) are pledged under a loan agreement with VTB Capital Plc (see Note 20). During the year ended 31 December 2010, the year ended 31 December 2011 and the year ended 31 December 2012, the Group was not involved in acquisition of any assets that would satisfy the definition of qualifying assets for the purposes of borrowing costs. Thus, no borrowing costs were capitalised during those periods.

The amount of depreciation charged during the years ended 31 December 2010, 31 December 2011 and December 2012 is presented within Depreciation and amortisation in the Group's consolidated statement of comprehensive income and statement of cash flows as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Depreciation of property, plant and equipment	1,475,663	1,877,102	1,762,957
Amortisation of intangible assets other than leasehold rights (Note 11)	57,278	53,831	120,401
Leasehold rights amortisation (Note 10)	43,423	32,618	27,948
Total depreciation and amortisation	**1,576,364**	**1,963,551**	**1,911,306**

(in thousands of Russian Roubles (RR))

9. Prepayments for construction

Prepayments for construction are represented by advances given to the constructors for the building of the stores and to suppliers.

10. Leasehold rights

Leasehold rights as at 31 December 2012 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2012	**1,829,754**
Additions	840,453
Transfer to PPE	(227,140)
At 31 December 2012	**2,443,067**
Accumulated amortisation and impairment	
At 1 January 2012	**210,612**
Charge for the year	43,423
Reversal of impairment	(401)
Transfer to PPE	(24,762)
At 31 December 2012	**228,872**
Net book value	
At 1 January 2012	**1,619,142**
At 31 December 2012	**2,214,195**

Leasehold rights as at 31 December 2011 consisted of the following:

	Leasehold rights
Cost	
At 1 January 2011	**1,443,393**
Additions	386,361
Transfer to PPE	-
At 31 December 2011	**1,829,754**
Accumulated amortisation and impairment	
At 1 January 2011	**222,194**
Charge for the year	32,618
Reversal of impairment	(44,200)
Transfer to PPE	
At 31 December 2011	**210,612**
Net book value	
At 1 January 2011	**1,221,199**
At 31 December 2011	**1,619,142**

(in thousands of Russian Roubles (RR))

10. Leasehold rights (continued)

	Leasehold rights
Cost	
At 1 January 2010	**1,529,434**
Additions	90,718
Disposal	(175,001)
Transfer to PPE	(1,758)
At 31 December 2010	**1,443,393**
Accumulated amortisation and impairment	
At 1 January 2010	**324,127**
Charge for the year	27,948
Disposals	(129,881)
At 31 December 2010	**222,194**
Net book value	
At 1 January 2010	**1,205,307**
At 31 December 2010	**1,221,199**

11. Intangible assets other than leasehold rights

Intangible assets other than leasehold rights as at 31 December 2012 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2012	**647,762**	**549**	**648,311**
Additions	262,708	–	**262,708**
At 31 December 2012	**910,470**	**549**	**911,019**
Accumulated amortisation			
At 1 January 2012	**407,197**	**344**	**407,541**
Amortisation for the period	57,188	90	**57,278**
At 31 December 2012	**464,385**	**434**	**464,819**
Net book value			
At 1 January 2012	**240,565**	**205**	**240,770**
At 31 December 2012	**446,085**	**115**	**446,200**

Intangible assets other than leasehold rights as at 31 December 2011 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2011	**526,084**	**549**	**526,633**
Additions	125,351	–	**125,351**
Disposals	(3,673)	–	**(3,673)**
At 31 December 2011	**647,762**	**549**	**648,311**
Accumulated amortisation			
At January 2011	**353,460**	**250**	**353,710**
Amortisation for the period	53,737	94	**53,831**
At 31 December 2011	**407,197**	**344**	**407,541**
Net book value			
At 1 January 2011	**172,624**	**299**	**172,923**
At 31 December 2011	**240,565**	**205**	**240,770**

(in thousands of Russian Roubles (RR))

11. Intangible assets other than leasehold rights (continued)

Intangible assets other than leasehold rights as at 31 December 2010 consisted of the following:

	Software	Trade marks	Total
Cost			
At 1 January 2010	**480,960**	**549**	**481,509**
Additions	45,124	–	**45,124**
At 31 December 2010	**526,084**	**549**	**526,633**
Accumulated amortisation			
At January 2010	**233,153**	**156**	**233,309**
Amortisation for the period	120,307	94	**120,401**
At 31 December 2010	**353,460**	**250**	**353,710**
Net book value			
At 1 January 2010	**247,807**	**393**	**248,200**
At 31 December 2010	**172,624**	**299**	**172,923**

Amortisation expense is included in selling, general and administrative expenses (Note 25).

12. Inventories

	31 December 2012	31 December 2011	31 December 2010
Goods for resale	8,985,132	7,319,804	6,488,458
Raw materials	388,568	249,458	257,133
Total inventories	**9,373,700**	**7,569,262**	**6,745,591**

Raw materials are primarily represented by inventories used in the production of own meal products.

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for obsolescence and wrote down inventories to their net realizable value, which resulted in recognition of expenses within cost of sales in the consolidated statement of comprehensive income for the year ended 31 December 2012 in the amount of RR 1,274,891 (31 December 2011: RR 1,235,521; 31 December 2010: RR 899,467).

The write down to net realizable value was determined by applying the percentages of discount on book value of slow moving goods. The percentages of discounts were based on the best management estimate following the experience of the discount sales.

