DETSKY MIR GROUP

Consolidated Financial Statements
As at 31 December 2013, 2012 and 2011 and
for the Years then Ended

DETSKY MIR GROUP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of OJSC Detsky Mir-Center:

We have audited the accompanying consolidated financial statements of OJSC Detsky Mir-Center and its subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as at 31 December 2013, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, cash flows and changes in shareholders' (deficit)/equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for such internal control as management determines is necessary to enable the preparation of the 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 audits. We conducted our audits in accordance with Russian Federal Auditing Standards and 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, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE

28 February 2014
Moscow, Russia

Andrew Sedov, Partner
(license No. 01-000487)

ZAO Deloitte & Touche CIS

DETSKY MIR GROUP

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2013, 2012 AND 2011
(in thousands of US dollars)

	Notes	2013	2012	2011
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5	$ 26,273	$ 53,709	$ 75,253
Short-term investments		-	120	114
Trade receivables, net	6	12,705	11,305	2,195
Merchandise inventories	7	263,854	225,161	181,678
Other current assets	8	23,467	21,952	17,883
Deferred tax assets	14	15,585	14,122	14,393
Total current assets		341,884	326,369	291,516
NON-CURRENT ASSETS:				
Property, plant and equipment, net	9	68,451	71,794	56,178
Goodwill	10	11,078	11,938	-
Other intangible assets, net	10	7,480	4,836	6,012
Investment in associate		1,634	1,862	1,705
Other non-current assets	11	6,308	5,466	3,246
Deferred tax assets	14	2,632	1,685	9,476
Total non-current assets		97,583	97,581	76,617
TOTAL ASSETS		$ 439,467	$ 423,950	$ 368,133
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Trade payables		$ 248,306	$ 218,728	$ 162,801
Short-term borrowing and current portion of long-term borrowing	13	48,040	32,925	5,876
Other current liabilities	12	71,604	49,154	39,708
Total current liabilities		367,950	300,807	208,385
NON-CURRENT LIABILITIES:				
Long-term borrowing	13	132,909	65,768	119,580
Deferred tax liabilities	14	2,708	999	1,151
Total non-current liabilities		135,617	66,767	120,731
TOTAL LIABILITIES		503,567	367,574	329,116
SHAREHOLDERS' (DEFICIT)/EQUITY:				
Share capital		12	12	12
Additional paid-in capital		217,849	217,849	217,849
Treasury shares	18	(140,074)	-	-
Accumulated deficit		(142,606)	(166,012)	(180,681)
Accumulated other comprehensive income		719	4,527	1,837
TOTAL SHAREHOLDERS' (DEFICIT)/EQUITY		(64,100)	56,376	39,017
TOTAL LIABILITIES AND SHAREHOLDERS' (DEFICIT)/EQUITY		$ 439,467	$ 423,950	$ 368,133

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

V.S. Chirakhov
Chief Executive Officer
OJSC DETSKY MIR-CENTER

O.V. Shakirova
Acting Chief Financial Officer
OJSC DETSKY MIR-CENTER

28 February 2014

DETSKY MIR GROUP

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(in thousands of US dollars, except per share data)

	Notes	2013	2012	2011
Revenue	16	$ 1,130,398	$ 888,431	$ 782,899
Cost of sales		(693,695)	(535,608)	(484,388)
Gross profit		436,703	352,823	298,511
Selling, general and administrative expenses	17	(350,262)	(299,942)	(273,114)
Depreciation and amortization		(19,911)	(18,665)	(17,671)
Interest in earnings of associates, net of tax		605	857	921
Other operating income and expenses, net		(32)	367	1,112
OPERATING INCOME		67,103	35,440	9,759
Interest income		346	801	990
Interest expense		(16,259)	(13,141)	(11,121)
Foreign exchange (loss)/gain		(1,834)	874	(3,683)
Income/(loss) before income tax expense		49,356	23,974	(4,055)
Income tax expense	14	(13,161)	(9,305)	(3,345)
NET PROFIT/(LOSS)		$ 36,195	$ 14,669	$ (7,400)
Other comprehensive (loss)/income:				
Effect of translation to presentation currency		(3,808)	2,690	(1,935)
Total comprehensive income/(loss)		**$ 32,387**	**$ 17,359**	**$ (9,335)**
Weighted average number of shares outstanding, basic and diluted[1]		657,000,000	739,000,000	739,000,000
Earnings/(loss) per share, basic and diluted (in US dollars per share) [1]		0,049	0,023	(0,013)

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OJSC DETSKY MIR-CENTER

28 February 2014

[1] The earnings per share amounts and weighted average number of shares outstanding, basic and diluted, for all periods herein retroactively reflect the Company's 250,000-for-1 stock split, which was effective on 18 February 2014.

DETSKY MIR GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(in thousands of US dollars)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit/(loss)	$ 36,195	$ 14,669	$ (7,400)
Adjustments to reconcile net profit to net cash from operations:			
Depreciation and amortization	19,911	18,665	17,671
Shrinkage and merchandise inventories obsolescence expenses	9,485	10,839	12,536
Foreign currency loss/(gain)	1,834	(874)	3,683
Loss on disposal of property, plant and equipment and intangible assets	1,241	293	482
Bad debts written-off and change in allowance for doubtful accounts	253	(251)	74
Interest in earnings of associates, net of tax	(605)	(857)	(921)
Changes in operating assets and liabilities:			
Trade receivables	(2,301)	(8,724)	11,297
Merchandise inventories	(65,863)	(42,660)	(29,287)
Other assets	(2,694)	(697)	9,210
Trade payables	44,652	45,564	15,429
Other current liabilities	23,296	4,899	1,621
(Decrease)/increase in deferred taxes	(1,812)	9,305	3,345
Net cash provided by operating activities	$ 63,592	$ 50,171	$ 37,740
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	$ (20,098)	$ (25,536)	$ (9,519)
Proceeds from sale of property, plant and equipment	-	-	26
Purchase of intangible assets	(4,152)	(2,127)	(2,488)
Acquisition of subsidiary, net of cash acquired	-	(14,792)	-
Dividends received from associates	715	754	1,601
Net cash used in investing activities	$ (23,535)	$ (41,701)	$ (10,380)

DETSKY MIR GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011 (CONTINUED)
(in thousands of US dollars)

