OJSC Rosinter Restaurants Holding

Consolidated Financial Statements

For the year ended December 31, 2011

OJSC Rosinter Restaurants Holding

Consolidated Financial Statements

For the year ended December 31, 2011

TABLE OF CONTENTS

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the shareholders of OJSC Rosinter Restaurants Holding

We have audited the accompanying consolidated financial statements of OJSC Rosinter Restaurants Holding and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC Rosinter Restaurants Holding and its subsidiaries as at December 31, 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

May 8, 2012

OJSC Rosinter Restaurants Holding

Consolidated Statement of Financial Position

At December 31, 2011

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

	Notes	December 31, 2011	December 31, 2010
ASSETS			
Non-current assets			
Property and equipment	6	2,123,855	2,335,502
Intangible assets	7	135,948	238,225
Goodwill	8	176,153	176,153
Investments in joint ventures and associates	9	4,795	6,545
Long-term loans due from related parties	10	104,336	141,110
Long-term receivables due from related parties	10	3,854	–
Deferred income tax asset	11	123,971	97,904
Other non-current assets		143,451	174,203
		2,816,363	**3,169,642**
Current assets			
Inventories	12	167,768	210,752
VAT and other taxes recoverable		102,306	119,568
Income tax recoverable		34,940	35,561
Trade and other receivables	13	196,124	142,136
Advances paid	14	184,319	215,437
Receivables from related parties	10	56,258	109,139
Short-term loans		7,524	13,396
Short-term loans due from related parties	10	100,198	12,576
Cash and cash equivalents	15	233,901	216,510
		1,083,338	**1,075,075**
TOTAL ASSETS		**3,899,701**	**4,244,717**
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the parent entity			
Share capital	16	2,767,015	2,767,015
Additional paid-in capital		2,204,816	2,204,816
Treasury shares	16	(416,732)	(355,003)
Other capital reserves		18,526	18,402
Accumulated losses		(3,621,323)	(3,299,433)
Translation difference		(72,847)	(52,439)
		879,455	**1,283,358**
Non-controlling interests		18,596	24,419
		898,051	**1,307,777**
Non-current liabilities			
Long-term loans and borrowings	19	289,768	1,087,465
Long-term liabilities to partners	21	48,519	67,341
Deferred income		8,050	27,437
Deferred income tax liabilities	11	59,165	101,419
		405,502	**1,283,662**
Current liabilities			
Trade and other payables	22	1,144,668	1,158,131
Short-term loans and borrowings	19	1,210,931	276,934
Payables to related parties	10	24,024	21,752
Short-term loans due to related parties	10	5,241	7,253
Short-term liabilities to partners	21	48,882	53,075
Deferred income		62,487	47,381
Income tax payable		99,915	88,752
		2,596,148	**1,653,278**
TOTAL EQUITY AND LIABILITIES		**3,899,701**	**4,244,717**

The accompanying notes form an integral part of these consolidated financial statements.

OJSC Rosinter Restaurants Holding

Consolidated Income Statement

For the year ended December 31, 2011

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

	Notes	2011	2010, as revised
Revenue	23	**10,370,784**	**9,745,948**
Cost of sales	24	(8,262,501)	(7,428,240)
Gross profit		**2,108,283**	**2,317,708**
Selling, general and administrative expenses	25	(1,542,484)	(1,498,361)
Start-up expenses for new restaurants		(125,047)	(51,933)
Other gains	27	42,590	44,882
Other losses	27	(303,564)	(171,971)
Profit from operating activities before impairment		**179,778**	**640,325**
(Loss)/reversal of impairment of operating assets	28	(265,025)	3,884
Profit from operating activities after impairment		**(85,247)**	**644,209**
Financial income	29	17,959	44,393
Financial expense	29	(201,937)	(286,704)
Foreign exchange losses, net		(23,170)	(19,130)
Share of losses of joint venture and associates	9	(806)	(21,873)
(Loss)/profit before income tax		**(293,201)**	**360,895**
Income tax benefit/(expense)	11	11,995	(103,355)
Net (loss)/profit for the period		**(281,206)**	**257,540**
Attributable to:			
Equity holders of the parent entity		(274,968)	265,651
Non-controlling interests		(6,238)	(8,111)
(Loss)/earnings per share, basic and diluted, Russian Roubles	18	**(17.59)**	**19.31**

The accompanying notes form an integral part of these consolidated financial statements.

OJSC Rosinter Restaurants Holding

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

	2011	2010
Net (loss)/profit for the period	**(281,206)**	**257,540**
Exchange differences on translation of foreign operations to presentation currency	(20,263)	(22,366)
Share of translation differences of associates and joint ventures	(145)	696
Other comprehensive loss for the year, net of tax	**(20,408)**	**(21,670)**
Total comprehensive (loss)/income for the year, net of tax	**(301,614)**	**235,870**
Attributable to:		
Equity holders of the parent entity	(295,376)	243,981
Non-controlling interests	(6,238)	(8,111)

The accompanying notes form an integral part of these consolidated financial statements.

OJSC Rosinter Restaurants Holding

Consolidated Statement of Cash Flows

For the year ended December 31, 2011

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

	Notes	2011	2010
Operating activities			
(Loss)/profit before tax		(293,201)	360,895
Adjustments to reconcile profit/(loss) before tax to net cash provided by operating activities:			
Depreciation and amortisation		420,390	403,476
Foreign exchange losses, net		23,170	19,130
Financial income	29	(17,959)	(44,393)
Financial expense	29	201,937	286,704
Allowance for impairment of advances paid, taxes recoverable and receivables		34,017	16,115
Obsolescence/(reversal of obsolescence) of inventories	12	8,397	(10,355)
Loss on disposal of non-current assets	27	184,438	99,440
Impairment/(reversal of impairment) of assets	28	265,025	(3,884)
Share of joint venture's and associates' results	9	806	21,873
Write off and impairment of loans receivable from related parties		94	9,006
Share based payment expenses	30	7,588	18,402
		834,702	**1,176,409**
Changes in operating assets and liabilities:			
Decrease in inventories		32,627	1,694
Increase in advances, taxes recoverable, receivables and other non-current assets		(39,415)	(222,852)
Increase/(decrease) in receivables from/payables to related parties, net		40,557	(51,921)
Decrease in trade and other payables		(54,903)	(259,102)
Net cash generated from operations		**813,568**	**644,228**
Interest paid		(130,623)	(237,906)
Interest received		10,095	12,248
Income tax paid		(49,404)	(123,365)
Net cash flows from operating activities		**643,636**	**295,205**
Investing activities			
Purchases of property and equipment		(536,890)	(334,960)
Loans issued to related parties		(48,420)	(187,615)
Prepayments to acquire non-controlling interest in subsidiaries		(45,723)	(30,949)
Proceeds from disposal of property and equipment		21,878	8,918
Purchase of intangible assets		(11,298)	(17,897)
Contribution to joint venture		(1,541)	–
Loans issued		(1,343)	(50)
Proceeds from repayment of loans issued to third parties		50	5
Proceeds from repayment of loans issued to related parties		–	219,885
Acquisition of subsidiaries net of cash acquired	5	–	(47,270)
Net cash flows used in investing activities		**(623,287)**	**(389,933)**

Continued on the next page

Consolidated Statement of Cash Flows (continued)

	Notes	2011	2010
Financing activities			
Proceeds from bank loans*		2,330,431	3,224,549
Repayment of bank loans*		(2,189,134)	(4,049,480)
Repayment of related party loans		(7,237)	(17,550)
Proceeds from related party loans		6,000	–
Payments to partners	21	(63,293)	(99,475)
Acquisition of treasury shares	16	(61,729)	(125,314)
Proceeds from issue of equity instrument	16	–	770,957
Redemption of equity instrument		–	(832,514)
Proceeds from issue of shares	16	–	1,341,927
Repayment of lease obligations		(2,480)	(6,058)
Dividends paid to shareholders		(826)	(635)
Net cash flows from financing activities		**11,732**	**206,407**
Effect of exchange rate on cash and cash equivalents		(14,690)	(8,412)
Net increase in cash and cash equivalents		**17,391**	**103,267**
Cash and cash equivalents at beginning of the year		**216,510**	**113,243**
Cash and cash equivalents at end of the year		**233,901**	**216,510**

* The Group uses financing which, due to the short term nature of this debt (i.e. 3 to 11 months), requires repayment and reissuance several times throughout the year.

OJSC Rosinter Restaurants Holding

Consolidated Statement of Changes in Equity

For the year ended December 31, 2011

(All amounts are in thousands of Russian Roubles, unless specified otherwise)

	Attributable to equity holders of the parent entity								
	Share capital	**Additional paid-in capital**	**Treasury shares**	**Other capital reserves**	**Accumulated losses**	**Translation difference**	**Total**	**Non-controlling interests**	**Total equity**
At January 1, 2011	**2,767,015**	**2,204,816**	**(355,003)**	**18,402**	**(3,299,433)**	**(52,439)**	**1,283,358**	**24,419**	**1,307,777**
Net profit for the year	–	–	–	–	(274,968)	–	**(274,968)**	(6,238)	**(281,206)**
Other comprehensive loss for the year	–	–	–	–	–	(20,408)	**(20,408)**	–	**(20,408)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(274,968)**	**(20,408)**	**(295,376)**	**(6,238)**	**(301,614)**
Purchase of treasury shares *(Note 16)*	–	–	(61,729)	–	–	–	**(61,729)**	–	**(61,729)**
Share based payment transactions	–	–	–	124	–	–	**124**	–	**124**
Purchase of non-controlling interest in a subsidiary	–	–	–	–	(45,723)	–	**(45,723)**	–	**(45,723)**
Disposal of non-controlling interest in a subsidiary	–	–	–	–	(1,199)	–	**(1,199)**	1,199	**–**
Dividends	–	–	–	–	–	–	**–**	(784)	**(784)**
At December 31, 2011	**2,767,015**	**2,204,816**	**(416,732)**	**18,526**	**(3,621,323)**	**(72,847)**	**879,455**	**18,596**	**898,051**
At January 1, 2010	**2,041,569**	**1,632,831**	**(212,628)**	–	**(3,368,687)**	**(30,769)**	**62,316**	**33,498**	**95,814**
Net loss for the year	–	–	–	–	265,651	–	**265,651**	(8,111)	**257,540**
Other comprehensive loss for the year	–	–	–	–	–	(21,670)	**(21,670)**	–	**(21,670)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**265,651**	**(21,670)**	**243,981**	**(8,111)**	**235,870**
Issue of equity instrument *(Note 16)*	–	770,957	–	–	–	–	**770,957**	–	**770,957**
Redemption of equity instrument *(Note 16)*	–	(832,514)	–	–	–	–	**(832,514)**	–	**(832,514)**
Issue of share capital, net of issuance costs	725,446	633,542	–	–	–	–	**1,358,988**	–	**1,358,988**
Purchase of treasury shares *(Note 16)*	–	–	(142,375)	–	–	–	**(142,375)**	–	**(142,375)**
Share based payment transactions *(Note 30)*	–	–	–	18,402	–	–	**18,402**	–	**18,402**
Purchase of non-controlling interest in a subsidiary *(Note 17)*	–	–	–	–	(196,397)	–	**(196,397)**	–	**(196,397)**
Dividends	–	–	–	–	–	–	**–**	(968)	**(968)**
At December 31, 2010	**2,767,015**	**2,204,816**	**(355,003)**	**18,402**	**(3,299,433)**	**(52,439)**	**1,283,358**	**24,419**	**1,307,777**

The accompanying notes form an integral part of these consolidated financial statements.

