

DORINDA HOLDING S.A.

**Consolidated financial statements
for the year ended December 31, 2008
(with the report of the Réviseur d'Entreprises thereon)**

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To the Shareholders of
DORINDA HOLDING S.A.
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REPORT OF THE REVISEUR D'ENTREPRISES

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of DORINDA HOLDING S.A., which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated income statement, 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 notes.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

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 as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement of the Réviseur d'Entreprises, 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 Réviseur d'Entreprises 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 the Board of Directors, 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

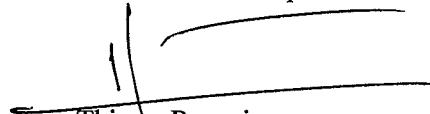
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of DORINDA HOLDING S.A. as of December 31, 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, July 10, 2009

KPMG Audit S.à r.l.
Réviseurs d'Entreprises



Thierry Ravasio

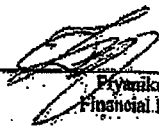
DORINDA HOLDING S.A. Group
Consolidated Balance Sheet

<i>In thousands of RUR</i>	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Investment property	11	1 041 642	2 534 444
Property, plant and equipment	9	17 337 092	17 941 235
Construction in progress	9	1 647 007	1 721 646
Intangible assets	10	283 936	54 198
Long-term loans issued		1 039	38 955
Deferred income tax asset	26	176 226	67 748
Other non-current assets	12	3 999 844	3 620 024
Total non-current assets		24 486 786	25 978 250
Current assets			
Inventories	13	3 940 604	2 605 825
Trade and other receivables	14	1 531 512	1 647 541
Prepayments for current assets		316 812	316 572
Short-term loans issued		588	31 812
Cash and cash equivalents	15	1 673 466	1 557 456
Assets held for sale	28	-	54 100
Total current assets		7 462 982	6 213 306
TOTAL ASSETS		31 949 768	32 191 556
EQUITY	17	6 289 530	9 948 280
LIABILITIES			
Non-current liabilities			
Borrowings	16	4 325 512	5 749 702
Deferred income tax liability	26	250 310	2 030 658
Deferred income		3 768	8 885
Other non-current liabilities	18	26 395	60 924
Total non-current liabilities		4 605 985	7 850 169
Current liabilities			
Borrowings	16	10 767 769	7 029 541
Trade and other payables	20	10 152 275	7 142 748
Current income tax payable		123 524	144 896
Deferred income		10 685	21 601
Liabilities held for sale	28	-	54 321
Total current liabilities		21 054 253	14 393 107
TOTAL LIABILITIES		25 660 238	22 243 276
TOTAL LIABILITIES AND EQUITY		31 949 768	32 191 556

Approved for issue and signed on 10 July 2009.


 Schneider G.
 Member of Administrative Board


 Gubanov G.
 Member of Administrative Board


 Pryanikov D.N.
 Financial Director

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

DORINDA HOLDING S.A. Group
Consolidated Income Statement

<i>In thousands of RUR</i>	Notes	2008	2007
Revenue	21	51 142 680	30 532 560
Cost of goods sold		(40 381 622)	(24 064 671)
Gross profit		10 761 058	6 467 889
General, selling and administrative expenses	22	(7 381 061)	(5 097 277)
Other operating income and expenses	23	(3 831 712)	(325 351)
Operating profit / (loss)		(451 715)	1 045 261
Interest income		33 698	21 714
Finance costs	24	(1 036 560)	(948 917)
Foreign exchange gains / (losses)	25	(1 820 809)	656 456
Profit / (loss) before income tax		(3 275 386)	774 514
Income tax benefit / (expense)	26	343 698	(435 020)
Profit / (loss) for the year		(2 931 688)	339 494