(in thousands of Russian Roubles (RR))

13. Trade and other receivables

	31 December 2012	31 December 2011	31 December 2010
Accounts receivable on rental and other services and on suppliers' advertising	3,538,067	1,825,294	2,160,474
Suppliers' rebates receivable	1,733,039	1,966,892	1,689,865
Receivables for construction for stores on behalf of third parties	129,886	86,058	107,339
Other receivables	54,307	14,283	23,830
Bad debt allowance	(6,870)	(19,244)	(2,622)
Total trade and other receivables	**5,448,429**	**3,873,283**	**3,978,886**

Receivables for construction represent expenditure incurred in the construction of stores on behalf of third parties, advance payments from which have been included in advances received. As at 31 December 2012 and 31 December 2011 these are RR 106,131 (31 December 2010: RR 151,145).

The majority of amounts are receivable within 25 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against receivables of under 365 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Amounts receivable from suppliers and accounts receivable for rental and other services disclosed above include amounts (see below for aged analysis) that are due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

An ageing of trade and other receivables that are past due dates but not impaired as at 31 December 2012 is detailed below:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable less provision	44,258	8,621	7,964	1,672,161	**1,733,004**
Accounts receivable on rental and other services	217,902	11,970	12,686	3,295,107	**3,537,665**
Receivables for construction for stores on behalf of third parties	–	–	345	123,108	**123,453**
Other receivables	–	–	–	54,307	**54,307**
Total	**262,160**	**20,591**	**20,995**	**5,144,683**	**5,448,429**

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2011:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable less provision	10,116	1,499	196	1,950,089	**1,961,900**
Accounts receivable on rental and other services	298,477	8,273	2,275	1,503,838	**1,812,863**
Receivables for construction for stores on behalf of third parties	–	–	–	84,237	**84,237**
Other receivables	–	–	–	14,283	**14,283**
Total	**308,593**	**9,772**	**2,471**	**3,552,447**	**3,873,283**

(in thousands of Russian Roubles (RR))

13. Trade and other receivables (continued)

Ageing of trade and other receivables that are past due but not impaired as at 31 December 2010:

	0-60 days overdue	60-120 days overdue	120-365 days overdue	Neither past due nor impaired	Total
Suppliers' volume rebates receivable less provision	10,734	30,338	23,577	1,625,216	**1,689,865**
Accounts receivable on rental and other services	634,391	149,495	34,224	1,339,742	**2,157,852**
Receivables for construction for premises on behalf of third parties	–	–	–	107,339	**107,339**
Other receivables	13,752	1,638	878	7,562	**23,830**
Total	**658,877**	**181,471**	**58,679**	**3,079,859**	**3,978,886**

14. Advances paid

	31 December 2012	31 December 2011	31 December 2010
Advances to suppliers of goods	406,532	109,182	218,960
Advances for services	289,529	188,157	165,080
Guarantee payments under lease contracts	112,029	13,954	–
Total advances paid	**808,090**	**311,293**	**384,040**

15. Taxes recoverable

Taxes recoverable as at 31 December 2012 are represented by a VAT receivable of RR 918,963 (31 December 2011 and 31 December 2010: nil) and input VAT that has not been claimed for reimbursement from tax authorities of RR 202,797 (31 December 2011: RR 112,199, 31 December 2010: RR 69,800).

16. Cash and cash equivalents

	31 December 2012	31 December 2011	31 December 2010
RR short-term deposits	35,057	3,229,605	–
RR denominated cash in transit	3,303,108	1,736,126	708,461
RR denominated cash on hand and balances with banks	196,265	169,407	60,823
US$ denominated cash on hand and balances with banks	2,034	1,281	1,510
Total cash and cash equivalents	**3,536,464**	**5,136,419**	**770,794**

Cash in transit represents cash receipts made on 29, 30 and 31 December, which were sent to banks but not deposited into the respective bank accounts until January of the following financial year as these 3 days were non-banking days in Russia. As at 31 December 2011, only the last 2 days of sales were in transit (end of 2010, one day of sales).

16. Cash and cash equivalents (continued)

Significant RR denominated cash in transit resulted from the business seasonality, indicating higher levels of retail sales in holiday periods such as the New Year's Eve as well as the Russian bank holiday. If the closing day is on non-banking days, the amount of cash in transit increases.

Greater RR denominated cash balances with banks at 31 December 2011 refer to funds available from the VTB loan, which were placed by the Group on deposit. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

17. Equity and put option liability to shareholders

As at 31 December 2012 the Company's share capital was comprised of 106,685,231 authorised and issued ordinary shares (as at 31 December 2011 106,325,000, as at 31 December 2010 103,905,000) with equal voting rights save that the voting rights attaching to any shares held by a member of the Group (including, therefore, the 21,218,443 shares held by Lakatomo Holdings Limited) are suspended for so long as they are so held. The shares have no par value.

All outstanding ordinary shares are entitled to an equal share in any dividend declared by the Company. According to the BVI Business Companies Act No. 16 of 2004, no dividends can be declared and paid unless the Board of Directors determines that, immediately after the payment of the dividend, the Group will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Group will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital. In accordance with Russian legislation, LLC Lenta, the Company's primary operating subsidiary registered under the laws of the Russian Federation, may distribute profits as dividends or transfer them to reserves (fund accounts) limited to the net profits recorded in its financial statements prepared in accordance with Russian Accounting Rules. No dividends to holders of ordinary shares were declared for the years ended 31 December 2012, 31 December 2011 and 31 December 2010.

Pursuant to the Subscription Agreement dated 27 April 2007, on 21 May 2007 EBRD subscribed for 11,545,000 ordinary shares, equal to a 11.1% ownership interest, in the capital of the Company, and one Class A Preference Share and one Class B Preference Share for an aggregate total consideration of US$125 million. The Preference Shares were subsequently cancelled, as confirmed in the share register of the Company on 30 June 2011. In connection with the Subscription Agreement, the Company also entered into a put and call option agreement in relation to the Company's ordinary shares owned by EBRD, which provided EBRD with the right to put the shares of the Company and provided the Company with the right to purchase the shares if certain events occur and/or fail to occur.