1. Corporate Information

OJSC Rosinter Restaurants Holding (the "Company") was registered as a Russian open joint stock company on May 24, 2004. The registered and headquarter address of the Company is at 7 Dushinskaya str., Moscow, 111024, Russia. As of December 31, 2011, the Company's controlling shareholder was RIG Restaurants Limited, a limited liability company (the "Parent") (formerly known as Rostik Restaurants Limited) incorporated under the laws of Cyprus. RIG Restaurants Limited is under the ultimate control of Mr. Rostislav Ordovsky-Tanaevsky Blanco.

OJSC Rosinter Restaurants Holding and its subsidiaries (the "Group") is the leading casual dining operator in Russia and CIS both by number of restaurants and by revenue. The Group's business is focused on serving the most popular cuisines in Russia: Italian, Japanese, American and local Russian cuisine.

The Group derives approximately 95% of its revenues from restaurant business sales:

- most of the Group's restaurants operate under its core proprietary trademarks: "IL Patio pizza pasta grill", "Planet Sushi", "American Bar and Grill", "Pechki-Lavochki" and "1-2-3 Café".
- other restaurants operate under licensed trademarks: "T.G.I. Friday's", "Sibirskaya Korona".

Other revenue of the Group represents revenue from the network of independent franchisees in Moscow and throughout Russia and the CIS, sublease and other services, revenues from canteens and from sales of semi-finished products.

The Group's principal business activities are concentrated within the Russian Federation, but it also operates in Ukraine, Kazakhstan, Belarus, Czech Republic, Poland and Hungary. The Group also has exclusive development rights and/or registered trademarks in Azerbaijan, Kyrgyzstan, Uzbekistan, Lithuania, Estonia, Austria, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro.

In June 2007 the Parent sold 3,125,000 ordinary shares of the Company during the initial public offering for a cash consideration of 100 million US dollars (RUR 2,590,403 at exchange rate at June 1, 2007). At the same time, the Company issued and sold 2,030,457 new shares to the Parent at a price of RUR 766.99. In February-August 2010, the Group performed a two step secondary offering of 4,274,877 new shares for a cash consideration of RUR 1,402,488 (Note 16). The shares of the Company are admitted for trading on the Russian Trading System Stock Exchange and on MICEX.

The consolidated financial statements of the Company for the year ended December 31, 2011 were authorised for issue in accordance with a resolution of the Board of Directors on April 25, 2012.

The Group derives revenue in the territory of Russia and other CIS countries, Baltic States and other European countries. For the years ended December 31, 2011 and 2010, the revenue from the Russian market was approximately 87% of total revenues. The non-current assets of Group's subsidiaries operating in the Russian market were approximately 88% and 83% of total non-current assets of the Group for the years ended December 31, 2011 and 2010, respectively. The second largest market was Kazakhstan with 4% and 5% of total revenues for the years ended December 31, 2011 and 2010, respectively. The second largest markets operated of non-current assets of total non-current assets of the Group were Ukraine with 4% at December 31, 2011 and Kazakhstan with 5% at December 31, 2010.

During 2011, the Group opened 17 new restaurants and closed 11 restaurants. During 2010, the Group opened 19 new restaurants and closed 22 restaurants. In addition, the Group continues to develop a casual dining restaurant business on a franchise agreement basis. The Group opened 25 and closed 11 franchise restaurants in Moscow city, Moscow region and Russian regions in 2011. The Group opened 24 and closed 6 franchise restaurants in Moscow city, Moscow region and Russian regions in 2010. As of December 31, 2011 and 2010 the Group operated 382 and 362 restaurants respectively.

1. Corporate Information (continued)

As of December 31, 2011 and 2010, the Group employed approximately 7,430 and 8,080 people, respectively.

The Company had a controlling ownership interest, directly or indirectly, in the following principal subsidiaries:

Entity	Country of incorporation	2011 % Ownership	2010 % Ownership
Rosinter Restaurants LLC	Russia	100.00%	98.70%
Rosinter Restaurants Sibir LLC	Russia	100.00%	100.00%
Rosinter Restaurants Samara OJSC	Russia	100.00%	100.00%
Rosinter Restaurants Perm LLC	Russia	51.00%	51.00%
Rosinter Restaurants Ekaterinburg LLC	Russia	51.00%	51.00%
BelRosInter LLC	Belarus	93.00%	100.00%
Rosinter Almaty LLP	Kazakhstan	90.00%	90.00%
Rosinter Ukraine LLC	Ukraine	51.00%	51.00%
RIGS Services Limited	Cyprus	100.00%	100.00%
Rosinter Czech Republic s.r.o.	The Czech Republic	100.00%	100.00%
Rosinter Polska Sp. z o.o.	Poland	100.00%	100.00%
Rosinter Hungary Kft	Hungary	100.00%	100.00%

2. Going Concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business.

As of December 31, 2011, the Group did not comply with certain loan covenants that resulted in reclassification of a portion of long-term loans to current liabilities. As a result, the Group's current liabilities as of December 31, 2011, of RUR 2,596,148 exceeded its current assets by RUR 1,512,810. The net current liability position results primarily from such long term loans and borrowings of RUR 1,210,931 out of which, management believes, RUR 950,000 will be repaid after more than twelve months from the balance sheet date in accordance with the maturity schedules in the loan agreements.

Group management believes that it is appropriate to prepare the financial statements on a going concern basis due to the following:

- The Group has long relationship with Sberbank of Russia, OJSC and Raiffeisenbank, CJSC who have been the major lenders to the group for many years (starting from 2005 and 2009, respectively). The Group's management is in direct and regular contact with both banks.
- Recent communications with Sberbank of Russia, OJSC has provided clear understanding of its intention not to exercise its right of immediate repayment of loans due covenant breaches.
- Additional sources of financing are available to the Group.

  On December 7, 2011, the Group entered into a revolving credit facility agreement with Alfa-Bank, OJSC in the amount of RUR 350,000 bearing interest from 10% to 15% per annum and maturing in August 2013. Under the terms of this credit facility, the Group can use a number of revolving short-term credit instruments including overdrafts and borrowings. As at December 31, 2011, the unutilized balance of this revolving credit facility amounted to RUR 350,000.

  The Group has an undrawn facility from UniCredit Bank, CJSC in the amount of RUR 50,000 and an unused revolving credit line from the same bank in the amount of RUR 80,000 as at December 31, 2012.

  The Group is in negotiations with UniCredit Bank, CJSC with the objective of obtaining additional long-term credit facilities in the amount of RUR 300,000.

2. Going Concern (continued)

- If the loans were classified as long term according to the maturity dates stated in the loan agreements, the net current liability position of the Group would equal to RUR 562,810 which is consistent with previous years and is in line with industry norms.
- During the years ended December 31, 2011 and 2010, net cash generated from operations amounted to RUR 813,568 and RUR 644,228, respectively. Management expects this trend to continue in 2012.
- Management has introduced and enhanced operational initiatives designed to improve the Group's liquidity and profitability. Actions implemented include innovative brand promotions, an improvement in the business economics through savings in labour, food and beverage costs, and an increased franchisee component in its new restaurant development plan.
- The net loss for year ended December 31, 2011 amounted to RUR 281,206 which primarily resulted from an impairment of assets in the amount of RUR 265,025, and increased purchase prices of food and beverages. An increase of rent rates and payroll taxes also contributed to the net loss in 2011. The negative effect of these factors was addressed by a new pricing strategy and efficiency improvement initiatives introduced by the management in order to increase gross profit margin. As a result of these efforts, the gross profit margin has improved substantially in the second half of 2011 to 23.2% in the fourth quarter as compared to 17.2% in the first quarter, which contributed strongly to the improvement of net cash generated from operations.
- The Group could reduce its planned expenditures by up to RUR 321,000 in 2012, sell certain non-core assets and would not pay bonuses to management which in aggregate would be sufficient to cover any working capital deficit that may occur.

Therefore, management strongly believes in the Group's ability to operate as a going concern, and is confident in the Group's ability to settle its debts as and when they fall due.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary if such additional resources are not available and the Group is unable to continue as a going concern.

3. Basis of Preparation of Financial Statements

Statement of Compliance

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

Basis of Preparation

Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which they are incorporated and registered. Accounting policies and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for such financial statements to be presented in accordance with the standards and interpretations prescribed by the IASB.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies in Note 4.

3. Basis of Preparation of Financial Statements (continued)

Reclassifications

The Group has made the reclassifications in the 2010 comparative numbers as follows:

Extract from Consolidated Income Statement

	2010, as reported	Reclassifications	2010, as revised
Revenue	**9,745,948**	–	**9,745,948**
Cost of sales*	(7,405,429)	(22,811)	(7,428,240)
Gross profit	**2,340,519**	**(22,811)**	**2,317,708**
Selling, general and administrative expenses*,**	(1,530,404)	32,043	(1,498,361)
Start-up expenses for new restaurants	(51,933)	–	(51,933)
Other gains	44,882	–	44,882
Other losses	(171,971)		(171,971)
Profit from operating activities before impairment	**631,093**	**9,232**	**640,325**
Reversal of impairment of operating assets			
Losses from impairment of operating assets	3,884	–	3,884
Profit from operating activities after impairment	**634,977**	**9,232**	**644,209**
Financial income	44,393	–	44,393
Financial expense**	(277,472)	(9,232)	(286,704)
Foreign exchange losses, net	(19,130)	–	(19,130)
Share of (losses)/profits of joint venture and associates	(21,873)	–	(21,873)
Profit/(Loss) before income tax	**360,895**	**–**	**360,895**

* The Group reclassified encashment and materials attributable to restaurant activity from selling, general and administrative expenses to cost of sales in the amount of RUR 19,091 and 3,720 respectively.

** The Group reclassified expenses attributable to financing activity from selling, general and administrative expenses to financial expenses in the amount of RUR 9,232.

These reclassifications provide reliable and more relevant information compared with competitors.

Changes in Accounting Policy and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2011. The new/revised standards and interpretations mandatory for financial year beginning on or after January 1, 2011 are the following:

- IAS 24 *Related Party Disclosures (amendment),* effective January 1, 2011
- IAS 32 *Financial Instruments: Presentation (amendment)*, effective for annual periods on or after February 1, 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment),* effective for annual periods beginning on or after January 1, 2011
- *Improvements to IFRSs* (May 2010)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

IAS 24 Related Party Disclosures (amendment)

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

3. Basis of Preparation of Financial Statements (continued)

Changes in Accounting Policy and Disclosures (continued)

IAS 32 Financial Instruments: Presentation (amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 3 *Business Combinations* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value (see Note 5).
- IFRS 7 *Financial Instruments – Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

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

- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

3. Basis of Preparation of Financial Statements (continued)

Standards Issued but not yet Effective

The Group has not applied the following standards and IFRIC Interpretations that have been issued but are not yet effective:

- IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)
- IAS 12 *Income Taxes – Recovery of Underlying Assets* (effective for annual periods beginning on or after January 1, 2012)
- IAS 19 *Employee Benefits* (amendment) (effective for annual periods beginning on or after January 1, 2013)
- IAS 27 *Separate Financial Statements* (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013)
- IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011) (becomes effective for annual periods beginning on or after January 1, 2013)
- IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements* (effective for annual periods beginning on or after July 1, 2011)
- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after January 1, 2013)
- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after July 1, 2010)
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
- IFRS 12 *Disclosure of Involvement with Other Entities* (effective for annual periods beginning on or after January 1, 2011)
- IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013)

The Group will adopt above mentioned standards starting from the effective date of the respective standard.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

4. Significant Accounting Policies and Estimates

Principles of Consolidation

Subsidiaries

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

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

4. Significant Accounting Policies and Estimates (continued)

Principles of Consolidation (continued)

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled 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 this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference 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.