	2013	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	$ (12,789)	$ -	$ -
Repurchase of own shares	(140,074)	-	-
Proceeds from borrowings	433,027	152,936	181,183
Principal repayments on borrowings	(341,473)	(186,320)	(169,780)
Principal repayments on capital lease obligations	-	-	(4,148)
Net cash (used in)/from financing activities	$ (61,309)	$ (33,384)	$ 7,255
Effect of foreign currency translation on cash and cash equivalents	(6,184)	3,370	(5,482)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	$ (27,436)	$ (21,544)	$ 29,133
CASH AND CASH EQUIVALENTS, beginning of the year	$ 53,709	$ 75,253	$ 46,120
CASH AND CASH EQUIVALENTS, end of the year	$ 26,273	$ 53,709	$ 75,253
CASH PAID DURING THE YEAR FOR:			
Interest	14,468	12,200	10,027
Income taxes	5,091	405	-

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

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O.V. Shakirova
Acting Chief Financial Officer
OJSC DETSKY MIR-CENTER

28 February 2014

DETSKY MIR GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

(in thousands of US dollars)

	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Accumulated other compre-hensive income	Total
Balance at 1 January 2011	**$ 12**	**$ 217,849**	**$ -**	**$ (173,281)**	**$ 3,772**	**$ 48,352**
Comprehensive loss:						
Net income/(loss)	-	-	-	(7,400)	-	(7,400)
Effect of translation to presentational currency	-	-	-	-	(1,935)	(1,935)
Balance at 31 December 2011	**$ 12**	**$ 217,849**	**$ -**	**$ (180,681)**	**$ 1,837**	**$ 39,017**
Comprehensive loss:						
Net income	-	-	-	14,669	-	14,669
Effect of translation to presentational currency	-	-	-	-	2,690	2,690
Balance at 31 December 2012	**$ 12**	**$ 217,849**	**$ -**	**$ (166,012)**	**$ 4,527**	**$ 56,376**
Dividends declared	-	-	-	(12,789)	-	(12,789)
Repurchase of own shares	-	-	(140,074)	-	-	(140,074)
Comprehensive income:						
Net income	-	-	-	36,195	-	36,195
Effect of translation to presentational currency	-	-	-	-	(3,808)	(3,808)
Balance at 31 December 2013	**$ 12**	**$ 217,849**	**$ (140,074)**	**$ (142,606)**	**$ 719**	**$ (64,100)**

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

V.S. Chirakhov
Chief Executive Officer
OJSC DETSKY MIR-CENTER

O.V. Shakirova
Acting Chief Financial Officer
OJSC DETSKY MIR-CENTER

28 February 2014

(in thousands of US dollars, unless otherwise stated)

1. DESCRIPTION OF BUSINESS

Nature of the Business

OJSC Detsky Mir-Center (the "Company") together with its subsidiaries (the "Group") is the largest retail chain in the children's products market in the Russian Federation ("RF"). The Company is registered in the Unified State Register of Legal Entities under the laws of the Russian Federation (State Registration Certificate No. 1027700047100).

The primary activity of the Group is the sale of children's clothing and products through retail stores. In 2013 and as at 31 December 2013 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia. See Note 2 for a full listing of Group entities.

The controlling shareholder of the Company is JSFC Sistema ("Sistema"). The Detsky Mir Group represents the "Consumer Assets" business unit of Sistema.

The registered shareholders of the Company and their effective ownership were as follows, as at each period end:

	31 December 2013	31 December 2012	31 December 2011
JSFC Sistema	98.827%	74.087%	74.087%
OJSC Sberbank of Russia	-	25.034%	25.034%
Subsidiaries of JSFC Sistema	1.173%	0.879%	0.879%
Total	**100%**	**100%**	**100%**

Operating Environment

Emerging markets such as the RF are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of the RF is largely dependent upon fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Russia produces and exports large volumes of oil and gas. Consequently, the economy is particularly sensitive to the price of oil and gas on the world market.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

The Group's Russian entities maintain accounting records in Russian Rubles in accordance with the requirements of Russian accounting and tax legislation. Other Group entities maintain accounting records in the local currencies of their domicile in accordance with the requirements of the respective accounting and tax legislation. The accompanying consolidated financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

Principles of Consolidation – The consolidated financial statements include the financial position and results of the Company, controlled subsidiaries and entities where the Group has operating and financial control through direct or indirect ownership of a majority voting interest or through a shareholders' agreement.

All significant intercompany transactions, balances and unrealized gains and losses on transactions have been eliminated.

Investments are accounted for using the equity method of accounting if the Group has the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Group has an equity ownership in the voting stock of the investee between 20 and 50 percent, although other factors, such as representation on the Board of Directors and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting the investment is carried at cost of acquisition, plus the Group's equity in undistributed net income since acquisition, less any dividends received since acquisition. The Group's share in the net income of affiliates is included within operating income, given that the Group has day-to-day involvement in the business activities and they are considered to be integral to the Group's business.

The Group periodically reviews its investments in associates for which fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the investment is written down to fair value. The amount of any write-down is included in the statements of operations as a realized loss.

All other equity investments where the Group does not have the ability to exercise significant influence are accounted for by the cost method.

The ownership interest of the Group and the proportion of its voting power in its major operating subsidiaries was as follows, as at each period end:

	Ownership interest and proportion of voting power		
Subsidiaries	**31 December 2013**	**31 December 2012**	**31 December 2011**
Detskaya Galereya "Yakimanka" LLC, RF	100%	100%	100%
Detsky Mir Kazakhstan, LLP, Kazakhstan	100%	100%	100%
Kub-Market LLC, RF	100%	100%	-
DM-Finance LLC, RF	100%	-	-
Spartema Limited, Cyprus	100%	100%	-
Detsky Mir GMBH, Germany	100%	100%	100%
S-Toys LLC, RF	-	-	100%

In 2013 the Group created a new legal entity, DM-Finance LLC, for the purpose of undertaking share-based transactions, including the repurchase of its own shares from OJSC Sberbank of Russia (see Note 18).

In October 2012, the Group disposed of S-Toys LLC. The assets and liabilities of S-Toys LLC as at the date of disposal, and the resulting loss on disposal for the Group, were as follows:

	Carrying value
Taxes receivable	187
Other current assets	118
	305
Other liabilities	(92)
Loss on disposal (recognized within other operating income and expense, net, in the consolidated statements of operations and comprehensive income for 2012)	**213**

Segment Reporting – Reportable segments are determined based on the financial information which is available and utilized on a regular basis by the Company's chief operating decision maker to assess financial performance and to allocate resources. The Group has three operating segments pursuant to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280 Segment Reporting, being retail, luxury retail, and online sales; however luxury retail and online sales are below the quantitative thresholds stipulated by ASC 280, Segment Reporting, for being separately reportable segments and as such are aggregated with the retail segment. The disclosures presented herein therefore, constitute the Group's entity wide disclosures.