Under IFRS the put option represented an obligation to redeem EBRD shares, and accordingly, the Group recognised a put option liability to a shareholder at its fair value with a corresponding reduction in equity. The fair value of a put option liability was measured as the highest redemption value, i.e. at the higher of (a) US$125 million plus interest (4.25% over LIBOR) and (b) the fair market value of 11,454,000 ordinary shares in Lenta Ltd based on the fair market value of the Company as a whole taking into account the value of any subsidiaries. The Group's management engaged services of an independent appraiser to determine the fair market value of the Group, and used the results of such appraisal in considering its assessment of the fair value of the put option. Put option liability as at 31 December 2010 was stated as US$125 million plus interest (4.25% over LIBOR).

(in thousands of Russian Roubles (RR))

17. Equity and put option liability to shareholders (continued)

On 23 September 2011, the put option agreement between the Company and EBRD was cancelled, for US$6 million fee (RR 191,251). Accordingly, the obligation was transferred to Equity in the historical amount of US$ 125 million (RR 3,231,150) – total consideration for EBRD's subscribing for 11,545,000 ordinary shares (net gain recognised in profit or loss comprised RR 682,980 including the effect of change in carrying amount of RR 874,231 and cancellation fee of RR (191,251)).

Gains and losses arising from changes in the value of the put option are included in profit or loss in the period in which they arise.

	31 December 2012	31 December 2011	31 December 2010
Beginning of the period, carrying value of put option	–	4,863,056	4,603,641
Change in fair value	–	(874,231)	259,415
Transfer to APIC	–	(3,231,150)	–
Cancelation effect	–	(757,675)	–
End of the period, carrying value of put option	**–**	**–**	4,863,056

The movements in the number of shares during the years ended 31 December 2012, 31 December 2011 and 31 December 2010 were as follows.

	2012 No. ('000)	2011 No. ('000)	2010 No. ('000)
	unlimited	unlimited	unlimited
Authorized share capital (ordinary shares with no par value)			
Issued and fully paid (no par value)	106,685,231	106,325,000	103,905,000
Treasury shares	(21,218,443)	(21,218,443)	–

	2012 No. ('000)	2011 No. ('000)	2010 No. ('000)
Balance of shares outstanding at beginning of financial year	85,106,557	103,905,000	103,905,000
Additional issue of shares	360,231	2,420,000	–
Share-buyback	–	(21,218,443)	–
Balance of shares outstanding at the end of financial year	**85,466,788**	**85,106,557**	**103,905,000**

In 2012 360,231 ordinary shares were issued by the Group for a total cash consideration of RR 278,949 (USD 9,038,196 at the exchange rate at the date of the transaction). The difference between cash received and the carrying value of shares was recorded as increase of additional paid-in capital.

In 2011 2,420,000 ordinary shares of no par value were issued to Luna Inc. and Svoboda (both then shareholders in Lenta Ltd) pursuant to the terms of a share option deed entered into by Lenta Ltd with Oleg Zherebtsov and subsequently novated to Luna Inc. (50% of the interest in which was subsequently transferred to Svoboda Corporation) (see Note 7).

In 2011 the Group purchased 21,218,443 of own shares from Svoboda Corporation for US$515 million (RR 15,724,392).

(in thousands of Russian Roubles (RR))

18. Earnings per share

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Earnings per share (in RR per share) -basic and diluted, for profit for the year attributable to equity holders of the parent	0.060	0.017	0.021

The calculation of basic earnings per share for reporting periods was based on the profit attributable to shareholders (for the year ended 31 December 2012: RR5,135,798, for the year ended 31 December 2011: RR 1,696,504, for the year ended 31 December 2010: RR 2,220,121) and a weighted average number of ordinary shares outstanding during the respective periods, calculated as shown below.

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Number of issued shares at the beginning of period	85,106,557	103,905,000	103,905,000
Number of shares issued in September, 2012	360,231	–	–
Number of shares issued in August, 2011	–	2,420,000	–
Number of treasury shares purchased in September, 2011		(21,218,443)	
Number of shares at the end of reporting period	85,466,788	85,106,557	103,905,000
Weighted average number of shares	85,211,624	98,623,787	103,905,000

The Group has not issued any share options that would result in issuing shares at below fair value, so there are no any dilutive options.

19. Other expenses

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Consulting	215,122	–	–
Expense related to the purchase of shares in Lenta Ltd by a member of the Group	–	1,593,836	–
Share option	–	978,698	–
Total other expenses	**215,122**	**2,572,534**	**–**

The Group engaged the services of various professional consultants to assist management in Group restructuring, budgeting processes, valuation of real estate portfolio etc.

Lenta Ltd is also obliged to pay amounts to TPG Capital in consideration for ongoing monitoring and operational support provided by TPG Capital to Lenta Ltd.

A number of third parties (including certain shareholders in Lenta Ltd) provided support to the Group in respect of the share purchase transaction, resolving the shareholder dispute, which support included arranging and negotiating such transaction. Lenta Ltd agreed to pay certain fees to, and pay amounts in respect of certain costs and expenses of, TPG Capital, European Bank for Reconstruction and Development, and Luna Holdings Inc.

(in thousands of Russian Roubles (RR))

19. Other expenses (continued)

In September 2011, an option to buy 3,375,000 ordinary shares at US$25.086 per share was granted to a private individual who helped to settle the dispute between the shareholders - this option can be exercised in connection with an IPO or when a key shareholder (Luna Inc., EBRD or Luna Holdings Inc.) sells shares to a third party (see Note 27).