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the income statement, its share of movements in reserves is recognised in equity and its share of the net assets of associates is included in the consolidated statement of financial position. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The share of profits or losses of associates is shown on the face of the income statement. These are the profits or losses attributable to equity holders of the associates and therefore are profits or losses after tax and non-controlling interests in the subsidiaries of the associates. The financial statements of the associates are prepared for the same reporting period as the parent company.

4. Significant Accounting Policies and Estimates (continued)

Principles of Consolidation (continued)

Interests in Joint Ventures

The Group's interest in a joint venture which is a jointly controlled entity is accounted for using the equity method of accounting until the date on which the Group ceases to have joint control over the joint venture. When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognise its share of the profit of the joint venture from the transaction until it resells the assets to an independent party. The financial statements of the joint venture are prepared for the same reporting period as the parent company.

Functional and Presentation Currency

The Group's consolidated financial statements are presented in Russian Roubles, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. All financial information presented in RUR has been rounded to the nearest thousand unless otherwise stated.

The translation of the financial statements from the functional currency to the presentation currency is done in accordance with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The assets and liabilities of the subsidiaries which use local currencies as the functional currency are translated into the presentation currency at the rate of exchange ruling at the reporting date, and their transactions are translated at the weighted average exchange rates for the year. Equity items, other than the net profit or loss for the year that is included in the balance of accumulated profit or loss, are translated at the historical exchange rate effective at the date of transition to IFRS. Equity transactions measured in terms of historical cost in a functional currency are translated using the exchange rates at the date of the transaction. The exchange differences arising on the translation are recognised in other comprehensive income or loss.

Transactions in foreign currencies in the Company and each subsidiary are initially recorded in the functional currency at the rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the rate of exchange ruling at the reporting date. All resulting differences are recorded as foreign currency exchange gains or losses in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. 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.

Financial Assets

Initial Recognition and Measurement

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

4. Significant Accounting Policies and Estimates (continued)

Financial Assets (continued)

Subsequent Measurement

The measurement of financial assets depends on their classification as follows:

Financial Assets at Fair Value through Profit or Loss

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit and loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. During the years ended December 31, 2010 and 2009, the Group did not hold any investments in this category.

Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. During the years ended December 31, 2011 and 2010, the Group did not hold any investments in this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in income statement in finance cost.

Available-for-sale Financial Investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

4. Significant Accounting Policies and Estimates (continued)

Financial Assets (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

As at December 31, 2011 and 2010, the Group had no available-for-sale financial assets.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: (i) the rights to receive cash flows from the asset have expired; or (ii) 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 the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

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

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

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables

For amounts due from loans and receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

4. Significant Accounting Policies and Estimates (continued)

Financial Assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group, if, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

Available-for-sale Financial Investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Property and Equipment

Property and equipment are recorded at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. At each reporting date, management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

4. Significant Accounting Policies and Estimates (continued)

Property and Equipment (continued)

Depreciation is calculated on property and equipment principally on a straight-line basis from the time the assets are available for use, over the following estimated economic useful lives:

Description	Useful life, years
Leasehold improvements	10
Buildings	10-30
Restaurant equipment	4-10
Computer equipment and electronics	4
Office furniture and fixtures	10
Vehicles	5-10

Depreciation attributable to restaurants is presented in cost of sales; other depreciation is presented within selling, general and administrative expenses in the consolidated income statement. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised if it can be clearly demonstrated that they extend the life of the asset or significantly increase its revenue generating capacity beyond its originally assessed standard of performance, and the assets replaced are derecognised. Gains and losses arising from the retirement or disposal of property and equipment are included in the consolidated income statement as incurred.

Assets under construction are stated at cost which includes cost of construction and equipment and other direct costs. Assets under construction are not depreciated until the constructed or installed asset is ready for its intended use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives from 4 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisations periods are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset. The following specific amortisation terms are applied for each type of intangible asset:

The Group capitalises franchise lump sums paid to T.G.I. Friday's Inc. for each new restaurant opened by the Group under "T.G.I. Friday's" brand name. Such franchise lump sums are amortised on a straight-line basis over the franchise contractual period of 15 years.

The Group has exclusive rights to lease and sublease a number of restaurant premises. These rights are accounted for at cost and are amortised on a straight-line basis over the useful life period, generally from 4 to 10 years.

Software development costs are capitalised in accordance with requirements of IAS 38 *Intangible Assets* at cost and are amortised on a straight-line basis over their estimated useful lives, generally four years.

4. Significant Accounting Policies and Estimates (continued)

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. As at the acquisition date any goodwill acquired in acquisitions is allocated to each of the cash-generating units or groups of cash-generating units expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The carrying amount of goodwill at December 31, 2011 and 2010 was RUR 176,153.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or restaurant level group of assets' (cash generating unit) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

4. Significant Accounting Policies and Estimates (continued)

Impairment of non-financial assets (continued)

Intangible Assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Inventories

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realisable value. Cost of inventory is determined on the weighted-average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories recognised as an expense and reported as a component of Cost of sales and Selling, general and administrative expenses in the Income statement in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories recognised as an expense in the same components of the Income statement in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Value Added Tax

The Russian and CIS tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

Receivables

Receivables, which generally have a short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts. Impaired debts are derecognised when they are assessed as uncollectible.

Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand, cash in transit and short-term deposits with an original maturity of three months or less.

Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

4. Significant Accounting Policies and Estimates (continued)

Equity (continued)

Dividends

Dividends are recognised when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the reporting date but before approval of the financial statements are not recognised as a liability at the reporting date in accordance with IAS 10 *Events After the Reporting Period*.

Treasury Shares

Own equity instruments which are reacquired by the Group ("treasury shares") are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Treasury shares are not recognised as a financial asset regardless of the reason for which they are reacquired.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the income statement. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and Borrowings

Loans and credit facilities are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and credit facilities are measured at amortised cost using the effective interest rate method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the loan.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

4. Significant Accounting Policies and Estimates (continued)

Financial Liabilities (continued)

Liabilities to Partners

Before 2007, the Group entered into partnership agreements with third parties (the "partners") in respect of opening and operating the new restaurants. In accordance with the partnership agreements, the partners have the right to obtain a share in profits of a particular restaurant or group of restaurants in return for their initial cash investments into the restaurants. The Group manages the operations of the restaurants. The Group recognises all assets and liabilities of the restaurant in the Group's consolidated financial statements as well as all income and expenses from their operations. In addition, the Group recognises a liability to partners under the partnership agreements.

Some of the Group's subsidiaries in Russia and CIS are incorporated in the legal form of limited liability companies (LLC) and have several participants (or partners). Each participant has a right to a dividend distribution proportional to its ownership interest. In addition to the contribution to the charter capital the partners provide LLCs with interest-bearing or interest-free loans which are linked to their ownership interest in a LLC. If a participant decides to exit the LLC, the company is obliged to repay the actual value of the participant's interest which is determined as its proportional share of net assets reported in the local statutory accounts. Therefore, the partners' interest in these LLCs and loans provided are classified as a liability to partners in the Group's consolidated statement of financial position.

At initial recognition, the liability to partners is recognised at its fair value which is equal to the initial cash investment of the partner. Subsequently, the liability to partners is measured at amortised cost which is calculated as the net present value of the estimated future payments to the partner using an effective interest method and any unwinding of the discount is reflected in the income statement as a finance charge. If the estimates of the future cash payments to the partner change, the carrying amount of the liability is recalculated by computing the present value of estimated future cash flows at the effective interest rate. The adjustment is recognised as finance income or expense in the consolidated income statement. The income attributed to the partners is presented as a finance expense in the consolidated income statement.

The differences between the carrying values of partners liabilities relating to acquired ownership interest and the consideration paid to acquire ownership interest are recognised as financial expense.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair Value of Financial Instruments

The fair value of financial instruments that are traded on 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, 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; discounted cash flow analysis or other valuation models.

4. Significant Accounting Policies and Estimates (continued)

Amortised Cost of Financial Instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Depending on contractual terms, the operating lease payment amounts are calculated for each restaurant as either a percentage of revenue with a minimum fixed monthly payment or as a fixed monthly payment. Some lease agreements contain escalation clauses.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Revenue Recognition

Revenues are recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or receivable and comprise amounts received following direct sales in restaurant and amounts received or receivable from franchise holders, net of any rebates, VAT and other sales taxes.

The following specific recognition criteria must also be met before revenue is recognised:

Revenues from Restaurants and Canteens

Restaurant and canteens revenues are recognised when food and beverages are served. Revenues from food distribution are recognised upon delivery to the customers. Revenues are recognised at fair value of meals and services delivered, net of value added tax charged to customers.

4. Significant Accounting Policies and Estimates (continued)

Revenue Recognition (continued)

Franchise Revenues

Franchise revenues comprise fixed franchise fees and continuing royalty fees, which are charged for the right to use certain of the Group's intellectual property granted by the franchise agreements and for other services provided during the period of the agreement. Franchise fees are recognised as revenues as the rights are granted. Royalty fee from an individual licensee is recognised as a percentage of its revenue over the period of the agreement. Royalty fees are reported as franchise revenue when the fees are earned and become receivable.

Sublease Revenues

The Group leases certain premises. Parts of these premises are subleased to third parties. Sublease revenues are recognised over the lease terms.

Sales of Semi-finished Products to Franchisees

The Group gains revenues from sales of semi-finished products produced at the Group's main kitchen production line. Revenues are recognised at fair value of the consideration receivable, net of value added tax.

Interest Income

For all financial instruments measured at amortised cost interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Borrowing Costs

Borrowing costs of the Group include interest on bank overdrafts, short-term, long-term credit facilities and bonds. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated as the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. For the year ended December 31, 2010, the Group capitalised borrowing costs for leasehold improvements in the amount of RUR 10,722 using the capitalisation rate of 6.45%. For the year ended December 31, 2011, capitalized borrowings costs were nil.

Start-up Expenses for New Restaurants

Start-up expenses for new restaurants represent costs related to the construction and the opening of new restaurant premises. Such expenses include rent and payroll expenses, new personnel training and other overhead expenses that arise before the opening of new restaurants. Start-up expenses for new restaurants are recognised as operating expense in the accounting period the related work was performed.

4. Significant Accounting Policies and Estimates (continued)

Employee Benefits

The Company accrues for the employees' compensated absences (vacations) as the additional amount that the Company expects to pay as a result of the unused vacation that has accumulated at the reporting date.

Under provision of the Russian legislation, social contributions are calculated by the Group by the application of a regressive rate (from 34% to 0%) to the annual gross remuneration of each employee. The Group allocates the social benefits to three social funds (state pension fund, social and medical insurance funds), where the rates of contributions to the pension fund varies from 26% to 0% depending on the annual gross salary of each employee. The Group's social contributions are expensed in the year to which they relate. Total social contributions amounted to RUR 604,582 and RUR 412,415 during the years ended December 31, 2011 and 2010, respectively, and they were classified as payroll expenses in these consolidated financial statements.

Share Based Payments

In April 2010, the Group adopted a Share Appreciation Rights Program (SARP) under which certain top managers and directors of the Group will receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period (Note 30).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Loyalty Programmes

Customer loyalty programmes are used by the Group to provide customers with award credits as part of a sales transaction, including awards that can be redeemed for goods and services not supplied by the entity. The Group company collecting the consideration on behalf of the third party measures its revenue as the net amount retained on its own account. The Group company acting as an agent for a third party recognises revenue arising from rendering agency services to that third party as revenue from rendering services.