Use of Estimates – The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

In particular, significant estimates and assumptions used in preparing the consolidated financial statements include the useful lives and recoverability of long-lived tangible and intangible assets, judgment as to whether bonuses received from suppliers are in substance volume based or represent a reimbursement of specific, incremental, identifiable costs incurred by the Group in selling the suppliers' products, the allocation of a portion of bonuses received from suppliers during the period to merchandise inventories held in the Group's stores and warehouses at period-end, shrinkage and merchandise inventories obsolescence expenses and valuation allowance for deferred tax assets.

Financial Instruments – The Group's financial instruments include cash and cash equivalents, trade receivables, trade payables and borrowings. The particular recognition methods applied in accounting for each of these instruments are disclosed in the individual policy statements associated with each item.

Cash and Cash Equivalents – Cash includes cash on hand and amounts in bank accounts. Cash equivalents include cash invested temporarily in liquid instruments with maturities of three months or less at the time of purchase.

Trade Receivables – Trade receivables are stated at their net realizable value after deducting the allowance for doubtful debts. The allowance reflects either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

Borrowings – Borrowings are initially recognized at their fair value, net of transaction costs, and are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. Borrowings issuance costs are capitalized and amortized over the terms of the underlying borrowings using the effective-interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs directly attributable to the acquisition, construction or production of assets necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalized as part of the costs of those assets. Capitalization of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Concentration of Credit Risk – Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents. $19,161 of the Group's cash and cash equivalents balance as at 31 December 2013 was held with three banks (as at 31 December 2012 and 2011: $46,322 and $51,174 with three banks, respectively).

The Group is not exposed to significant concentrations of credit risk on its sales and trade receivables since the Group is primarily engaged in the retail sale of its products where sales to each individual customer represent a minor percentage of total sales and such transactions are paid for in stores.

Fair value measurements – The Group records and discloses certain financial and non-financial assets and liabilities at their fair value. The fair value of an asset is the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable and willing parties able to engage in the transaction. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new debtor in a transaction between such parties, not the amount that would be paid to settle the liability with the creditor.

Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly; and
- Level 3 – Valuations based on inputs that are unobservable and significant to overall fair value measurement.

The disclosure of fair value of certain financial assets and liabilities recorded at cost or amortized cost is as follows:

- Cash and cash equivalents: The carrying value approximates fair value due to the short maturity of these instruments;
- Trade and other receivables, short-term investments, trade and other payables: The carrying value approximates fair value due to the short maturity of these instruments;
- Short-term borrowings: The carrying value approximates fair value due to the short maturity of these instruments;
- Long-term borrowings: The fair value is based on the Group's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Foreign Currency Translation – The Group follows a translation policy in accordance with ASC 830, Foreign Currency Matters. Management has determined that the functional currency of the Company and its Russian subsidiaries is the Russian Ruble ("RUB"). The functional currencies of the Company's German and Kazakhstan subsidiaries are the Euro and Tenge, respectively.

The Group has selected the USD as its presentation currency. For the purposes of presenting consolidated financial statements, the consolidated financial statements of the Group are translated into USD. Assets and liabilities are translated at year-end exchange rates and income and expense items are translated at average rates for the year. Resulting translation adjustments are reflected as a separate component of other comprehensive income.

The official rate of exchange, as determined by the Central Bank of the RF as at 31 December 2013 was RUB 32.73 to 1 USD (31 December 2012 and 2011: RUB 30.37 and RUB 32.2, respectively). The average rate for the year ended 31 December 2013 was RUB 31.85 to 1 USD (31.09 and 29.39 for 2012 and 2011, respectively).

Business Combinations – The Group accounts for the acquisition of businesses from third parties using the acquisition method and recognizes identifiable assets and liabilities acquired and non-controlling interests in the entity acquired at fair value as at the acquisition date. The results of operations of the acquired subsidiaries are included in the Group's results from the acquisition date.

Revenue Recognition – The Group generates and recognizes sales to retail customers at the point of sale in its stores, net of value added tax. For online sales the Group recognizes revenue on delivery of the product to the customer. Discounts earned by customers are recorded by the Group as a reduction of the sales price at the time of sale. Revenue from services is recognized in the period in which the services have been rendered.

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

Customer Loyalty Program – The Group has a customer loyalty program which allows customers to earn points for each purchase made in any of the Group's retail stores. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. The value of points issued under the Group's loyalty program is included as a liability on the Group's balance sheet and is recorded as a reduction in revenue at the time the points are earned, based on the value of points that are projected to be redeemed. Other administrative costs of the Customer Loyalty Program are recorded in Selling, general and administrative expenses as incurred.

During 2013 the Group started to participate in a partnership program run by OJSC Sberbank of Russia. Pursuant to this program, buyers can collect bonus points when paying for their purchases of goods or services using an OJSC Sberbank of Russia payment card; such bonus points can be redeemed against future purchases of goods or services from any of the program's participants. Participants in the program pay OJSC Sberbank of Russia a contracted sum for each bonus point issued, and receive compensation from OJSC Sberbank of Russia for points received by customers against their goods or services. The Group recognizes amounts payable to and receivable from OJSC Sberbank of Russia under the program as a reduction of and increase to revenue, respectively, at the point the bonus points are earned or redeemed by the customer.

The Group recognizes amounts payable to and receivable from OJSC Sberbank of Russia under the program as a reduction of and increase to revenue, respectively, at the point the bonus points are earned or redeemed by the customer.

Cost of sales – Cost of sales include the cost of merchandise acquired from vendors, freight in, costs related to transporting merchandise from distribution centers to stores, write-off of excess and obsolete inventory, provision for inventory shrinkage and credits and allowances from merchandise vendors.

Leases – The Group has not entered in any finance leases, although enters into operating leases in the normal course of business, particularly relating to rental of retail store premises.

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are activated.

Merchandise inventories – Merchandise inventories are stated at the lower of: cost (using the first-in, first out or "FIFO" method) or market. The cost of merchandise inventories includes the purchase price, and associated customs duties, transportation costs, and other costs related to bringing the inventory to a point where it is ready for sale.

At the end of each reporting period the Group makes a write-off for estimated inventory shrinkage and estimated losses from obsolete and slow-moving stock.