The Group's management engaged the services of an independent appraiser, and used the results of such appraisal in considering management's assessment of the fair value of option. The value of the option is estimated at RUR 978,698 as of the grant date.

20. Borrowings

Short-term borrowings:

Lender	Due date	Cur-rency	Weighted average interest rate for the year ended 31 December 2012, %	Weighted average interest rate for the year ended 31 December 2011, %	Weighted average interest rate for the year ended 31 December 2010, %	31 December 2012	31 December 2011	31 December 2010
Short-term portion of long-term borrowings								
Sberbank 0162-102612	2013	RR	9.27	–		500,000	–	–
TransCreditBank 11-27	2013	RR	7.97	–	–	1,203,000	–	–
TransCreditBank 11-28	2013	RR	7.99	–	–	1,630,004	–	–
TransCreditBank 10-02	2012	RR	–	–	8.60	–	–	1,000,000
TransCreditBank 10-08	2012	RR	–	–	7.61	–	–	500,000
VTB 102/10	2011	RR	–	–	7.50	–	–	450,000
Total short-term portion of long-term borrowings						**3,333,004**	**–**	**1,950,000**
Short-term borrowings								
Saint-Petersburg Bank	2013	RR	7.6	–		500,000	–	–
VTB 101/10	2011	RR	–	–	5.00	–	–	215,053
VTB 05/10	2011	RR		–	9.16			601,000
VTB 107/09	2011	RR	–	–	9.65	–	–	1,210,000
VTB 115/09	2011	RR	–	–	9.41			1,250,000
Sberbank 0162-RKL-1	2011	RR	–	–	8.29			1,999,968
Sberbank 0162-RKL-2	2011	RR	–	–	8.27	–	–	499,899
Total short-term borrowings						**500,000**	**–**	**5,775,920**
Total short-term borrowings and short-term portion of long-term borrowings						**3,833,004**	**–**	**7,725,920**

(in thousands of Russian Roubles (RR))

20. Borrowings (continued)

Long-term borrowings:

Lender	Due date	Cur-rency	Weighted average interest rate for the year ended 31 December 2012, %	Weighted average interest rate for the year ended 31 December 2011, %	Weighted average interest rate for the year ended 31 December 2010, %	31 December 2012	31 December 2011	31 December 2010
VTB	2016	RR	11.05	10.97		24,978,988	24,884,900	–
Total long-term borrowings						**24,978,988**	**24,884,900**	**–**

In September 2011, LLC Lenta entered into a secured 5 year loan agreement with VTB Capital PLC. Under the agreement the Group borrowed RR 25,375,000, secured by, inter alia, immovable property of the Group, bank account pledges related to bank accounts of LLC Lenta and a pledge of Lenta Ltd's participatory interest in LLC Lenta.

The loan bears interest of MosPrime 3m plus a margin: a maximum of 4.2% per annum for the first tranche (RR 19,000,000) and a maximum of 4.75% for the second tranche (the remaining RR 6,375,000).

Borrowed funds of US$515 million were utilized in funding the purchase of 19.96% of the Company's shares by its newly acquired subsidiary Lakatomo Holdings Limited, wholly owned through Lenta Luxemburg S.a.r.L). The remaining part has been used on deal related costs, settlements with former employees, to refinance the existing loan portfolio of revolving credit lines and on current corporate activities.

The loan has covenants with respect to the Debt/EBITDA ratio and interest coverage, which have been complied with as at 31 December 2012.

The Group's short-term portion of long-term borrowings represents amounts borrowed under revolving credit lines.

There were no breaches of the loan agreements during the years ended 31 December 2012, 31 December 2011 and 31 December 2010.

The Group entered into interest rate swaps and caps provided by VTB Bank OJSC to mitigate the risk of a rising MosPrime interest rate, effective from 31 December 2011. As at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2012	Notional amount 2011	Fixed interest rate	Fixed commission	Expiry date
Interest rate swap	6,250,000	6,250,000	7.33%	n/a	31 March 2015
Interest rate swap	3,000,000	3,000,000	8.00%	n/a	31 March 2015
Interest rate swap	3,250,000	3,250,000	8.15%	n/a	31 March 2015
Interest rate cap	5,000,000	5,000,000	12.00%	0.79%	31 December 2014
Interest rate cap	5,000,000	5,000,000	12.00%	0.78%	31 December 2014

(in thousands of Russian Roubles (RR))

20. Borrowings (continued)

Derivative financial instruments are classified in the statement of financial position as follows:

	31 December 2012	31 December 2011	31 December 2010
Non-current liability	130,089	201,047	–
Current liability	141,558	172,930	–
Total	**271,647**	**373,977**	**–**

Finance charges on swaps and caps

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Finance charges on swaps and caps	155,156	37,934	–
Total finance charges on financial instruments	**155,156**	**37,934**	**–**

Swaps and caps are stated at fair value, with any resultant gain or loss recognised in profit or loss immediately. The Group engaged services of VTB Capital for fair value determination and used their valuation in considering its assessment of the fair values of swaps and caps.

	31 December 2012	31 December 2011	31 December 2010
Swaps at fair value through profit or loss (liability)	134,645	219,477	–
Caps at fair value through profit or loss (liability)	137,002	154,500	–
Net debt	**271,647**	**373,977**	**–**

The Group's borrowings as at 31 December 2012, 31 December 2011 and 31 December 2010 are denominated in Russian Roubles.

As at 31 December 2012, the Group had RR 11,817,000 of unused credit facilities (RR 14,150,000 as at 31 December 2011, RR 6,374,080 as at 31 December 2010). All other available borrowing facilities were fully utilized.