The Group uses the "Honoured Guest" and "Malina" loyalty programmes to build brand loyalty, retain its valuable customers and increase sales volume. The programmes are designed to reward customers for past purchases and to provide them with incentives to make future purchases. Each time a customer buys meals in one of the Group's restaurants, the Group grants the customer loyalty award credits.

The "Honoured Guest" programme operates in Russian regions and a customer can redeem the award credits as they are granted for free meals. The "Malina" programme operates in Moscow region and a customer using this programme can redeem the award credits as they are granted only for getting goods and services listed in a special catalogue and provided by a programme operator.

4. Significant Accounting Policies and Estimates (continued)

Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences at the reporting date using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Deferred income tax is charged or credited to the income statement, except when it relates to items recognised outside profit or loss, in which case the deferred tax is also recognised in the statement of comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxable authority.

4. Significant Accounting Policies and Estimates (continued)

Taxes (continued)

Unified Tax on Imputed Income and Simplified Taxation System

Certain restaurants of the Group's subsidiaries located outside the Moscow region with restaurants meeting specified criteria are subject to unified tax on imputed income or simplified tax paid instead of corporate income tax, value added tax, property tax . According to the Russian Tax Code companies engaged in restaurant and catering services are subject to unified tax if a trading area of a restaurant does not exceed 150 square meters. Imputed income is calculated as a fixed amount of imputed income per square meter of a trading area specified by the Russian Tax Code and respective regional/local authorities. Unified tax on imputed income is fixed at 15% of imputed income. If a trading area of a restaurant exceeds 150 square meters than restaurants are subject to simplified taxation system. Simplified tax is calculated as 6% of revenue or 15% of profit. For the years ended December 31, 2011 and 2010, the share of revenues subject to unified tax on imputed income and simplified tax amounted to approximately 16%.

The Group recognises the unified tax on imputed income and the simplified tax as other general and administrative expenses in its consolidated income statement. For the years ended December 31, 2011 and 2010, the unified tax on imputed income and the simplified tax amounted to RUR 13,873 and RUR 15,994, respectively.

Significant Accounting Judgements, Estimates and Assumptions

On an on-going basis, management of the Group evaluates its estimates and assumptions. Management of the Group bases its estimates and assumptions on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the Group's consolidated financial statements actual results may vary from these estimates.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of Lease Agreements

A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is longer than 75 percent of the economic life of the asset, or if at the inception of the lease the present value of the minimum lease payments amounts to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

Operating Lease Terms

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. When determining the lease term, the Group includes the option periods which relate to its preferential right to renew the lease agreement under the Civil Code of the Russian Federation provided the Group has complied with the lease agreement terms (all other conditions being equal). Preferential right arises if the lessor refused to enter into a lease agreement with the lessee for a new term, but within one year from the date of expiration of the lease agreement with the lessee entered into a lease agreement with a third party. In such case the lessee is entitled to claim through the court the transfer to him of the rights and responsibilities under such an agreement and compensation of damages caused by refusal to renew the lease agreement and/or to claim above damages only. Preferential right does not exist if the lessor decides not to continue leasing the property.

4. Significant Accounting Policies and Estimates (continued)

Significant Accounting Judgements, Estimates and Assumptions (continued)

Partnership Agreements

Before 2007, in order to raise capital for the development of its restaurants in the Moscow region, the Group entered into a number of partnership agreements. The Group has determined that, under the terms of the partnership agreements, it maintains full control of the restaurants business while partners gain a share in the profits of the restaurants.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful Lives of Property and Equipment

The Group assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognised in profit or loss.

Impairment of Non-financial Assets

Generally, the Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, which is determined as the higher of an assets fair value less cost to sell and its 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 assessment of the time value of money and the risks specific to the assets. In determining fair value less costs to sell, an appropriate valuation model is used. The Group recognized impairment losses for the year ended December 31, 2011 in the amount of RUR 265,025. During the the year ended December 31, 2010, the Group reversed impairment losses in the amount of RUR 3,884.

Impairment of Goodwill

The Group's impairment test for goodwill is based on value in use calculations for cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There is no impairment loss of goodwill for the years ended December 31, 2011 and 2010.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

4. Significant Accounting Policies and Estimates (continued)

Significant Accounting Judgements, Estimates and Assumptions (continued)

Allowance for Impairment of Advances Paid, Taxes Recoverable and Receivables

Management maintains an allowance for impairment for doubtful advances paid and receivables to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group, inability of franchisees to settle their debts and unrecoverable taxes. When evaluating the adequacy of an allowance for impairment of advances paid, taxes recoverable and receivables, management bases its estimates on specific analysis of the major outstanding prepayments, taxes recoverable and accounts receivable balances and historical write-off experience. If the financial condition of those suppliers or franchisees were to deteriorate, actual write-offs might be higher than expected. As of December 31, 2011 and 2010, the allowance for impairment of advances paid, taxes recoverable and receivables amounted to RUR 36,966 and RUR RUR 39,328, respectively.

Allowance for Impairment of Inventory

Management of the Group regularly reviews the need to provide for slow moving or damaged inventory based on monthly aging and inventory turnover report as well as based on physical inventory observation. As of December 31, 2011 and 2010, the allowances for impairment of inventory amounted to RUR 37,993 and RUR 30,337, respectively.

Current Taxes

Russian tax legislation is subject to varying interpretation and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest. The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from such estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In such an event, the assessment of future utilisation of deferred tax assets must be reduced and this reduction be recognised in profit or loss.

5. Business Combinations

Acquisition of American Cuisine Warsaw sp.z o.o

On December 28, 2010, the Group acquired 100% of shares of American Cuisine Warsaw sp.z o.o. for total consideration of 1,595 thousands of US dollars (RUR 48,586 at the exchange rate at December 28, 2010), an unlisted company based in Warsaw operating T.G.I. Friday's restaurant. The acquisition resulted in excess of purchase price over the fair value of the net assets amounting to RUR 15,570, which was recorded as goodwill of RUR 33,016. The goodwill is attributed to the expected synergies and other benefits from combining assets and activities of the acquired company with those of the Group.

5. Business Combinations (continued)

Fair value of the acquired identifiable assets, liabilities and contingent liabilities at the acquisition date was:

	December 28, 2010
Fair value	
Property and equipment	12,181
Intangible assets	3,574
Inventories	1,275
Trade receivables	196
Cash	1,316
Other assets	2,080
Total assets	**20,622**
Deferred income tax liabilities	(2,261)
Other liabilities	(2,791)
Total liabilities	**(5,052)**
Total identifiable net assets at fair value	**15,570**
Goodwill arising on acquisition (Note 8)	**33,016**
Purchase consideration transferred	**48,586**

In 2010 cash flow on acquisition was as follows:

	2010
Net cash acquired with the subsidiary	1,316
Cash paid	(48,586)
Net cash outflow	**(47,270)**

The fair value and net book value of property and equipment and intangible assets amounted to RUR 15,755 and RUR 279, respectively. None of the property and equipment, intangible assets and goodwill has been impaired (Note 8).The revenue and net profit for the period from December 28, 2010 to December 31, 2010 were consolidated by the Group in the amount of RUR 357 and RUR 15, respectively. For 2011 revenue and net profit were consolidated by the Group in the amount of RUR 48,468 and RUR 2,640, respectively.

6. Property and Equipment

The movement in property and equipment for the year ended December 31, 2010 was as follows:

	Buildings and leasehold improvements	Restaurant equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost							
At December 31, 2009	**2,277,524**	**884,026**	**206,798**	**222,717**	**33,506**	**198,291**	**3,822,862**
Additions	–	31,249	–	–	–	320,059	**351,308**
Assets acquired in business combination	8,740	2,391	335	715	–	–	**12,181**
Assets put into use	144,522	116,269	21,312	35,424	4,360	(321,887)	–
Disposals	(79,339)	(61,782)	(14,880)	(4,707)	(3,296)	(874)	**(164,878)**
Translation difference	(8,543)	(2,108)	(507)	(137)	(55)	(1,926)	**(13,276)**
At December 31, 2010	**2,342,904**	**970,045**	**213,058**	**254,012**	**34,515**	**193,663**	**4,008,197**
Accumulated depreciation and impairment							
At December 31, 2009	**(936,743)**	**(228,795)**	**(143,750)**	**(84,915)**	**(10,868)**	**(34,236)**	**(1,439,307)**
Charge for the year	(198,257)	(58,860)	(33,056)	(22,110)	(2,966)	–	**(315,249)**
Disposals	36,985	18,016	13,940	2,748	2,018	–	**73,707**
Impairment of property and equipment	(174)	138	449	(157)	–	3,628	**3,884**
Translation difference	2,775	917	352	190	3	33	**4,270**
At December 31, 2010	**(1,095,414)**	**(268,584)**	**(162,065)**	**(104,244)**	**(11,813)**	**(30,575)**	**(1,672,695)**
Net book value							
At December 31, 2009	**1,340,781**	**655,231**	**63,048**	**137,802**	**22,638**	**164,055**	**2,383,555**
At December 31, 2010	**1,247,490**	**701,461**	**50,993**	**149,768**	**22,702**	**163,088**	**2,335,502**

The movement in property and equipment for the year ended December 31, 2011 was as follows:

	Buildings and leasehold improvements	Restaurant equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost							
At December 31, 2010	**2,342,904**	**970,045**	**213,058**	**254,012**	**34,515**	**193,663**	**4,008,197**
Additions	–	31,466	–	–	–	504,980	**536,446**
Assets put into use	221,691	194,432	24,105	50,159	5,824	(496,211)	–
Disposals	(139,864)	(143,356)	(25,678)	(30,368)	(7,567)	(2,250)	**(349,083)**
Translation difference	(20,052)	(10,570)	(2,370)	(2,141)	(328)	(203)	**(35,664)**
At December 31, 2011	**2,404,679**	**1,042,017**	**209,115**	**271,662**	**32,444**	**199,979**	**4,159,896**
Accumulated depreciation and impairment							
At December 31, 2010	**(1,095,414)**	**(268,584)**	**(162,065)**	**(104,244)**	**(11,813)**	**(30,575)**	**(1,672,695)**
Charge for the year	(207,147)	(67,381)	(27,034)	(23,894)	(3,139)	–	**(328,595)**
Disposals	74,327	54,385	23,177	16,117	3,648	–	**171,654**
Impairment of property and equipment	(143,320)	(49,600)	(3,100)	(14,570)	(435)	(12,468)	**(223,493)**
Translation difference	11,515	2,971	1,844	729	30	(1)	**17,088**
At December 31, 2011	**(1,360,039)**	**(328,209)**	**(167,178)**	**(125,862)**	**(11,709)**	**(43,044)**	**(2,036,041)**
Net book value							
At December 31, 2010	**1,247,490**	**701,461**	**50,993**	**149,768**	**22,702**	**163,088**	**2,335,502**
At December 31, 2011	**1,044,640**	**713,808**	**41,937**	**145,800**	**20,735**	**156,935**	**2,123,855**

6. Property and Equipment (continued)

The Group has several finance lease contracts for motor vehicles and computer equipment. The carrying value of the leased assets as of December 31, 2011 and 2010 amounted to RUR 1,091 and RUR 6,207, respectively (Note 20).

Property and equipment was tested for impairment as of December 31, 2011. The Group recognised impairment losses of property and equipment for the year ended December 31, 2011, in the amount of RUR 223,493, as the recoverable amount of these assets is less than carrying amount at the same date. During the the year ended December 31, 2010, the Group reversed impairment losses of property and equipment in the amount of RUR 3,884. The accumulated impairment loss of property and equipment amounted to RUR 273,900 and RUR 73,790 as of December 31, 2011 and 2010, respectively.