Volume rebates from suppliers are included as a reduction to the cost of inventory. Costs associated with storing and transporting merchandise inventories from the central distribution warehouse to the stores are expensed as incurred and included within cost of sales.

Bonuses and Allowances Received from Suppliers – The Group receives bonuses and allowances that are related to formal agreements negotiated with its suppliers. These bonuses and allowances are predominantly for cooperative advertising, promotions, and volume related discounts. The Group accounts for supplier bonuses and allowances as a reduction in product cost unless these represent a reimbursement of specific, incremental, identifiable costs incurred by the Group in selling the suppliers' products. Supplier allowances provided as a reimbursement of specific incremental and identifiable costs incurred to promote a supplier's product are included as a reduction in the respective expenses when the cost is incurred.

Value-Added Taxes – Value-added taxes ("VAT") related to sales are payable to the tax authorities on the earliest of the date at which (a) cash is received from customers or (b) goods are transferred or services are rendered to customers. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. Recoverable input VAT related to purchase transactions for which there is no legal right of offset with output VAT are recorded as VAT receivable in the accompanying consolidated financial statements.

Property, Plant and Equipment – Cost includes all costs directly attributable to bringing the asset to working condition for its intended use. Major expenditures for improvements and replacements which extend the useful lives of the assets or increase their values or revenue generating capacity are capitalized. Repairs and maintenance are charged to the consolidated statements of operations and comprehensive income as incurred.

Depreciation is computed based on the straight-line method utilizing estimated useful lives of property, plant and equipment as follows:

Buildings	20-40 years
Leasehold improvements	5-10 years
Trade equipment	5-7 years
Office equipment and other property, plant and equipment	3–5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when such renewals are reasonably assured.

Construction in-progress and equipment for installation are not depreciated until the asset is placed into service. Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of consolidated net income.

Internally-generated intangible assets (software) – Internal costs related to the development, installation and bringing software into use are capitalized during the development phase of the software project, and cease to be capitalized once the software is ready for use. Costs relating to the research phase of the software project are expensed as incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported as cost less accumulated amortization and accumulated impairment losses, on the same bases as intangibles asset that is acquired separately.

Impairment of Long-lived Assets – We evaluate long-lived assets such as store property and equipment and other corporate assets for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Factors considered important that could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results and significant changes in the manner of use of the assets or our overall business strategies. Potential impairment exists if the estimated undiscounted cash flows expected to result from the use of the asset plus any net proceeds expected from disposition of the asset are less than the carrying value of the asset. The amount of the impairment loss represents the excess of the carrying value of the asset over its fair value and is included in real estate and other, net on the Consolidated statement of operations and other comprehensive income. We estimate fair value based on either a projected discounted cash flow method using a discount rate that is considered commensurate with the risk inherent in our current business model or appraised value, as appropriate. We also take other factors into consideration in estimating the fair value of our stores, such as local market conditions, operating environment, mall performance and other trends.

Goodwill and Other Intangible Assets – Goodwill represents the excess of the cost of businesses acquired over the fair value of the identifiable assets, liabilities and contingent liabilities at the dates of acquisition.

The Group reviews goodwill for impairment annually and whenever facts or circumstances indicate that the carrying amounts may not be recoverable. In testing for impairment, the fair value of each reporting unit is compared with its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the amount of an impairment loss, if any, is calculated by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill.

No impairment has been recognized in any of the reporting periods covered by these consolidated financial statements.

Intangible assets with finite useful lives are amortized on a straight-line basis. The Group's other intangible assets represent Detsky Mir trademarks and various purchased software. Trademarks, which have an insignificant carrying value, are not amortized. Other intangible assets are being amortized over three to five years.

Income Taxes – Income taxes have been computed in accordance with the laws of the country of incorporation of the respective companies of the Group. The income tax rate in the Russian Federation in all reported periods was 20%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between the financial and tax reporting bases of assets and liabilities, as well as loss carry forwards, using enacted tax rates expected to be in effect at the time these differences are realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations and comprehensive income in the period in which the change is substantively enacted. Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized. The Group adjusts valuation allowances to measure deferred tax assets at the amount considered realizable in future periods if the Group's facts and assumptions change. In making such determination, the Group considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

Positions taken in the tax returns of the subsidiaries forming part of the Group may be subject to challenge by the taxing authorities upon examination. The Group recognizes income on uncertain tax positions in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is calculated based on the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Group classifies uncertain tax positions as well as penalties and fines as tax related liabilities. The Group recognizes interest and penalties accrued related to unrecognized tax positions as part of the provision for income taxes.

Retirement and Post-Retirement Benefits – The Group makes payments for employees into the Pension fund of the RF. From January 2012 the contribution rate is 22% with a threshold of RUB 512 thousand per employee, per annum (2011: 26% with a threshold of RUB 463 thousand). The rate of contribution to the pension fund in cases where the threshold has been exceeded is 10%.The Group has no additional pension obligations. Contributions to medical and social funds, which are expensed as incurred, are calculated at a rate of 6%. Contributions by the Group to the RF pension fund, and to medical and social funds, are expensed as incurred.

Share-based payments – During 2012-2013 a number of Company's employees were entitled to share-based payments ("phantom" shares). The Group's liabilities related to such payments were recognized as "awards classified as liabilities" and measured at the fair value of such liabilities. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability was remeasured, with any changes in fair value recognized in profit or loss for the period.

Distributions to Shareholders – Distributable retained earnings of the Group are based on amounts extracted from the statutory accounts of individual entities and may significantly differ from amounts calculated on the basis of US GAAP. Distributions are recognized as a liability in the period in which they have been declared by the shareholders at a general meeting and become legally payable.

Comprehensive Income – Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Treasury shares – If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognised as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

Recent accounting pronouncements – In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220)," that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. ASU No. 2013-02 is effective for reporting periods beginning after December 15, 2012. The Group is planning to adopt the requirements of ASU No. 2013-02 from the annual period beginning 1 January 2014. Management The Group is currently assessing the impact that this will have on the consolidated financial position and performance.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters (Topic 830)," that requires entities to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity ceases to have financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both events that result in the loss of a controlling financial interest in a foreign entity and events that result in an acquirer obtaining control of an acquire in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon occurrence of those events. ASU No. 2013-05 is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those annual periods, and should be applied prospectively. Management considers that this will not have a significant impact on the consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognised Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists," which clarifies Topic 740 of the Codification. This ASU states that an unrecognised tax benefit, or a portion of an unrecognised tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carryforward. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively. Management considers that this will not have a significant impact on the consolidated financial statements.