21. Income taxes

Russian subsidiaries of the Group were subject to income tax at the rate of 20% on taxable profits for the calendar years 2010 to 2012. Deferred tax assets and liabilities were measured at the rate of 20%.

Income tax expense is comprised of:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Current tax expense	1,252,573	1,011,046	923,482
Deferred tax expense	590,682	156,565	(127,030)
Current income tax related to previous period	3,122	–	–
Income tax expense	**1,846,377**	**1,167,611**	**796,452**

(in thousands of Russian Roubles (RR))

21. Income taxes (continued)

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Profit before tax	**6,982,175**	**2,864,115**	**3,016,573**
Theoretical tax charge at 20%	(1,396,435)	(572,823)	(603,315)
Add tax effect of non-deductible expenses	**(480,130)**	**(749,474)**	**(194,113)**
Expenses related to fixed assets	(268,570)	–	–
Expenses on inventory shrinkage and surpluses	(142,670)	(121,263)	(102,539)
Expense related to deal on purchase of own shares	–	(521,794)	–
Swaps, caps at fair value through profit or loss	–	(74,795)	–
Put option revaluation	–	–	(51,883)
Others	(68,890)	(31,622)	(39,691)
Add tax effect of non-taxable gains	**33,310**	**154,686**	**976**
Swaps, caps at fair value through profit or loss	20,465	–	–
Put option revaluation	–	136,596	–
Others	12,845	18,090	976
Current income tax related to previous period	**(3,122)**	**–**	**–**
Income tax expense	**1,846,377**	**1,167,611**	**796,452**

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences, recorded at the rate of 20% is detailed below.

	1 January 2012	Differences in recognition and reversals recognised in profit or loss	31 December 2012
Tax effect of (taxable)/deductible temporary differences			
Property, plant and equipment	(307,657)	(698,747)	(1,006,404)
Leasehold rights	(125,414)	(73,358)	(198,772)
Unused vacation and employee bonuses accrual	86,894	125,111	212,005
Suppliers' bonuses	(92,514)	(89,574)	(182,088)
Interest on borrowings	(98,020)	18,818	(79,202)
Intangible assets other than leasehold rights	7,339	(3,451)	3,888
Inventory	307,923	100,361	408,284
Bad debt provision	3,881	11,530	15,411
Finance leasing	18,925	(4,028)	14,897
Consulting provision	4,662	15,112	19,774
Customs duty payable	–	30,677	30,677
Other	79,340	(23,133)	56,207
Total deferred tax (liabilities)/assets	**(114,641)**	**(590,682)**	**(705,323)**

(in thousands of Russian Roubles (RR))

21. Income taxes (continued)

	1 January 2011	Differences in recognition and reversals recognised in profit or loss	31 December 2011
Tax effect of (taxable)/deductible temporary differences			
Property, plant and equipment	(266,386)	(41,271)	(307,657)
Leasehold rights	(45,862)	(79,552)	(125,414)
Unused vacation and employee bonuses accrual	89,537	(2,643)	86,894
Suppliers' bonuses	–	(92,514)	(92,514)
Interest on borrowings	–	(98,020)	(98,020)
Intangible assets other than leasehold rights	10,997	(3,658)	7,339
Inventory	239,682	68,241	307,923
Bad debt provision	524	3,357	3,881
Finance leasing	–	18,925	18,925
Consulting provision	9,137	(4,475)	4,662
Other	4,295	75,045	79,340
Total deferred tax (liabilities)/assets	**41,924**	**(156,565)**	**(114,641)**

	1 January 2010	Differences in recognition and reversals recognised in profit or loss	31 December 2010
Tax effect of (taxable)/deductible temporary differences			
Property, plant and equipment	(298,458)	32,072	(266,386)
Leasehold rights	58,564	(104,426)	(45,862)
Unused vacation and employee bonuses accrual	37,619	51,918	89,537
Interest on borrowings	(3,266)	3,266	–
Intangible assets other than leasehold rights	(9,332)	20,329	10,997
Inventory	98,904	140,778	239,682
Bad debt provision	–	524	524
Consulting provision	–	9,137	9,137
Other	30,863	(26,568)	4,295
Total deferred tax (liabilities)/assets	**(85,106)**	**127,030**	**41,924**

At 31 December 2012, 31 December 2011 and 31 December 2010 the Group did not recognize a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries of RR 2,037,764, RR 1,381,704 and RR 809,223 respectively, because management believed that it was in position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

(in thousands of Russian Roubles (RR))

22. Trade and other payables

	31 December 2012	31 December 2011	31 December 2010
Trade payables	21,639,226	15,589,475	13,417,823
Accrued liabilities and other creditors	2,482,532	2,227,746	1,026,438
Payables for purchases of property, plant and equipment	922,542	308,555	173,738
Total trade and other payables	**25,044,300**	**18,125,776**	**14,617,999**

The trade and other payables were denominated in:

	31 December 2012	31 December 2011	31 December 2010
RR	24,148,893	16,902,191	14,603,182
US$	870,916	1,216,750	12,559
EUR	21,672	2,602	2,151
GBP	2,819	4,233	107
Total trade and other payables	**25,044,300**	**18,125,776**	**14,617,999**

23. Other taxes payable

	31 December 2012	31 December 2011	31 December 2010
Social taxes	179,885	132,856	77,960
Property tax	122,285	75,059	69,795
Personal income tax	68,409	50,495	43,601
Output VAT	–	3,233	974
Other taxes	176,930	17,190	15,882
Total other taxes payable	**547,509**	**278,833**	**208,212**

24. Cost of sales

Cost of sales, for the periods ended 31 December 2012, 31 December 2011 and 31 December 2010 consisted of the following:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Cost of goods sold	74,331,374	62,668,459	50,685,137
Cost of own production	9,479,812	7,298,505	5,188,454
Supply chain cost	2,147,003	1,852,833	1,103,137
Losses due to inventory shortages	1,274,891	1,235,521	899,467
Total cost of sales	**87,233,080**	**73,055,318**	**57,876,195**

Cost of goods sold is reduced by rebates, logistic and promotional bonuses received from suppliers.