For the purpose of the impairment testing the Group assessed the recoverable amount of each cash generating unit (restaurant). The recoverable amount has been determined based on value-in-use calculation using cash flows projections based on the actual operating results and budgets approved by management and appropriate discount rate reflecting time value of money and risks associated with the cash generating units. Cash flow projections cover a period of useful life of up to 10 years of the principal assets of each cash generating unit. Average growth rates used in cash flow projections vary from 1% to 5% depending on cash generating unit's country of operation and approximate country's expected Gross Domestic Product (GDP) growth for the projected period. The cash flow projections were discounted at the rate of 11.79% and 8.93% in Russian Rouble nominal terms for 2011 and 2010, respectively. The calculation of the discount rate was based on Group's cost of financing and weighted average cost of capital (WACC). If the discount rate was 1 percentage point higher, this would not lead to any material change in the impairment losses.

7. Intangible Assets

The movement in intangible assets for the year ended December 31, 2010 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks	Software	Total
Cost					
At December 31, 2009	**31,936**	**421,821**	**27,128**	**107,923**	**588,808**
Additions	4,025	11,891	–	2,004	**17,920**
Assets acquired in business combination	3,532	–	1	41	**3,574**
Disposals	(1,518)	(18,855)	–	(677)	**(21,050)**
Translation difference	(372)	(6,446)	204	(145)	**(6,759)**
At December 31, 2010	**37,603**	**408,411**	**27,333**	**109,146**	**582,493**
Accumulated amortisation and impairment					
At December 31, 2009	**(8,782)**	**(174,983)**	**(26,115)**	**(51,520)**	**(261,400)**
Charge for the year	(3,244)	(61,032)	(136)	(23,815)	**(88,227)**
Disposals	148	3,474	–	257	**3,879**
Translation difference	29	1,548	(200)	103	**1,480**
At December 31, 2010	**(11,849)**	**(230,993)**	**(26,451)**	**(74,975)**	**(344,268)**
Net book value					
At December 31, 2009	**23,154**	**246,838**	**1,013**	**56,403**	**327,408**
At December 31, 2010	**25,754**	**177,418**	**882**	**34,171**	**238,225**

7. Intangible Assets (continued)

The movement in intangible assets for the year ended December 31, 2011 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks	Software	Total
Cost					
At December 31, 2010	**37,603**	**408,411**	**27,333**	**109,146**	**582,493**
Additions	6,036	24,683	3,482	2,735	**36,936**
Disposals	(4,687)	–	(546)	(616)	**(5,849)**
Translation difference	(748)	(3,217)	1,765	(510)	**(2,710)**
At December 31, 2011	**38,204**	**429,877**	**32,034**	**110,755**	**610,870**
Accumulated amortisations and impairment					
At December 31, 2010	**(11,849)**	**(230,993)**	**(26,451)**	**(74,975)**	**(344,268)**
Charge for the year	(3,800)	(63,921)	(496)	(23,578)	**(91,795)**
Disposals	1,579	–	162	446	**2,187**
Impairment of intangible assets	(6,621)	(34,684)	–	(227)	**(41,532)**
Translation difference	27	1,496	(1,499)	462	**486**
At December 31, 2011	**(20,664)**	**(328,102)**	**(28,284)**	**(97,872)**	**(474,922)**
Net book value					
At December 31, 2010	**25,754**	**177,418**	**882**	**34,171**	**238,225**
At December 31, 2011	**17,540**	**101,775**	**3,750**	**12,883**	**135,948**

Intangible assets were tested for impairment as of December 31, 2011. The Group recognised impairment losses of intangible assets for the year ended December 31, 2011, in the amount of RUR 41,532, as the recoverable amount of these assets is less than carrying amount at the same date. During the year ended December 31, 2010 there was no recognized impairment loss of intangible assets.

For the purpose of the impairment testing the Group assessed the recoverable amount of each cash generating unit (restaurant). The recoverable amount has been determined based on value-in-use calculation using cash flows projections based on the actual operating results and budgets approved by management and appropriate discount rate reflecting time value of money and risks associated with the cash generating units. Cash flow projections cover a period of useful life of up to 10 years of the principal assets of each cash generating unit. Average growth rates used in cash flow projections vary from 1% to 5% depending on cash generating unit's country of operation and approximate country's expected Gross Domestic Product (GDP) growth for the projected period. The cash flow projections were discounted at the rate of 11.79% and 8.93% in Russian Rouble nominal terms for 2011 and 2010, respectively. The calculation of the discount rate was based on Group's cost of financing and weighted average cost of capital (WACC). If the discount rate was 1 percentage point higher, this would not lead to any material change in the impairment losses.

8. Goodwill

Movements in goodwill arising on the acquisition of subsidiaries were as follows at December 31:

	Gross amount	Impairment losses	Carrying amount
At December 31, 2009	**154,362**	**(11,225)**	**143,137**
Goodwill recognised on acquisition of subsidiaries	33,016	–	33,016
At December 31, 2010	**187,378**	**(11,225)**	**176,153**
Goodwill written off due to the closure of cash generating unit	(11,225)	11,225	–
At December 31,2011	**176,153**	**–**	**176,153**

8. Goodwill (continued)

The carrying amount of goodwill as of December 31, 2011 was allocated among cash generating units (group of cash generating units):

	Gross amount
Pulkovo airport restaurants, Saint Petersburg, Russia	125,006
T.G.I. Friday's Atrium, Warsaw, Poland	33,016
Combo Il Patio and Planet Sushi, Ekaterinburg, Russia	18,131
	176,153

In the years ended December 31, 2011 and 2010 there was no impairment of goodwill.

For the purpose of the impairment testing the Group assessed if the recoverable amount of each cash generating unit (restaurant) or group of cash generating units, which goodwill relates to, exceeds carrying amount of their assets including goodwill. The recoverable amount has been determined based on value-in-use calculation using cash flows projections based on the actual operating results and budgets approved by management and appropriate discount rate reflecting time value of money and risks associated with the cash generating units. Cash flow projections cover a period of useful life of up to 10 years of the principal assets of each cash generating unit. Average growth rates used in cash flow projections vary from 1% to 5% depending on cash generating unit's country of operation and approximate country's expected Gross Domestic Product (GDP) growth for the projected period. The cash flow projections were discounted at the rate of 11.79% and 8.93% in Russian Rouble nominal terms for 2011 and 2010, respectively. The calculation of the discount rate was based on Group's cost of financing and weighted average cost of capital (WACC).

In regard to the assessment of value-in-use of other cash generating units, management believes that no reasonable change in any of the above assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

The result of applying discounted cash flow models reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

9. Investments in Joint Ventures and Associates

The Group accounted for investments in joint ventures and associates under the equity method. The movement in investments in joint ventures and associates was as follows:

	Costa Joint venture	Umai Joint venture	Associates	Total
At December 31, 2009	**22,522**	–	**5,200**	**27,722**
Share of (loss)/profit	(23,220)	–	1,347	**(21,873)**
Translation difference	698	–	(2)	**696**
At December 31, 2010	**–**	**–**	**6,545**	**6,545**
Investments in a joint venture	–	1,688	–	**1,688**
Disposal of investments	–	–	(2,487)	**(2,487)**
Share of (loss)/profit	–	(1,543)	737	**(806)**
Translation difference	–	(145)	–	**(145)**
At December 31, 2011	**–**	**–**	**4,795**	**4,795**

9. Investments in Joint Ventures and Associates (continued)

Costa Joint Venture

In December 2007 the Group entered into a joint venture agreement with Costa Limited ("Costa") which operates coffee houses in the United Kingdom and other countries. The Group and Costa operate Rosworth Investments Limited and its subsidiary as a joint venture. The Group has 50% interest in Rosworth Investments Limited which started its operating activity in 2008. In 2011 Group's share in net losses of the joint venture exceeded cost of investment by RUR 52,741 and prevented the Group from further recognition of share of losses in excess of net investment in joint venture.

Umai Joint Venture

In February 2011 the Group entered into a joint venture agreement with Japan Centre Group Limited which operates Japan restaurants in the United Kingdom and other countries. On February 22, 2011, the Group acquired 50% of shares of Rosinter-Umai UK Limited for total consideration of 1 Great British Pound (47 Russian Roubles at the exchange rate at February 22, 2011). In 2011 Group's share in net losses of the joint venture exceeded cost of investment by RUR 3,185 and prevented the Group from further recognition of share of losses in excess of net investment in joint venture.

10. Related Parties Disclosures

In accordance with IAS 24 *Related Party Disclosures* parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Short-term loans receivable from/payable to related parties consisted of the following as of December 31:

Related parties	Nature of relationship	Short-term loans receivable from related parties 2011	2010	Short-term loans payable to related parties 2011	2010
Hodler Finance S.A.[1]	Entity under	80,490	–	–	–
Rostik Investment Group Inc.[2]	Common control	10,000	10,000	–	–
Other EUCC	(EUCC)	9,708	2,576	5,241	7,253
Total short-term loans receivable from/payable to related parties		**100,198**	**12,576**	**5,241**	**7,253**

(1) On April 22, 2010 the Group issued an unsecured loan to Hodler Finance S.A. in the amount of 2,500 thousand US dollars (RUR 80,490 at the exchange rate at December 31, 2011) bearing interest of 8.75% and maturing in 2012.

(2) On December 24, 2007, the Group provided Rostik Investment Group Inc. with an unsecured rouble denominated loan in the total amount of RUR 68,750, bearing interest of 14.00% per annum. During 2010 the loan was partially repaid. In 2011, the loan agreement was renewed with the interest rate of 10.50% per annum and due date of December 31, 2012.

10. Related Parties Disclosures (continued)

Long-term loans receivable from/payable to related parties were the following as of December 31:

Related parties	Nature of relationship	Long-term loans receivable from related parties 2011	2010
Rosworth Investments Limited[3]	Joint Venture	88,018	64,918
Rosinter Umai UK Limited[4]	Joint Venture	16,318	–
Hodler Finance S.A.[1]	EUCC	–	76,192
Total long term loans receivable from/payable to related parties		**104,336**	**141,110**

(3) During 2008-2011 the Group issued a number of unsecured loans to Rosworth Investments Limited in the total nominal amount of 4,460 thousand US dollars (RUR 143,595 at the exchange rate at December 31, 2011) bearing interest of USD LIBOR 3M plus 1% per month and maturing in 2017. The outstanding balances at amortised cost were RUR 88,018 and RUR 64,918 as of December 31, 2011 and 2010, respectively.

(4) On July 22, 2011, the Group issued an unsecured loan to Rosinter Umai UK limited in the nominal amount of 450 thousand GBP (RUR 22,335 at the exchange rate at December 31, 2011), bearing no interest and maturing in July 21, 2016. The outstanding balance at amortized cost was RUR 16,318 as of December 31, 2011.

As of December 31, 2011 and 2010, long-term and short-term loans and accounts receivable from related parties were neither past due nor impaired.

As of December 31, 2011, long-term accounts receivable from related parties consisted of receivables from the sale of equipment to TransCorpRate LLC in the amount of RUR 3,854.

During 2011 the Group capitalised lease right procurement services as intangible assets. Such lease right was purchased during 2010 from Rostik International C.A in the amount of RUR 24,683.