3. RECLASSIFICATIONS

During 2013 the Group made the following presentational changes within the consolidated statement of operations and comprehensive income and consolidated balance sheet in an effort to provide more relevant and reliable financial information:

- Compensation received from suppliers for transportation expenses was reclassified from revenue to cost of sales;
- Transportation expenses associated with moving merchandise inventories from the Group's central distribution warehouse to its retail stores were reclassified from selling, general and administrative expenses to cost of sales;
- Marketing compensations received from suppliers for the promotion and advertisement of their goods, which were not related to reimbursement of specific, identifiable and incremental costs incurred by the Group, were reclassified from selling, general and administrative expenses to cost of sales;
- Associated receivables from suppliers under marketing compensation agreements were reclassified from other current assets and trade payables, where netted, to trade receivables.

To ensure the comparability of the consolidated financial statements with the prior period comparative figures for the years ended 31 December 2012 and 2011, the following reclassifications were made:

	As previously reported	Reclassification	After reclassification
Consolidated Statement of Operations and Comprehensive Income for the year ended 31 December 2012			
Revenue	892,595	(4,164)	888,431
Cost of sales	(538,878)	3,270	(535,608)
Selling, general and administrative expenses	(300,836)	894	(299,942)

The reclassification to cost of sales of the cost of transporting goods from the Group's warehouse to its retail stores amounted to $12,211. Compensations received from suppliers for transportation costs reclassified to cost of sales amounted to $4,164. Marketing compensations reclassified to cost of sales amounted to $11,317.

	As previously reported	Reclassification	After reclassification
Consolidated Statement of Operations and Comprehensive Income for the year ended 31 December 2011			
Cost of sales	(476,644)	(7,744)	(484,388)
Selling, general and administrative expenses	(280,858)	7,744	(273,114)

The reclassification to cost of sales of the cost of transporting goods from the Group's warehouse to its retail stores amounted to $9,436. Marketing compensations reclassified to cost of sales amounted to $1,692.

	As previously reported	Reclassification	After reclassification
Consolidated Balance Sheet as at 31 December 2012			
Trade receivables, net	3,197	8,108	11,305
Other current assets	26,768	(4,816)	21,952
Trade payables	(215,436)	(3,292)	(218,728)

The reclassification to trade receivables of amounts receivable from the Group's suppliers under marketing compensation agreements in amount of $8,108, impacting other current assets by $4,816 and trade payables by $3,292.

	As previously reported	Reclassification	After reclassification
Consolidated Balance Sheet as at 31 December 2011			
Trade receivables, net	1,878	317	2,195
Other current assets	18,200	(317)	17,883

The reclassification to trade receivables of amounts receivable from the Group's suppliers under marketing compensation agreements amounted to $317.

Consolidated Statement of cash flows for the years ended at 31 December 2012			
Trade receivables	(1,132)	(7,592)	(8,724)
Other assets	(5,073)	4,376	(697)
Trade payables	42,348	3,216	45,564

The reclassification to trade receivables of amounts receivable from the Group's suppliers under marketing compensation agreements amounted to $7,592, impacting other assets by $4,376 and trade payables by $3,216.

Consolidated Statement of cash flows for the years ended at 31 December 2011			
Trade receivables	6,703	4,594	11,297
Other assets	13,804	(4,594)	9,210

The reclassification to trade receivables of amounts receivable from the Group's suppliers under marketing compensation agreements amounted to $4,594.

4. ACQUISITION OF A SUBSIDIARY

On 24 July 2012 the Group completed the acquisition of a 100% stake in Kub-Market LLC from third parties for a cash consideration totaling USD 15,250 thousand. Kub-Market LLC is a franchisee of ELC in Russia and as at the acquisition date represented a retail chain of 19 leased stores. The Group acquired Kub-Market LLC in order to extend the product range and enter the early learning market.

The results of Kub-Market LLC's operations have been included in the consolidated financial statements from the date of acquisition. The acquisition was initially recorded at carrying value as a provisional amount based on the assumption that the carrying value was equal to the fair value as at the date of acquisition since there was no other information available at that time.

Subsequently the Group obtained a valuation report and finalized its fair value valuations of the assets and liabilities acquired, and concluded that minor adjustments to the initial purchase price allocation were required. The final cost of acquisition is therefore allocated as follows:

Cost of acquisition – cash	**$**	**15,250**
Recognized amounts of identifiable assets and liabilities		
Cash and cash equivalents		458
Merchandise inventories		3,337
Other current assets		1,838
Property, plant and equipment, net		768
Goodwill		11,111
Other non-current assets		718
Trade payables		(2,901)
Other current liabilities		(79)
Total identifiable assets acquired and liabilities assumed	**$**	**15,250**

The goodwill that arose on acquisition includes the potential effect from the synergy of operations of Kub-Market LLC with the existing retail division of the Group.

The following proforma financial data represents the Group's consolidated statement of operations prepared as if the acquisition were performed at the beginning of the earliest presented annual reporting period (1 January 2011). When determining notional amounts, all non-standard expenses were considered to be immaterial. Proforma data is provided for the years ended December 31, 2012 and 2011 (for the year ended 31 December 2013 the full year results of Kub-Market have been consolidated):

Proforma financial data	**2012 (unaudited)**	**2011 (unaudited)**
Revenue	$ 901,674	$ 802,061
Net profit/(loss)	$ 14,511	$ (6,441)

These unaudited proforma results have been prepared solely for the purposes of comparison. The unaudited proforma information is not necessarily indicative of the Group's financial position or operating results that would have occurred if the acquisition had been consummated as at the beginning of the respective period, nor is it necessarily indicative of the Group's future operating results. The actual results of operations of Kub-Market LLC are included in the consolidated financial statements of the Group only from the respective date of acquisition and are as follows:

Actual results of operations of Kub-Market LLC consolidated in the consolidated financial statements	**2013**	**2012 (24 July to 31 December)**
Revenue	$ 19,002	$ 9,337
Net (loss)/profit	$ (73)	$ 619

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	**2012**	**2011**
Cash on hand and in current accounts	$ 2,772	$ 5,002	$ 46,002
Bank deposits	11,991	12,284	10,017
Cash in transit	11,510	36,423	19,234
Total	**$ 26,273**	**$ 53,709**	**$ 75,253**

Cash in transit represents the cash collected from the Group's stores and not yet deposited into the bank accounts at the year-end.