(in thousands of Russian Roubles (RR))

24. Cost of sales (continued)

The cost of own production consisted of the following:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Raw materials	7,953,812	6,019,281	4,248,454
Labor cost	1,226,000	1,010,000	742,000
Utilities	272,277	248,041	195,017
Repairs and maintenance	27,723	21,183	2,983
Total cost of own production:	**9,479,812**	**7,298,505**	**5,188,454**

Cost of sales for the year ended 31 December 2012 included employee benefits expense of RR 1,487,025 (for the year ended 31 December 2011: RR 1,223,890, for the year ended 31 December 2010: RR 910,767).

25. Selling, general and administrative expenses

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Employee benefits expense	7,005,688	5,475,319	4,344,396
Depreciation and amortisation (Note 8)	1,576,364	1,963,551	1,911,306
Advertising	801,078	658,871	520,048
Professional fees	658,837	707,420	381,269
Utilities and communal payments	598,159	546,938	445,138
Repairs and maintenance	474,363	377,340	299,358
Taxes other than income tax	593,097	361,000	368,280
Cleaning	405,682	306,778	260,188
Security services	355,367	331,167	272,840
Land and equipment lease	178,353	147,173	139,729
Premises lease	77,265	50,325	23,926
Pre-opening costs	398,608	43,977	28,921
Other	383,484	254,739	218,787
Total selling, general and administrative expenses	**13,506,345**	**11,224,598**	**9,214,186**

Employee benefits expense for the year ended 31 December 2012 included contributions to the Russian state pension fund of RR 1,079,911 (for the year ended 31 December 2011: RR 1,005,656, for the year ended 31 December 2010: RR 632,894).

26. Other operating income

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Penalties due by suppliers	516,293	443,832	291,491
Rental income	281,992	243,284	214,273
Advertising income	247,071	222,208	202,377
Gain on PPE disposal	731	17,171	894
Other	72,333	84,734	75,178
Total other operating income	**1,118,420**	**1,011,229**	**784,213**

(in thousands of Russian Roubles (RR))

27. Share-based payments

During the year ending 31 December 2011 the Group granted a share option to a third party individual for services provided in relation to coordination of Svoboda Corporation (Note 17) shares purchase.

The fair value of the share option is estimated at a grant date using a Black Scholes option pricing model, taking into account the terms and conditions upon which the share option was granted. The contractual conditions of the option are as follows:

- The option is deemed exercised upon an exit event for the Group, being either an Initial Public Offering ("IPO") or through a key shareholder sale to a third party.
- On an IPO, the settlement method of the option is at the holder's election, being through the issuance of shares (in full at the exchange of the exercise price, or solely the upside). In the event of a sale by a key shareholder options may be settled through the issuance of shares or cash. The settlement method is at the sole election of the Group unless the sale is for 50% or more of the voting power of the Group to a third party. In this case, the holder can employ a 'Tag Right'.
- Providing the option is exercised, in the event of a sale by a key shareholder it will be settled in the same proportion as the key shareholder, e.g. if a key shareholder sells 50% of their shareholding, 50% of the option will be exercised.
- On an IPO, the option is triggered in full, regardless of the proportion of equity initially offered. Since in this case the option is settled in shares, the holder may elect to have the shares issued to be included in any secondary portion of the IPO in the same proportion that the key shareholders participate in any secondary portion of the IPO.
- The option is also subject to conditions prior to being exercised, if these conditions are not met the option is cancelled. The conditions relate to exceeding the current equity valuation for 100% of the Group of $2,667,272,313 or $25.086 per share and are designed as follows:
  - On a key shareholder sale: The purchase price per share payable must represent an equity valuation for 100% of the Group that is greater than the base valuation.
  - On an IPO exit: The IPO price must represent an equity valuation for 100% of the Group that is greater than the base valuation increased by a 10% internal rate of return p.a. from the valuation date.

The contractual term of the option is 5 years. The Exercise Price of the option is $25.086 per share.

The expense recognised for the services received from the third party individual during the year is shown in the following table:

	2012	2011	2010
Expense arising from the equity-settled share based payment transaction	–	978,698	–

There were no cancelations or modifications to the awards in 2012, 2011 and 2010.

(in thousands of Russian Roubles (RR))

27. Share-based payments (continued)

The following tables list the inputs to the models used for the option plan as of the grant date:

Dividend yield (%)	0%
Expected volatility (%)	40%
Risk-free interest rate (%)	5.14%
Expected life of share options (years)	5
Weighted average share price (USD)	25.086
Model used	Black-Scholes

The expected life of share option is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the option is indicative of future trends, which may not necessarily be the actual outcome.

28. Commitments

Capital expenditure commitments

At 31 December 2012 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets of RR 6,373,203 (31 December 2011: RR 2,542,310, 31 December 2010 RR 891,607).