Short-term accounts receivable from/payable to related parties consisted of the following as of December 31:

Related parties	Nature of relationship	Receivables from related parties 2011	2010	Payables to related parties 2011	2010
Rostik Investment Group Inc.[5]	EUCC	27,234	69,064	1,221	1,213
RIG Restaurant Limited[7]	Parent company	15,339	15,131	–	–
RosCorp LLC[8]	EUCC	6,968	5	18	452
TransCorpRate LLC[9]	EUCC	1,721	–	–	–
Brava LLC[6]	Joint Venture	–	19,192	2,462	1,847
Loyalty Partners Vostok LLC[10]	EUCC	–	–	5,076	4,573
Chicken Factory LLC[11]	EUCC	–	–	6,022	–
Other EUCC		4,996	5,747	9,225	13,667
Total receivable from/payable to related parties		**56,258**	**109,139**	**24,024**	**21,752**

(5) The outstanding receivable balance as of December 31, 2011 comprises interest receivable from Rostik Investment Group Inc. The outstanding receivable balance as of December 31, 2010 represents management and financial advisory services provided by the Group to Rostik Investment Group Inc. The outstanding payable balance as of December 31, 2011 and 2010 comprises rent payable and interest payable.

10. Related Parties Disclosures (continued)

(6) The outstanding receivable balance as of December 31, 2010 represents catering, management and other services provided in accordance with agreements between the Group and Brava LLC, the Russian subsidiary of the Group's joint venture with Costa Limited. The outstanding payable balance as of December 31, 2011 and 2010 represents royalty and other services provided by Brava LLC to the Group.

(7) The outstanding receivable balance at December 31, 2011 and 2010, results from operating expenses and IPO expenses paid by the Group on behalf of RIG Restaurants Limited.

(8) The outstanding balances as of December 31, 2011 and 2010 represent advances for rent, transport and utility services provided by RosCorp LLC to the Group.

(9) The outstanding balance as of December 31, 2011 represents receivables from the sale of equipment to TransCorpRate LLC.

(10) The outstanding payable balance to Loyalty Partners Vostok LLC represents services related to the "Malina" customer loyalty program provided to the Group. The ultimate controlling shareholder holds director position in Loyalty Partners Vostok LLC.

(11) The outstanding payable balance as of December 31, 2011 represents purchase of goods from Chicken Factory LLC.

As at December 31, the aging analysis of short-term receivables from related parties is presented below:

	Total	Neither past due nor impaired	Past due but not impaired		
			<3 months	3-6 months	>6 months
2011	56,258	30,962	269	4	25,023
2010	109,139	97,189	980	–	10,970

Transactions with related parties were as follows for the year ended December 31, 2010:

Related parties	Nature of relationship	Revenue and other gains/(losses) 2010	Purchases 2010	Interest income 2010	Interest expense 2010
Brava LLC[6]	Joint venture	11,911	14,881	–	–
Omsk QSR Network LLC[12]	EUCC	11,669	–	–	–
National QSR Network LLC[12]	EUCC	11,391	–	–	–
RIG Restaurant Limited[7]	Parent company	9,570	76,085	–	17,813
Russian Caramel Restaurants LLC[13]	EUCC	9,292	–	–	–
Loyalty Partners Vostok LLC[10]	EUCC	8,064	1,451	–	–
RosCorp LLC[8]	EUCC	2,160	136,068	–	–
Rostik Aero LLC[14]	EUCC	312	15,837	–	–
Rostik Investment Group Inc.[2, 5]	EUCC	–	21,484	11,432	–
Hodler Finance S.A.[1]	EUCC	250	1,707	10,989	–
Other EUCC		18,960	37,586	1,056	30,601
Total		**83,579**	**305,099**	**23,477**	**48,414**

10. Related Parties Disclosures (continued)

Transactions with related parties were as follows for the year ended December 31, 2011:

Related parties	Nature of relationship	Revenue and other gains 2011	Purchases 2011	Interest income 2011	Interest expense 2011
Brava LLC(6)	Joint venture	11,440	16,819	–	–
Loyalty Partners Vostok LLC(10)	EUCC	9,179	3	–	–
RosCorp LLC(8)	EUCC	3,394	131,183	–	–
Chicken Factory LLC(11)	EUCC	2,942	44	–	–
Rostik Aero LLC(14)	EUCC	–	13,978	–	–
Rostik Investment Group Inc.(2, 5)	EUCC	–	13,470	5,956	–
Hodler Finance S.A. (1)	EUCC	–	–	7,048	–
Rosworth Investments Limited (3)	Joint Venture	–	–	1,544	2,828
TransCorpRate LLC (9)	EUCC	(16,609)	–	558	2,155
Rosinter Umai UK Limited (4)	EUCC	–	–	–	7,757
Other EUCC		12,319	44,147	–	603
Total		**22,665**	**219,644**	**15,106**	**13,343**

(12) During 2010, the Group rendered management, consulting and accounting services and sold semi-finished product to Omsk QSR Network LLC and National QSR Network LLC.

(13) During 2010, the Group rendered rent, management and accounting services to Russian Caramel Restaurants LLC. As of December 31, 2010 this entity was excluded from EUCC and was classified as unrelated third parties.

(14) During 2011 and 2010, Rostik Aero LLC provided the Group with premises for fees.

Compensation to Key Management Personnel

Key management personnel totalled 12 and 10 persons as at December 31, 2011 and 2010, respectively. Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	2011	2010
Salary	65,274	68,145
Performance bonuses	1,708	13,810
	66,982	**81,955**

The Group's contributions relating to social taxes for key management personnel amounted to RUR 2,046 and RUR 1,047 during the years ended December 31, 2011 and 2010, respectively.

11. Income Tax

The Group's provision for income tax for the years ended December 31 is as follows:

	2011	2010
Current tax expense	58,509	98,739
Deferred tax (benefit)/expense	(70,504)	4,616
Total income tax (benefit)/expense	**(11,995)**	**103,355**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

11. Income Tax (continued)

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2011:

	December 31, 2010	Differences recognition and reversal	Translation difference	December 31, 2011
Tax effect of deductible temporary differences				
Trade and other payables	46,856	(3,335)	(536)	42,985
Allowance for impairment of receivables and inventory	5,574	3,053	(104)	8,523
Carry forward of unused tax losses	39,084	29,291	300	68,675
Other	6,390	(988)	(1,614)	3,788
Total deferred tax asset:	**97,904**	**28,021**	**(1,954)**	**123,971**
Tax effect of taxable temporary differences				
Property and equipment	(87,516)	41,503	(194)	(46,207)
Trade and other receivables	(828)	47	(29)	(810)
Other	(13,075)	933	(6)	(12,148)
Total deferred tax liability:	**(101,419)**	**42,483**	**(229)**	**(59,165)**
Net deferred tax (liability)/asset	**(3,515)**	**70,504**	**(2,183)**	**64,806**

During 2010, the Group acquired a deferred tax liability of RUR 2,261 in a business combination (Note 5).

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2010:

	December 31, 2009	Differences recognition and reversal	Translation difference	December 31, 2010
Tax effect of deductible temporary differences				
Trade and other payables	38,074	8,805	(23)	46,856
Allowance for impairment of receivables and inventory	8,112	(2,443)	(95)	5,574
Carryforward of unused tax losses	32,776	6,244	64	39,084
Other	2,717	3,673	–	6,390
Total deferred tax asset:	**81,679**	**16,279**	**(54)**	**97,904**
Tax effect of taxable temporary differences				
Property and equipment	(65,662)	(21,823)	(31)	(87,516)
Trade and other receivables	(1,296)	468	–	(828)
Other	(11,273)	(1,800)	(2)	(13,075)
Total deferred tax liability:	**(78,231)**	**(23,155)**	**(33)**	**(101,419)**
Net deferred tax asset/(liability)	**3,448**	**(6,876)**	**(87)**	**(3,515)**

The recognition and reversal of temporary differences, as presented in the tables above, primarily relates to the depreciation of property and equipment in excess of the depreciation for tax purposes, accrued liabilities, tax losses available for carry forward and provisions to write inventory down to net realisable value.

At December 31, 2011 and 2010, the Group recognised a deferred tax liability for the temporary differences associated with profit distribution in the amount of RUR 4,828 and RUR 5,773, respectively.

As of December 31, 2011 and 2010, several subsidiaries had accumulated tax losses in the amount of RUR 343,375 and RUR 195,420, for which a deferred tax asset of RUR 68,675 and RUR 39,084, respectively, was recognised. Management expects that these tax losses will be used against future taxable income. This deferred tax asset may be utilised within 8-10 years.

11. Income Tax (continued)

As of December 31, 2011 and 2010, several subsidiaries had accumulated tax losses in the amount of RUR 266,914 and RUR 274,047, respectively, for which a deferred tax asset was not recognised. These losses relate to subsidiaries that have a history of losses and either do not expire and available indefinitely or probable to be utilised before expiration.

Below is a reconciliation of theoretical income tax at statutory income tax rates to the actual expense recorded in the Group's income statement:

	2011	2010
(Loss)/profit before income tax	(293,201)	360,895
At Russian statutory income tax rate	58,640	(72,179)
Effect of differences in tax rates in countries other than the Russian Federation	63,992	32,896
Adjustment in respect of income tax of previous years	(58)	18,619
Tax on dividend income related to dividend declared by subsidiaries	(21,368)	(29,073)
Effect of unified tax on imputed income	53,707	45,096
Reduction in deferred taxes closing balance resulting from reduction in tax rate	(346)	–
Deferred tax (expense)/benefit recognised for profit distribution	(945)	(2,181)
Unrecognised tax losses	(40,421)	(40,778)
Effect of non-deductible expenses	(62,150)	(76,797)
Effect of tax losses for which deferred tax assets were not recognised and other non-temporary differences	(39,056)	21,042
Income tax benefit/(expense) reported in the consolidated income statement	**11,995**	**(103,355)**

12. Inventories

Inventories consisted of the following as of December 31:

	2011	2010
Foods, beverages, liquors and tobacco, at cost	150,955	154,898
Utensils, paper goods and other items, at cost	54,806	86,191
	205,761	**241,089**
Obsolescence of inventories	(37,993)	(30,337)
Total inventories, net	**167,768**	**210,752**

During the year ended December 31, 2011 and 2010, the increase/decrease in allowance for impairment of inventories amounted to RUR 8,397 and RUR 10,355, respectively and recognised as a component of Cost of sales in the Income statement.

13. Trade and Other Receivables

Receivables consisted of the following as of December 31:

	2011	2010
Trade receivables	121,879	87,284
Other receivables	88,963	68,597
	210,842	**155,881**
Allowance for doubtful accounts	(14,718)	(13,745)
Total receivables, net	**196,124**	**142,136**

Trade and other receivables are non-interest bearing and are generally on 30-90 days terms.