Cash and cash equivalents as at 31 December 2013, 2012 and 2011 include cash and term deposits held in MTS Bank, a subsidiary of Sistema, in the amount of $683, $248 and $1,403, respectively.

6. TRADE RECEIVABLES, NET

Trade receivables as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	**2012**	**2011**
Trade receivables	$ 12,732	$ 11,307	$ 2,242
Less: allowance for doubtful accounts	(27)	(2)	(47)
Total	**$ 12,705**	**$ 11,305**	**$ 2,195**

Trade receivables are generally represented by amounts receivable from suppliers related to volume and other bonuses and for goods returned to suppliers.

Starting from 2013, amounts receivable from suppliers under marketing compensation agreements have been reclassified between trade receivables and other receivables (refer to Note 3 for details).

7. MERCHANDISE INVENTORIES

Merchandise inventories as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	2012	2011
Goods for resale	$ 261,260	$ 221,148	$ 179,236
Materials	2,594	4,013	2,442
Total	**$ 263,854**	**$ 225,161**	**$ 181,678**

Materials are represented by spare parts, packaging materials and other materials used in outlets and warehouses.

Write-offs of merchandise inventories relating to shrinkage and write-down to market in the amount of $9,485, $10,839 and $12,536 for the years ended December 31, 2013, 2012 and 2011, respectively, were recorded within cost of sales within the consolidated statements of operations and comprehensive income.

8. OTHER CURRENT ASSETS

Other current assets as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	2012	2011
Advances to suppliers	$ 3,452	$ 5,620	$ 4,256
Value added tax receivable	7,071	5,784	3,670
Other advances	3,340	3,103	3,733
Other taxes receivables	488	476	848
Prepaid expense	380	379	475
Loyalty program receivables from OJSC Sberbank of Russia	4,719	-	-
Other	4,877	7,663	6,624
Less: allowance for doubtful accounts	(860)	(1,073)	(1,723)
Total	**$ 23,467**	**$ 21,952**	**$ 17,883**

Other advances consisted of lease prepayments and customs duties. Other current assets include receivables due from Detsky Mir – Roznichnye Aktivy, a subsidiary of AFK Sistema in the amount of $976 (2012 and 2011: $2,024 and $3,093, respectively)

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	2012	2011
Buildings and leasehold improvements	$ 78,642	$ 79,478	$ 62,234
Trade equipment	70,408	67,108	49,431
Construction in-progress (fixtures and fittings for installation)	3,240	1,471	1,502
	152,290	148,057	113,167
Less: accumulated depreciation	(83,839)	(76,263)	(56,989)
Total	**$ 68,451**	**$ 71,794**	**$ 56,178**

Depreciation expense for the years ended 31 December 2013, 2012 and 2011 amounted to $17,719, $14,994 and $14,338, respectively.

Loss on disposal of property, plant and equipment of $1,207, $293 and $482 was recognized in Other operating income and expense, net in the consolidated statements of operations and comprehensive income for the years ended 31 December 2013, 2012 and 2011, respectively.

On 30 December 2013 the Group signed a preliminary sale agreement with a third party for the building occupied by its luxury retail store, which at 31 December 2013 has a carrying amount of $7,910. The completion of the sale is conditional on the Group obtaining certain non-customary regulatory approvals, which as at the date of these financial statements the Group had been unsuccessful in obtaining. In management's view these approvals are unlikely to be obtained and as such, the sale of the asset is not probable. Consequently, management has concluded that the asset does not meet the criteria for being classified as an asset held for sale as at 31 December 2013.

10. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill and other intangible assets, net of accumulated amortization, as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	2012	2011
Goodwill	$ 11,078	$ 11,938	$ -
Other intangible assets	7,480	4,836	6,012
Total	**$ 18,558**	**$ 16,774**	**$ 6,012**

The changes in the carrying amount of goodwill for 2013 and 2012 were as follows:

Balance at 31 December 2011	**$ -**
Additions	11,111
Translation gain	827
Balance at 31 December 2012	**11,938**
Translation loss	(860)
Balance at 31 December 2013	**$ 11,078**

On 24 July 2012 the Group completed the acquisition of a 100% stake in Kub-Market LLC from third parties for a cash consideration totaling USD 15,250 thousand. The goodwill that arose on acquisition includes the potential effect from the synergy of operations of Kub-Market LLC with the existing retail division of the Group.

As of 31 December 2013 and 2012, management performed an annual impairment test for goodwill and determined that goodwill was not impaired.

Other intangible assets as at 31 December 2013, 2012 and 2011 comprised:

	2013	2012	2011
Software	$ 19,512	$ 15,471	$ 13,221
Trademarks	137	134	95
	19,649	15,605	13,316
Less: accumulated amortization	(12,169)	(10,769)	(7,304)
Total	**$ 7,480**	**$ 4,836**	**$ 6,012**

Additions to software during 2013 relate primarily to licenses acquired for an SAP system, which is due to be brought into use in 2014.

The amortization expense on other intangible assets for the years ended 31 December 2013, 2012 and 2011 amounted to $2,192, $3,671 and $3,333, respectively. The estimated amortization expense on other intangible assets for each of the five succeeding years and thereafter is as follows:

Year ended 31 December	
2014	2,420
2015	1,955
2016	843
2017	305
2018	273
Thereafter	1,710
Total	**$ 7,506**

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

11. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	**2012**	**2011**
Long-term advances paid under operating lease agreements for warehouses and stores	$ 5,780	$ 5,224	$ 2,518
Other	528	242	728
Total	**$ 6,308**	**$ 5,466**	**$ 3,246**

12. OTHER CURRENT LIABILITIES

Other current liabilities as at 31 December 2013, 2012 and 2011 consisted of the following:

	2013	**2012**	**2011**
Taxes payable	$ 20,088	$ 5,553	$ 4,539
Accrued salaries	10,800	10,731	6,215
Accrued liabilities under loyalty program	10,809	9,198	-
Interest payable	518	256	268
Accrued expenses and other current liabilities	29,389	23,416	28,686
Total	**$ 71,604**	**$ 49,154**	**$ 39,708**

Included in Other current liabilities are obligations to subsidiaries of Sistema for the years ended 31 December 2013, 2012 and 2011 in the amount of $225, $388 and $7,389, respectively.

13. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2013, 2012 and 2011 comprise:

	Annual interest rate (Actual rate as at 31 December 2013)	2013	2012	2011
Corporate bonds	8.5%	$ 35,137	$ 37,863	$ 35,719
Bank loans				
USD-denominated letters of credit	up to 5% per annum	-	-	3,096
RUB-denominated bank loans	7.1% to 10.5% per annum MosPrime+3% per annum	145,812	60,830	86,641
		180,949	98,693	125,456
Less current portion of long-term debt		(48,040)	(32,925)	(5,876)
Long-term debt, net of current portion		**$ 132,909**	**$ 65,768**	**$ 119,580**

Letters of credit are used by the Group to manage operating cash flows, in particular with respect to supplier obligations.

In December 2005, the Company issued corporate RUB-denominated bonds in the amount of RUB 1,150 million (equivalent of $35,137, $37,863 and $35,719 as at 31 December 2013, 2012 and 2011, respectively) maturing in May 2015. These bonds are traded on the MICEX stock exchange, with the interest payable semi-annually. The market value of the bonds, determined based on MICEX stock exchange quotations, as at 31 December 2013, 2012 and 2011 was $35,119, $35,780 and $33,218, respectively. The principal of corporate bonds is fully and unconditionally guaranteed by the Moscow City Government. The Company has pledged to the Moscow City Government real estate with an approximate carrying value of $3,948 ($4,553 and $4,577 as at 31 December 2012 and 2011, respectively).

The fair value of the Group's bank borrowings and letters of credit, including amounts due within one year, as at 31 December 2013, 2012 and 2011 was $90,648, $53,132 and $67,518, respectively. The carrying values of these borrowings were $114,879, $60,830 and $89,737, respectively.

During 2013, the Group took a long-term loan from OJSC Sberbank of Russia to fund the repurchase of its own shares from OJSC Sberbank of Russia (see Note 18). The Group has pledged these repurchased treasury shares to OJSC Sberbank of Russia as security against the loan. The borrowing agreement contains a condition that should the Group sell out LLC Detskaya Galereya "Yakimanka", a subsidiary, then the repayment schedule of the borrowings will be accelerated. As at the date of these financial statements, management has no intention to sell LLC Detskaya Galereya "Yakimanka". As at 31 December 2013, the amount due to OJSC Sberbank of Russia under this loan agreement was $97,772.

Except for the above real estate and treasure shares pledged as security for the corporate bond and loan due to OJSC Sberbank of Russia as at 31 December 2013 and 2012, the Group has no other assets or securities pledged to secure loans and borrowings granted to the Group (as at 31 December 2011 the Group pledged a 66% interest in the share capital of LLC Detskaya Galereya "Yakimanka", as well as merchandise inventories with a carrying amount of RUB 106 million ($3,292)).

Certain of the Group's loan agreements contain covenants requiring the Group to meet certain financial ratios. The loan agreements contain various provisions that are triggered in case of non-compliance with the specific covenants and these provisions differ in each agreement. Specifically, the banks may either increase interest rates on the loans, request the Group to contribute additional collateral, or request immediate repayment of the respective debt.

The following table presents the aggregated scheduled maturities of the bonds and bank loans principal outstanding as at 31 December 2013:

Year ended 31 December		
2014		48,040
2015		35,137
2016		6,518
2017		26,073
2018		26,073
2019		26,073
2020		13,035
Total	**$**	**180,949**

14. INCOME TAX

The Group's provision for income taxes for the years ended 31 December 2013, 2012 and 2011 was as follows:

		2013		**2012**		**2011**
Current income tax expense	$	(14,973)	$	(53)	$	-
Deferred income tax benefit/(expense)		1,812		(9,252)		(3,345)
Total income tax expense	**$**	**(13,161)**	**$**	**(9,305)**	**$**	**(3,345)**

Income tax expense is different from that which would be obtained by applying the statutory income tax rate of 20% effective in the Russian Federation to profit before income tax. The items causing this difference are as follows:

		2013		**2012**		**2011**
Income tax (expense)/benefit computed on profit/loss before income tax expense at a statutory rate of 20%	$	(9,871)	$	(4,795)	$	811
Adjustments:						
Non-deductible inventory losses		(3,813)		(3,001)		(3,392)
Other non-deductible expenses, net		(337)		(3,086)		(578)
Prior period income tax adjustment		785		1,185		423
Effect of rates different from Russian statutory rate		9		152		(55)
Change in valuation allowance for deferred tax assets		66		240		(554)
Income tax expense	**$**	**(13,161)**	**$**	**(9,305)**	**$**	**(3,345)**

The temporary differences as at 31 December 2013, 2012 and 2011 were as follows:

		2013		**2012**		**2011**
Trade receivables	$	355	$	527	$	1,884
Inventories		5,893		5,433		2,381
Accrued liabilities under loyalty program		2,162		1,840		868
Tax losses carried forward		309		2,634		6,297
Accrued expenses and other temporary differences		6,866		3,688		2,963
Total current deferred tax assets	**$**	**15,585**	**$**	**14,122**	**$**	**14,393**
Tax losses carried forward		2,835		1,974		9,981
Less: valuation allowance for deferred tax assets		(203)		(289)		(505)
Total long-term deferred tax assets	**$**	**2,632**	**$**	**1,685**	**$**	**9,476**
Property, plant and equipment	$	(791)	$	(397)	$	(878)
Accrued marketing compensations		(1,609)		-		-
Other		(308)		(602)		(273)
Total long-term deferred tax liabilities	**$**	**(2,708)**	**$**	**(999)**	**$**	**(1,151)**

The valuation allowance for deferred tax assets, namely tax loss carried forwards, is attributable to tax losses carried forward which management does not expect to be utilized.

The Group's tax losses carried forward expire as follows:

2018	$	36
2019		4,612
2020		2,604
2021		904
2022		834
2023		6,730
Total	**$**	**15,720**

15. LONG-TERM INCENTIVE PLAN

In March 2012, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan"). Under the conditions of the Incentive Plan, certain employees at senior levels were entitled to receive cash in accordance with the number of vested phantom shares allocated to them. The price for phantom shares was to be determined by an independent appraiser at each specified date. The Plan consisted of five stages and was to be effective within the period of 2012-2015. The phantom shares were to vest contingent on continued employment with the Group and certain established targets relating to the increase in the Company's market value and certain financial results.

As at 31 December 2012 the Group's liabilities associated with the Incentive Plan amounted to $630. The respective expense was recognized as Selling, General and Administrative expenses in the consolidated statements of operations and comprehensive income for 2012.

On 12 September 2013, the Group's Board of Directors opted to cancel the Incentive Plan. Accordingly, on this date the total accrued liabilities of $585 related to the Incentive Plan were released into the consolidated statement of operations and comprehensive income for the year ended 31 December 2013.