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2012	31 December 2011	31 December 2010
Not later than 1 year	456,134	159,741	135,659
Later than 1 year and not later than 5 years	1,411,931	330,824	325,631
Later than 5 years	6,455,736	2,399,750	2,488,195
Total operating lease commitments	**8,323,801**	**2,890,315**	**2,949,485**

(in thousands of Russian Roubles (RR))

29. Financial instruments

Categories of financial instruments

	31 December 2012	31 December 2011	31 December 2010
Financial assets			
Cash	3,536,464	5,136,419	770,794
Trade and other receivables	5,448,429	3,873,283	3,978,886
Financial liabilities			
At fair value through profit or loss	271,647	373,977	4,863,056
At amortised cost:			
Floating rate long-term borrowings	24,978,988	24,884,900	–
Fixed rate short-term borrowings and short-term portion of long-term borrowings	3,833,004	–	7,725,920
Trade and other payables	23,403,407	17,210,253	14,016,439
Long-term obligations under finance leases	65,420	76,256	–
Total financial liabilities at amortised cost	**52,280,819**	**42,171,409**	**21,742,359**

Fair values

The fair value of financial liabilities except for derivatives is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of derivative financial instruments are estimated using various valuation techniques, such as option pricing models.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2012, the Group held the following financial instruments carried at fair value in the statement of financial position:

	31 December 2012	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss				
Interest rate swaps − non-hedged	134,645	–	134,645	–
Interest rate caps − non-hedged	137,002	–	137,002	–

(in thousands of Russian Roubles (RR))

29. Financial instruments (continued)

Fair value hierarchy (continued)

As at 31 December 2011, the Group held the following financial instruments carried at fair value in the statement of financial position:

	31 December 2011	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss				
Interest rate swaps − non-hedged	219,477	−	219,477	−
Interest rate caps − non-hedged	154,500	−	154,500	−

As at 31 December 2010, the Group held the following financial instruments carried at fair value in the statement of financial position:

	31 December 2010	Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss				
Put option	4,863,056	−	−	4,863,056

The fair value of the option was determined based on the income approach (the discounted cash flow method) supported by the market approach.

During the reporting periods ending 31 December 2012, 31 December 2011 and 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements.

30. Financial risk management

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises the following types of risk: interest rate risk, currency risk, and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, cash equivalents and derivative financial instruments.

The retail business in Russia is a highly competitive industry sector. The basis of competition for retail chains is location and fit out, quality of goods and services, pricing, assortment. Any increase in the level of competition on the part of domestic and foreign members of the retail market may exert a negative influence on the operating results of the Group.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

During the years ended 31 December 2011 and 31 December 2012, the Group did not conclude any amounts of foreign currency denominated borrowings in comparison with previous reporting periods, and as a consequence is not materially exposed to foreign currency risk. During the year ended 31 December 2010, the Group had EUR/USD denominated loan from Royal Bank of Scotland, which was fully repaid at the end of 2010 year.

(in thousands of Russian Roubles (RR))

30. Financial risk management (continued)

Foreign currency risk (continued)

At 31 December 2011 the Group had a USD denominated payables to the shareholders that were settled during the year ended 31 December 2012. At 31 December 2012 the Group had USD denominated payables to top-management represented by loyalty bonuses.

Whenever possible, the Group tries to mitigate the exposure to foreign currency risk by matching the statement of financial position, and revenue and expense items in the relevant currency.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant.

	Change in US$ rate	Effect on profit before tax
2012	10.72%	(4,985)
	-10.72%	4,985
2011	12.50%	(110,279)
	-12.50%	110,279
2010	8.90%	(433,930)
	-8.90%	433,930

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of the financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. As at 31 December 2012 these obligations are represented with long-term borrowing from VTB Capital PLC, which bears interest of MosPrime 3m plus margin. In order to hedge the risk of rising MosPrime interest rate, the Group entered into interest rate swaps and caps (Note 20).

In case the assumption of the MosPrime rates would have been 1.09% higher and 1.09% lower, the fair value of the swaps and caps would deviate as follows:

	MosPrime + 1.09%	MosPrime – 1.09%
Sensitivity of swaps and caps fair value	251,932	(259,079)

	Change in basis points	Annualized effect on profit before tax
Increase in basis points	109	(24,656)
Decrease in basis points	(109)	17,508

(in thousands of Russian Roubles (RR))

30. Financial risk management (continued)

Interest rate risk (continued)

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During the year ended 31 December 2012 all of the Group's borrowings were denominated in Russian Roubles. The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps and caps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 20 of these financial statements. The sensitivity analysis below has been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at 31 December 2012 was as follows:

	31 December 2012
Total floating rate borrowings (gross of direct issue costs)	25,375,000
Less notional amount of interest rate financial instruments (Note 20)	(22,500,000)
Net exposure to interest rate fluctuations	**2,875,000**
% of floating rate borrowings exposed to interest rate fluctuations	**11%**

Credit risk

Credit risk is the risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. Financial assets, which are potentially subject to credit risk, consist principally of cash in bank accounts and cash in transit, loans and receivables.

In determining the recoverability of receivables the Group performs a risk analysis considering the credit quality of the counterparty, the age of the outstanding amount and any past default experience.

Trade receivables

The Group has no significant concentrations of credit risk. Concentration of credit risk with respect to receivables is limited due to the Company's customer and vendor base being large and unrelated. Credit is only extended to counterparties subject to strict approval procedures. The Group trades only with recognised, creditworthy third parties who are registered in the Russian Federation. It is the Group's policy that all customers who are granted credit terms have a history of purchases from the Group. The Group also requires these customers to provide certain documents such as incorporation documents and financial statements. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Sales to retail customers are made in cash, debit cards or via major credit cards

Cash and cash equivalents

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

(in thousands of Russian Roubles (RR))

30. Financial risk management (continued)

Cash and cash equivalents (continued)