13. Trade and Other Receivables (continued)

As at December 31, 2011 and 2010, trade and other receivables at nominal value of RUR 14,718 and RUR 13,745, respectively, were impaired and fully provided for. Movements in the provision for impairment of trade and other receivables were as follows:

	2011	2010
At December 31, 2010	**13,745**	**15,948**
Charge for the year	3,796	4,654
Amounts written off	(921)	(3,963)
Unused amounts reversed	(1,906)	(2,894)
Translation difference	4	–
At December 31, 2011	**14,718**	**13,745**

As at December 31, the aging analysis of trade and other receivables is presented below:

		Neither past due nor	Past due but not impaired		
	Total	impaired	<3 months	3-6 months	>6 months
Trade receivables	120,239	68,514	30,349	6,230	15,146
Other receivables	75,885	42,592	17,009	5,082	11,202
2011	**196,124**	**111,106**	**47,358**	**11,312**	**26,348**
Trade receivables	85,416	50,872	21,090	4,119	9,335
Other receivables	56,720	29,439	17,422	1,547	8,312
2010	**142,136**	**80,311**	**38,512**	**5,666**	**17,647**

14. Advances Paid

Advances paid consisted of the following as of December 31:

	2011	2010
Advances to suppliers	202,719	236,554
Advances to employees	3,848	4,466
	206,567	**241,020**
Allowance for doubtful accounts	(22,248)	(25,583)
Total advances paid, net	**184,319**	**215,437**

As at December 31, 2011 and 2010, advances to suppliers at nominal value of RUR 22,248 and RUR 25,583, respectively, were impaired and fully provided for. Movements in the allowance for impairment of advances paid were as follows:

	2011	2010
At December 31, 2010	**25,583**	**32,728**
Charge for the year	7,886	2,173
Amounts written off	(5,947)	(2,797)
Unused amounts reversed	(5,471)	(6,544)
Translation difference	197	23
At December 31, 2011	**22,248**	**25,583**

15. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of December 31:

	2011	2010
Cash at bank	87,370	172,158
Cash in hand	22,146	17,621
Cash in transit	60,354	18,689
Short-term deposits	64,031	8,042
Total cash and cash equivalents	**233,901**	**216,510**

16. Share Capital

Share Capital

The authorised, issued and fully paid share capital of the Company as of December 31, 2011 and 2010 comprised 16,305,334 shares. The nominal par value of each ordinary share is 169.70 Russian Roubles.

On February 11, 2010, the Group announced a secondary offering (the "Offering") of the Company's ordinary shares to be completed in two steps. In the first step of the offering, RIG Restaurants Limited, the Parent, placed 2,619,048 shares of the Company at 10.5 US dollars (316.23 Russian Roubles at exchange rate at February 17, 2010, when Offering price was announced) per share for a total offer size of 27,500 thousand US dollars (RUR 828,234 at exchange rate at February 17, 2010), before fees and expenses.

The Parent provided the Group with a loan in the amount of 26,196 thousand US dollars (RUR 770,957 at exchange rates at the dates of cash receipt). According to the loan agreement the Group was entitled to repay this loan by delivering 2,619,048 own shares or in cash. The Group recognised this loan as an equity instrument with an embedded call option on own shares. The Group measured the embedded option at fair value through profit or loss. In June 2010 the Group repaid the loan in cash.

On May 25, 2010, during the second step of the offering, the Company issued 4,274,877 new shares for open subscription (the "Subscription") at the price of 10.5 US dollars (324.19 Russian Roubles at exchange rate at May 25, 2010).

On August 5, 2010 the Company successfully completed the Subscription and Offering having placed 4,274,877 shares for a fully paid consideration of RUR 1,402,488. During the Offering, on July 7, 2010 the Group bought back 52,224 shares at a price of 326.68 Russian Roubles for a consideration of RUR 17,061.

All the expenses of the Parent and the Company directly attributable to the Offering in the amount of RUR 43,500 were netted with the proceeds from the Offering in equity. Net proceeds from the Offering amounted to RUR 1,341,927.

On December 27, 2007, the Group bought back 146,970 shares from the Parent at a price of RUR 1,446.74 for the amount of RUR 212,628. On March 12, 2010, the Group bought back 400,000 shares from the Parent at a price of 313.28 Russian Roubles for the amount of RUR 125,314. As at December 31, 2010 total quantity and value of treasury shares of the Company held by the Group were 599,194 and RUR 355,003 respectively.

On April 4, 2011, the Group bought back 101,209 shares at a price of 609.92 Russian Roubles for the amount of RUR 61,729. As at December 31, 2011 total quantity and value of treasury shares of the Company held by the Group were 700,403 and RUR 416,732 respectively.

17. Purchase of Non-controlling Interest in a Subsidiary

On November 29, 2010, the Group acquired additional 30% of the share capital of Inkorost CJSC, Inkorost 2003 CJSC and Patio Pizza CJSC, the Group's subsidiaries, for cash consideration of RUR 196,397. The acquisition resulted in excess of the purchase price over the book value of partner's share of RUR 196,397, which was recognised directly in equity.

On February 2, 2011, the Group acquired the remaining 1.3% of the share capital of Rosinter Restaurants LLC, the Group's subsidiary, for cash consideration of 1,600 thousand US dollars (RUR 45,723 at exchange rate at February 2, 2011). The acquisition resulted in excess of the purchase price over the book value of RUR 45,723, which was recognised directly in equity.

18. Earnings per Share

Earnings per share were calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	2011	2010
Net(loss)/income attributable to equity holders of the Company	(274,968)	265,651
Weighted average number of ordinary shares outstanding	15,630,718	13,759,717
(Losses)/earnings per share attributable to equity holders of the Parent, basic and diluted (Russian Roubles)	**(17.59)**	**19.31**

The company has no potentially dilutive ordinary shares; therefore, the diluted income/(losses) per share equal basic income/(losses) per share.

19. Loans and Borrowings

Long-term loans and borrowings	**2011**	**2010**
Sberbank of Russia OJSC	700,000	550,000
Raiffeisenbank CJSC	500,000	617,752
UniCredit Bank CJSC	250,000	–
Finance lease liabilities *(Note 20)*	294	1,756
Other long-term loans	–	3,678
	1,450,294	**1,173,186**
Less: current portion	(210,526)	(85,721)
loans and borrowings with non-complying financial covenants	(950,000)	–
Total long-term loans and borrowings	**289,768**	**1,087,465**

Short-term loans and borrowings	**2011**	**2010**
Sberbank of Russia OJSC	–	10,000
UniCredit Bank CJSC	50,000	180,000
Finance lease liabilities *(Note 20)*	405	1,148
Other short-term loan	–	65
	50,405	**191,213**
Current portion of long-term loans and borrowings	210,526	85,721
Loans and borrowings with non-complying financial covenants	950,000	–
Total short-term loans and borrowings	**1,210,931**	**276,934**

19. Loans and Borrowings (continued)

Sberbank of Russia OJSC

In 2008, the Group entered into a number of credit facility agreements with Sberbank of Russia, OJSC within the limit of the General Agreement. During 2009-2010, the credit facility agreements were renewed within the same limit and finally maturing in January 2011. The credit facility was fully repaid according to schedule.

On June 3, 2009, the Group entered into a loan agreement in the amount of RUR 950,000, bearing interest of 18.50%, 11.75% (since June, 2010) per annum and maturing in June 2012. As of December 31, 2010 the outstanding balance of the loan amounted to RUR 450,000. The loan was fully repaid in January 2011 ahead of schedule.

On December 24, 2010, the Group entered into a credit facility agreement in the amount of RUR 700,000 bearing interest of 8.75% per annum and maturing in December 2013. As of December 31, 2011 and 2010 the outstanding balance of the credit facility amounted to RUR 700,000 and RUR 100,000, respectively.

Raiffeisenbank CJSC

In November 2009, the Group entered into a credit facility agreement with Raiffeisenbank, CJSC in the amount of 5,000 thousand US dollars (RUR 152,385 at the exchange rate at December 31, 2010), bearing interest of LIBOR plus 8.50% per annum and maturing in May 2012. As of December 31, 2010 the outstanding balance of the loan amounted to RUR 117,752. As of December 31, 2010 the current portion of this credit facility amounted to RUR 83,119. This credit facility was fully repaid in February 2011 ahead of schedule.

On November 22, 2010, the Group entered into a credit facility agreement in the amount of RUR 500,000 maturing in May 2012 – November 2013 bearing interest of Mosprime 1M plus 4.50 % per annum. As of December 31, 2011 the outstanding balance of the loan amounted to RUR 500,000.

UniCredit Bank CJSC

In April 2010, the Group obtained a credit facility in the amount of RUR 240,000, bearing interest of 10.00% per annum and maturing in April 2011. As of December 31, 2010, the unutilised balance of the credit facility amounted to RUR 60,000. During 2011 this credit facility was fully repaid.

On June 15, 2011, the Group entered into an unsecured loan agreement with a credit limit in the amount of RUR 250,000, bearing interest of 8.85% per annum and maturing in January-June 2014. As of December 31, 2011, the outstanding balance of the loan amounted to RUR 250,000

In June 2011, the Group entered into a credit facility in the amount of RUR 100,000, bearing interest of Mosprime 1M plus 3.25% per annum and maturing in June 2012. As of December 31, 2011, the outstanding and unutilised balance of the loan amounted to RUR 50,000.

In May 2011, the Group entered into an overdraft facility in the amount of RUR 80,000, bearing interest of Mosprime 1M plus 3.00% per annum and maturing in May 2012. As of December 31, 2011, the unutilised balance of the facility amounted to RUR 80,000.

19. Loans and Borrowings (continued)

Loan Covenants

Loan agreements with Sberbank of Russia OJSC, Raiffeisenbank CJSC and UniCredit Bank CJSC with original maturity dates of December 2013, May 2012 – November 2013 and January-June 2014, respectively include the following significant covenants:

- Financial debt to Earnings before interest, taxes, depreciation, and amortization (EBITDA);
- Outstanding balances of financial debt based on consolidated financial statements in accordance with International Financial Reporting Standards;
- Outstanding balances of financial debt based on consolidated financial statements in accordance with Russian Generally Accepted Accounting Principles.

As of December 31, 2011, the Group does not comply with the financial covenants of the loan agreements with Sberbank of Russia, OJSC dated December 24, 2010 of RUR 700,000 and UniCredit Bank, CJSC dated June 15, 2011 of RUR 250,000. As a result, as of December 31, 2011, the outstanding balances of these loans are classified as current liability of the Group.

On March 27, 2012, the Group received a letter from Sberbank of Russia, OJSC stating its intention not to require loan repayment ahead of schedule.

20. Finance Lease Liabilities

The Group has several finance lease agreements for motor vehicles and computer equipment under which it has an option to acquire the leased assets at the end of lease term ranging from 1 to 3 years. The carrying value of the leased assets is accounted as property and equipment (Note 6). The estimated remaining useful life of leased assets varies from 6 to 10 years. Finance charges related to finance leases for the year ended December 31, 2011 and 2010 amounted to RUR 487 and RUR 953, respectively, and are included in interest expense in the consolidated statement of income.

Future minimum lease payments together with the present value of the net minimum lease payments were as follows at December 31:

	2011		2010	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	553	405	1,770	1,148
After one year but not more than five years	322	294	2,186	1,756
Total minimum lease payment	**875**	**699**	**3,956**	**2,904**
Less amounts representing finance charges	(176)	–	(1,052)	–
Present value of minimum lease payments	**699**	**699**	**2,904**	**2,904**

In the year ended December 31, 2011, the interest rate varied from 9.71% to 15.18%. In the year ended December 31, 2010, the interest rate varied from 9.46% to 15.18%.

21. Liabilities to Partners

The movements in liabilities to partners were as follows during the years ended December 31:

	2011	2010
At December 31, 2010	**120,416**	**237,590**
Increase/(decrease) in amounts due to partners *(Note 29)*	47,463	(14,792)
Payments to partners	(63,293)	(99,475)
Other non-cash settlements	(7,528)	(3,880)
Translation difference	343	973
At December 31, 2011	**97,401**	**120,416**

Analysed as to:

	2011	2010
Short-term portion	48,882	53,075
Long-term portion	48,519	67,341
Total liabilities to partners	**97,401**	**120,416**

22. Trade and Other Payables

Trade and other payables consisted of the following as of December 31:

	2011	2010
Trade creditors	400,309	441,220
Output VAT and other taxes payable	270,770	244,185
Accrued salaries	228,615	236,145
Advances received	25,449	29,319
Interest payable to banks	3,735	2,365
Accrued and other liabilities	215,790	204,897
Total trade and other payables	**1,144,668**	**1,158,131**

Maturity profile of accounts payable is shown in Note 32.