16. REVENUE

The Group's revenue for the year ended 31 December 2013, 2012 and 2011 was as follows:

		2013		2012		2011
Retail, excluding luxury and the online store	$	1,103,578	$	864,512	$	753,647
Wholesale		-		-		7,054
Luxury		19,011		18,227		16,814
Other		7,809		5,692		5,384
Total	**$**	**1,130,398**	**$**	**888,431**	**$**	**782,899**

The Group's retail sales in the Moscow Region, including the luxury market, for the years ended 31 December 2013, 2012 and 2011 amounted to $401,194, $336,448 and $324,777, respectively. This represents a significant geographical concentration in one region. Revenue from ELC-branded stores, shown within retail revenue, for the years ended 31 December 2013 and 2012 amounted to $19,002 and $9,413, respectively.

Other revenue includes revenue from the online store for the years ended 31 December 2013, 2012 and 2011 in the amount of $7,137, $4,077 and $1,379, respectively.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the years ended 31 December 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Payroll	$ 141,043	$ 123,211	$ 119,114
Rent and utility	148,057	119,720	102,949
Advertising and marketing expenses	17,808	16,026	11,847
Security expenses	8,285	10,397	8,339
Repair and maintenance	7,140	7,033	6,368
Promotional materials	5,447	5,157	4,681
Banking services	7,399	5,184	4,599
Consulting services	1,642	1,232	1,953
Travel expenses	1,502	2,286	1,867
Communication expense	1,923	1,937	1,809
Taxes (other than income tax)	1,413	1,326	1,554
Support of software	2,872	2,458	1,376
Stationary and other materials	854	391	234
Other	4,877	3,584	6,424
Total	**$ 350,262**	**$ 299,942**	**$ 273,114**

Starting from 2013, certain items of income and expense have been reclassified between selling, general and administrative expenses and cost of sales (refer to Note 3 for details).

Payroll costs for the years ended 31 December 2013 and 2012 include termination payments of $966 and $683, respectively, made by the Group to the top management and their line managers as a part of the change in the management team which happened in those years.

18. SHARE CAPITAL

All share and per share information for all periods herein retroactively reflect the Company's 250,000-for-1 stock split, which was effective on 18 February 2014 (Note 21).

As at 31 December 2013, 2012 and 2011, the share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorised ordinary shares
At 31 December 2012 and 2011	739,000,000	739,000,000	739,000,000
Repurchase of own shares	(185,000,000)	-	-
At 31 December 2013	**554,000,000**	**739,000,000**	**739,000,000**

Each share has a par value of RUB 0,0004 per share.

Treasury shares

In September 2013 following the approval by the Board of Directors, the Group purchased 185,000,000 issued ordinary shares of the Company from OJSC Sberbank of Russia for total cash consideration of $140,074 (RUB 4,542,440 thousand). All 185,000,000 shares were held as treasury shares at cost as at 31 December 2013.

Dividends declared

In accordance with the Russian legislation, earnings available for dividends are limited to retained earnings of the Company, calculated in accordance with statutory rules in local currency. On 28 June 2013 the Annual General Meeting approved dividends of RUB 420,462 thousand ($12,789 thousand), being RUB 0,57 and ($0,017) per share, in respect of 2012.

19. CONTINGENCIES

Operating Leases – The Group leases retail space through contracts which expire in various years through to 2020.

Future minimum rental payments under non-cancellable operating leases in effect as at 31 December 2013 are as follows:

2014	$	158,973
2015		166,368
2016		174,344
2017		182,705
2018		191,400
Thereafter		198,834
Total	**$**	**1,072,624**

Legal – In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and may be subject to claims. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Group.

Taxation – Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities in the Russian Federation frequently take an assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Prior to 1 July 2013 the VAT legislation of the Russian Federation provided no guidance with regards to court practice on the assessment and payment of VAT related to bonuses from suppliers. In April 2013 an amendment to the Tax Code was adopted in Russia with the purpose to clarify the VAT rules going forward. The amendment is effective 1 July 2013 and does not apply retrospectively. In the normal course of business, the Group receives various bonuses, discounts and reimbursement of marketing expenses from suppliers. The Group believes that it has correctly interpreted the current tax legislation with regard to this issue in accordance with the accepted industry practice both before and after 1 July 2013 and no additional tax liabilities will arise in connection with bonuses received from suppliers. Management qualifies the risk of assessment of additional taxes with regards to VAT as medium for the period preceding 1 July 2013, due to unclear legislation and contradictory court practice, and estimates that the amount of risk, in the case that it occurs, will not exceed 1% of the Group's consolidated revenues for the two reporting periods.

20. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2013, 2012 and 2011, the Group entered into transactions with fellow subsidiaries of Sistema as follows:

Rent and utility expenses – During the years ended 31 December 2013, 2012 and 2011, the Group incurred costs payable to Detsky Mir – Roznichnye Aktivy, a subsidiary of Sistema, of approximately $1,382, $1,317 and $1,539 and costs payable to Urlak, an affiliate of Sistema, of approximately $nil, $310 and $284, respectively.

Communication expenses – During the years ended 31 December 2013, 2012 and 2011, the Group incurred costs payable to MTS, a subsidiary of Sistema, of approximately $830, $428 and $411, and costs payable to Comstar-UTS of approximately, $nil, $11 and $95, respectively. During the year ended 31 December 2011, the Group incurred costs payable to MTT, a joint venture of Sistema, of approximately $84.

Advertising and marketing expenses – During the years ended 31 December 2013 the Group paid Advertising and marketing expenses to PA Maxima, an affiliate of Sistema, in the amount of approximately $515 (years ended 31 December 2012 and 2011: $nil).

Related party balances as at 31 December 2013, 2012 and 2011 are disclosed in the corresponding notes to the consolidated financial statements.

21. SUBSEQUENT EVENTS

At the end of January 2014 one of the Group's stores was affected by a fire which destroyed a significant portion of the Group's inventories and leasehold improvements at this store. The carrying amount of the merchandise inventories in this store was $241 and the carrying amount of the property, plant and equipment was $356 as at 31 December 2013.

On 18 February 2014 the Company effected a 250,000-for-1 stock split. All share and per share information has been retroactively adjusted to reflect the stock split.

V.S. Chirakhov Chief Executive Officer OJSC DETSKY MIR-CENTER	**O.V. Shakirova** Acting Chief Financial Officer OJSC DETSKY MIR-CENTER

28 February 2014