The maximum exposure to credit risk at the reporting date of trade receivables is the carrying value as presented in the statement of financial position. The maximum exposure to credit risk of cash and cash equivalents is RR 3,488,247 at 31 December 2012, RR 5,095,921 – at 31 December 2011, RR 743,523 – at 31 December 2010.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial assets and liabilities and projected cash flows from operations. The Group objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyzes its funding needs and anticipated cash flows, so that it can determine its funding needs.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2012, 31 December 2011 and 31 December 2010 based on contractual undiscounted cash flows of the financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed for the entire term of the instrument, such as variable rate interest payments, the amount disclosed in the table is determined by reference to the conditions (e.g. MOSPRIME, EURIBOR, LIBOR index) existing at the reporting date:

31 December 2012

	Less than 12 months	1-5 years	Total
Borrowings	6,785,656	31,740,309	**38,525,965**
Trade and other payables	23,403,407	–	**23,403,407**
Charges on financial instruments at fair value through profit or loss settled on a net basis	161,155	153,229	**314,384**
Finance leasing	25,778	75,747	**101,525**
Total	**30,375,996**	**31,969,285**	**62,345,281**

31 December 2011

	Less than 12 months	1-5 years	Total
Borrowings	3,001,997	35,015,644	**38,017,641**
Trade and other payables	17,210,253	–	**17,210,253**
Charges on financial instruments at fair value through profit or loss settled on net basis	183,550	255,734	**439,284**
Finance leasing	25,778	101,525	**127,303**
Total	**20,421,578**	**35,372,903**	**55,794,481**

(in thousands of Russian Roubles (RR))

30. Financial risk management (continued)

Liquidity risk (continued)

31 December 2010

	Less than 12 months	1-5 years	Total
Borrowings	7,846,708	3,047	**7,849,755**
Trade and other payables	14,016,439	–	**14,016,439**
Put option liability	4,863,056	–	**4,863,056**
Total	**26,726,203**	**3,047**	**26,729,250**

Capital risk management

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

While the Group has not established any formal policies regarding debt to equity ratios, the Group reviews the capital needs of the Group periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt. However the Group is guided in its decisions to fund with debt by the covenants in the VTB term loan.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 17.

Net debt of the Group is comprised of the following:

	31 December 2012	31 December 2011	31 December 2010
Borrowings	28,811,992	24,884,900	7,725,920
Cash and cash equivalents (Note 16)	(3,536,464)	(5,136,419)	(770,794)
Net debt	**25,275,528**	**19,748,481**	**6,955,126**

Net debt is a non-IFRS indicator and, therefore, its calculation may differ between companies, however it is one of the key indicators that is commonly used by investors and other users of financial statements in order to evaluate financial condition of the Group. Calculation of net debt excludes the put option liability to shareholder of RR 4,863,056 at 31 December 2010 (see Note 17).

31. Contingencies

Operating environment of the Group

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

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

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

Legal contingencies

Group companies are involved in a number of lawsuits and disputes that arise in the normal course of business. Management assesses the maximum exposure relating to such lawsuits and disputes to be RR 76,963 as at 31 December 2012 (31 December 2011: RR 38,674 and 31 December 2010: RR 14,115). Management believes there is no exceptional event or litigation likely to affect materially the business, financial performance, net assets or financial position of the Group which have not been disclosed in these consolidated financial statements.

Russian Federation tax and regulatory environment. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities. In particular taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. Management also assesses the maximum exposure from possible tax risks to be RR 639,839 (RR 269,268 at 31 December 2011, nil at 31 December 2010). No tax provisions were recorded as at 31 December 2012, 31 December 2011 and 31 December 2010. Management continues to monitor closely any developments related to these risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Land leases

Certain lease agreements for land plots contain a 3 year lease term. Some of the 3 year lease agreements expired prior to the date of these financial statements. The Group initiated the process of renewal of the lease agreements for 49 years and believes that the risks relating to the operations of the respective stores are insignificant. No provisions in this respect were accrued as at 31 December 2010, 31 December 2011 and 31 December 2012.

31. Contingencies (continued)

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. 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.

32. Events occurring after the reporting period

On 15 October 2012 the Group signed a Sole Shareholder Decision on the Issuance of Lenta LLC bonds. On 7 February 2013 Federal Financial Markets Service registered the bond issue. In March 2013 the public floatation of certified non-convertible bearer bonds was placed in three tranches of 3,000,000, 3,000,000 and 4,000,000, with a nominal value of RR 1 each, a 10% coupon rate, 2,548 days to maturity and put option right on early redemption after three years.

On 28 June 2013 the Group signed a Sole Shareholder Decision on the Issuance of 33,000,000 Lenta LLC bonds with a nominal value of RR 1 each, 3,640 days to maturity and put option right on early redemption. On 29 July 2013 ZAO FB MMVB (stock exchange) registered the prospectus and decision on issuance.

In April 2013 the Group concluded an additional 5 year tranche on the VTB Capital PLC facility of RR 15,000,000 secured on the same terms as the first two tranches. The loan bears interest of Mosprime 3m plus 3.5-4% of margin. Borrowed funds are available for drawdown within 540 days and are expected to be used for expansion purposes and current corporate activities.

The Group also negotiated to prolong the maturity of the first two tranches till 2018 year, agreed to revise financial covenants in favor of more advantageous indicators and reset loan-to-value threshold for the entire VTB facility from 70% to 100%.

On 16 April 2013, the Group entered into a loan agreement with OAO Bank Saint-Petersburg, with a limit of indebtedness of RR 2,000,000, validity of the contract to 15 April 2016. The interest rate is specified in each separate case and may not be less than 2/5 (two - fifths) of the refinancing interest rate (discount rate), established by the Central Bank of the Russian Federation on the date of signing by the parties of the relevant credit transaction.

In April 2013 the Group negotiated a revolving credit line of RR 3,000,000 with Raiffeisen Bank, which is available until October 2014. The interest rate is specified at each drawdown of credit and may not be higher than 6m Mosprime on the grant date plus 5%.