23. Revenue

Revenue for the years ended December 31 consisted of the following:

	2011	2010
Revenue from restaurants	9,714,289	8,971,209
Franchise revenue	316,883	270,597
Revenue from canteens	160,929	231,617
Sublease services	101,248	150,234
Sales of semi-finished products to franchisees	11,711	73,873
Other revenues	65,724	48,418
Total revenue	**10,370,784**	**9,745,948**

24. Cost of Sales

The following expenses were included in cost of sales for the years ended December 31:

	2011	2010, as revised
Food and beverages	2,426,049	2,229,291
Payroll and related taxes	2,304,940	2,019,813
Rent	1,701,173	1,526,547
Restaurant equipment depreciation	367,381	344,074
Utilities	326,732	343,759
Materials	326,348	241,660
Laundry and sanitary control	206,477	177,606
Maintenance and repair services	173,475	144,161
Other services	154,015	122,995
Franchising fee	80,988	68,025
Transportation services	76,572	56,258
Sublease services cost	70,479	104,639
Other expenses	47,872	49,412
Total cost of sales	**8,262,501**	**7,428,240**

25. Selling, General and Administrative Expenses

The following expenses were included in selling, general and administrative expenses for the years ended December 31:

	2011	2010, as revised
Payroll and related taxes	848,419	824,305
Advertising	239,596	233,361
Other services	81,899	78,847
Rent	71,490	69,044
Depreciation and amortisation	53,009	59,402
Financial and legal services	38,824	40,404
Increase in the allowance for impairment of advances paid, taxes recoverable and receivables	34,017	16,115
Transportation services	32,998	29,805
Utilities	32,284	30,958
Maintenance and repair services	17,171	19,334
Materials	16,832	18,280
Bank services	8,028	10,481
Laundry and sanitary control	1,425	3,746
Other expenses	66,492	64,279
Total selling, general and administrative expenses	**1,542,484**	**1,498,361**

26. Rent Expenses

The following rent expenses were included in cost of sales and selling, general and administrative expenses for the years ended December 31:

	2011	2010
Rent premises minimum payment	1,755,804	1,662,014
Rent premises contingent payment	87,338	38,216
Total rent expenses	**1,843,142**	**1,700,230**

27. Other (Gains)/Losses

Gains and losses for the years ended December 31 consisted of the following:

	2011	2010
Write off of trade and other payables	(6,655)	(13,887)
Other gains	(35,935)	(30,995)
Total other gains	**(42,590)**	**(44,882)**
Loss on disposal of non-current assets	184,438	99,440
Non-refundable VAT	23,397	12,494
Other losses	95,729	60,037
Total other losses	**303,564**	**171,971**

28. Loss/(Reversal) from Impairment Of Assets

Loss from impairment of assets for the years ended December 31 consisted of the following:

	2011	2010
Loss/(reversal) from impairment of property and equipment *(Note 6)*	223,493	(3,884)
Loss from impairment of intangible assets *(Note 7)*	41,532	–
Total loss/(reversal) from impairment of assets	**265,025**	**(3,884)**

29. Financial (Income)/Expenses

The following (income)/expenses were included in financial (income)/expenses for the years ended December 31:

	2011	2010
Interest income	(17,959)	(29,601)
Decrease in amounts due to partners *(Note 21)*	–	(14,792)
Total financial income	**(17,959)**	**(44,393)**

	2011	2010
Interest expense	154,474	286,704
Increase in amounts due to partners *(Note 21)*	47,463	–
Total financial expenses	**201,937**	**286,704**

30. Share Based Payments

On April 30, 2010 and later on the Group adopted an incentive plan (the “Plan”) under which 26 executive employees and 7 members of the Board of Directors (the “Participants”) were granted cash settled phantom share options (the “Option”). The right to exercise the Option occurs in three installments of 1/3rd each and vests after 1, 2 and 3 years after the Plan adoption. Each installment is exercisable within 5 years upon vesting. Total number of the Options initially granted was 240,000, out of which 113,667 were dismissed upon employment termination, 40,000 granted additionally to the same Participants, 27,666 exercised in 2011 upon vesting of the first installment, and 138,667 were outstanding at December 31, 2011 (206,000 at December 31, 2010). Exercise price is 10.5 US dollars. The group intends to settle the first 1/3rd of the Plan in cash and the other 2/3rd of the Plan making use of its right to settle its obligation by issuance of treasury shares it holds for that purpose. The Group valued the cash-settled part of the Options and the Plan at the market price at the reporting date. The company paid RUR 7,464 to the Participants for the exercised Options during the year ended December 2011. The Group valued the equity-settled part of the options and the plan at the date of granting and did not revalue at December 31, 2011.

30. Share Based Payments (continued)

On April 30, 2011 the Group adopted an addition to the Plan under which 18 new executive employees were included in the Participants and the existing Participants were granted additional Options on the following terms: vesting in three equal installments on April 30, 2011, 2012 and 2013, exercisable within 5 years upon vesting, exercise price is 19.5 US dollars. Total number of the additional Options granted were 304,000, out of which 43,500 were dismissed upon employment termination and 260,500 were outstanding at December 31, 2011. The Group intends to settle the addition to the Plan making use of its right to settle its obligation by issuance of treasury shares it holds for that purpose.

The value of the Plan is recognized in the financial statements during the vesting period as payroll expense and amounted to RUR 7,588 and RUR 18,402 during the years ended December 31, 2011 and 2010 respectively.

31. Commitments and Contingencies

Operating Environment

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

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position or operating results.

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. Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, additional taxes, fines, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. However, the tax regime in Russia following the recent cases has become even less predictable. As of December 31, 2011 management believes that its interpretation of the relevant legislation is appropriate and that it is likely that the Group's tax position will be sustained.

Capital Commitments

At December 31, 2011 the Group had capital commitments of RUR 58,421 principally relating to the construction of new restaurants.

31. Commitments and Contingencies (continued)

Operating Lease Commitments

The Group has entered into a number of commercial lease agreements for its restaurants' premises. The nominal amount of minimum rental payables under the non-cancellable leases at December 31 was as follows:

	2011	2010
Within one year	1,745,303	1,170,842
After one year but not more than five years	4,133,320	2,572,343
More than five years	1,174,213	781,634
Total minimum rental payables:	**7,052,836**	**4,524,819**

32. Financial Risk Management Objectives and Policies

Financial instruments carried on the statement of financial position comprise loans given, finance lease liabilities, trade and other payables, bank loans, bonds and liabilities to partners. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables and cash and short-term deposits, which arise directly from its operations.

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations include those related to market movements in interest rates, foreign exchange rates, credit risk and liquidity risk. The Group's risk management policies in relation to these risks are summarised below.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are either fixed or variable. The majority of interest rates on long-term and short-term credit facilities of the Group are disclosed in Note 19. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rate. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favorable to the Group over the expected period until maturity.

At December 31, 2011, if Mosprime 1M at that date had been 200 basis points lower/higher with all other variables held constant, effect on profit before tax for the year would have been RUR 10,632. At December 31, 2010, if LIBOR and Mosprime 1M at that date had been 200 basis points lower/higher with all other variables held constant, effect on profit before tax for the year would have been RUR 2,551 and 1,068, respectively.

The Group does not hedge its interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk primarily related to its US dollar denominated intercompany balances and external debts of its Russian subsidiaries.

32. Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk.

The Group has no significant exposure to foreign currency risk since the majority of its US dollar denominated loans are short-term credit facilities (refer to Note 19). The Group does not hedge its foreign currency risk.

The table below shows the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax:

	As at December 31, 2011		As at December 31, 2010	
As at December 31, 2011	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**
US dollar/Russian rouble	12.5%	(55,082)	10.0%	(34,418)
US dollar/Russian rouble	(12.5%)	55,082	(10.0%)	34,418
US dollar/Kazakhstani Tenge	10.7%	865	15.0%	7,778
US dollar/Kazakhstani Tenge	(10.7%)	(865)	(15.0%)	(7,778)
US dollar/Ukrainian Hryvnia	23.3%	45,438	30.0%	56,899
US dollar/Ukrainian Hryvnia	(23.3%)	(45,438)	(30.0%)	(56,899)
Russian rouble/Ukrainian Hryvnia	27.0%	6,505	30.0%	17,018
Russian rouble/Ukrainian Hryvnia	(27.0%)	(6,505)	(30.0%)	(17,018)

Liquidity Risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of financial asset-s and projected cash flows from operations. The tables below summaries the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at December 31, 2011 and 2010 based on contractual undiscounted payments.

December 31, 2011	Less than 3 months	3-12 months	1 to 5 years	Total
Long-term and short-term loans and borrowings	1,000,138	268,041	311,804	**1,579,983**
Long-term and short-term loans due to related parties	–	5,241	–	**5,241**
Trade and other payables	1,141,706	2,785	177	**1,144,668**
Payables to related parties	20,463	3,561	–	**24,024**
Liabilities to partners	36,697	12,185	48,519	**97,401**
Total	**2,199,004**	**291,813**	**360,500**	**2,851,317**

December 31, 2010	Less than 3 months	3-12 months	1 to 5 years	Total
Long-term and short-term loans and borrowings	11,316	451,289	1,200,067	**1,662,672**
Long-term and short-term loans due to related parties	–	7,253	–	**7,253**
Trade and other payables	1,146,381	6,175	5,575	**1,158,131**
Payables to related parties	21,745	7	–	**21,752**
Liabilities to partners	27,247	25,828	67,341	**120,416**
Total	**1,206,689**	**490,552**	**1,272,983**	**2,970,224**

32. Financial Risk Management Objectives and Policies (continued)

Credit Risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to loans due from related parties and receivables. The carrying amount of loans due from related parties and receivables, net of allowance for impairment, represents the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

The Group deposits available cash with several Russian banks. Deposit insurance is not offered to banks operating in Russia. To manage the credit risk, the Group allocates its available cash to a variety of Russian banks and management periodically reviews the credit worthiness of the banks in which such deposits are held.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

	2011	**2010**
Trade and other receivables (*Note 13*)	196,124	142,136
Long-term loans due from related parties (*Note 10*)	104,336	141,110
Short-term loans due from related parties (*Note 10*)	100,198	12,576
Receivables from related parties (*Note 10*)	56,258	109,139
Long-term receivables due from related parties (*Note 10*)	3,854	–
Short-term loans	7,524	13,396
	468,294	**418,357**

As of December 31, 2011 and 2010 short-term loans receivable from third parties were neither past due nor impaired.

Fair Value of Financial Instruments

Fair values of cash and cash equivalents, receivables, trade and other payables and short-term loans and borrowings approximate their carrying amounts due to their short maturity.

The fair value of long-term financial instruments has been calculated by discounting the expected future cash flows at the Group's cost of financing, 9.7% and 8.93% for 2011 and 2010, respectively. The following table shows financial instruments which carrying amounts differ from fair values.

	2011		**2010**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Long-term loans due from related parties	104,336	114,165	141,110	152,804
Liabilities				
Long-term loans and borrowings	289,474	289,474	1,085,709	1,177,147
Current portion of long-term loans and borrowings	210,526	210,526	85,721	85,721

32. Financial Risk Management Objectives and Policies (continued)

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. No changes were made in the objectives, policies or processes during the years ended December 31, 2011 and 2010.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using primarily a leverage ratio, which is net debt divided by EBITDA. The Group's policy is to keep the leverage ratio well below the covenant ratios specified in its debt facility agreements. The Group's net debt includes loans and other forms of borrowings, finance leases, less cash and short-term deposits. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (debt covenants), which are used for capital monitoring.