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

DORINDA HOLDING S.A. Group
Consolidated Statement of Changes in Equity

In thousands of RUR

	Notes	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Revaluation reserve	Translation reserve	Total equity
Balance at 31 December 2006		1 027	111	2 786 764	-	1 566 234	3 028 323	102 815	7 485 274
Profit for the year		-	-	-	-	339 494	-	-	339 494
Revaluation of property, plant and equipment	17	-	-	-	-	-	2 066 149	-	2 066 149
Currency translation differences		-	-	-	-	-	-	(2 971)	(2 971)
Total recognised income and expenses						339 494	2 066 149	(2 971)	2 402 672
Contributions from shareholders	17	-	-	136 371	-	-	-	-	136 371
Distributions to shareholders		-	-	-	-	(76 037)	-	-	(76 037)
Balance at 31 December 2007		1 027	111	2 923 135	-	1 829 691	5 094 472	99 844	9 948 280
Loss for the year		-	-	-	-	-	-	-	-
Change in fair value of hedges		-	-	-	-	(2 931 688)	-	-	(2 931 688)
Revaluation of property, plant and equipment		-	-	-	(122 940)	-	-	-	(122 940)
Currency translation differences	17	-	-	-	-	-	(1 321 112)	-	(1 321 112)
Total recognised income and expenses					(122 940)	(2 931 688)	(1 321 112)	(23 471)	(4 399 211)
Contributions from shareholders	17	-	-	740 461	-	-	-	-	740 461
Balance at 31 December 2008		1 027	111	3 663 596	(122 940)	(1 101 997)	3 773 360	76 373	6 289 530

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

DORINDA HOLDING S.A. Group
Consolidated Statement of Cash Flows

<i>In thousands of RUR</i>	2008	2007
Cash flows from operating activities		
Profit / (loss) before income tax	(3 275 386)	774 514
Adjustments for:		
Depreciation and amortization	1 128 353	833 877
Gain on disposal of property, plant and equipment, investment property and assets held for sale	(148 513)	(10 512)
Loss / (profit) from revaluation of investment property	789 185	(466 428)
Impairment of property, plant and equipment	469 000	-
Revaluation of property, plant and equipment	2 591 741	766 638
Interest income	(33 698)	(21 714)
Finance costs	1 036 560	948 917
Foreign exchange losses less gains	1 796 141	(647 069)
Operating cash flow before working capital changes	4 353 383	2 178 223
Decrease in net trade and other receivables	689 756	29 770
Increase in carrying values of inventories	(1 326 724)	(1 059 533)
Increase in trade and other payables	3 223 910	3 027 829
Decrease/(increase) in deferred income	(16 033)	17 980
Cash generated from operations	6 924 292	4 194 269
Interest received	33 698	14 143
Interest paid	(1 431 160)	(1 326 366)
Income taxes paid	(908 491)	(314 149)
Net cash from operating activities	4 618 339	2 567 897
Cash flows from investing activities		
Purchase of property, plant and equipment and initial cost of land lease	(4 599 208)	(5 259 709)
Purchase of intangible assets	(54 722)	(53 249)
Proceeds from sales of property, plant and equipment and investment property	186 101	134 708
Issue of loans	-	(525 099)
Proceeds from repayment of loans issued	69 140	522 234
Acquisition of subsidiaries	(588 944)	-
Net cash used in investing activities	(4 987 633)	(5 181 115)
Cash flows from financing activities		
Proceeds from borrowings	11 399 452	11 582 073
Repayment of borrowings	(10 901 521)	(8 585 395)
Repayment of finance lease payables	(51 850)	(70 104)
Net cash from financing activities	446 081	2 926 574
Net increase in cash and cash equivalents	76 787	313 356
Effect of exchange rate changes on cash and cash equivalents	39 223	(73 034)
Cash and cash equivalents at the beginning of the year	1 557 456	1 317 134
Cash and cash equivalents at the end of the year	1 673 466	1 557 456

1 The DORINDA HOLDING S.A. Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) for the year ended 31 December 2008 for Dorinda Holding S.A. (the “Company”) and its subsidiaries (together referred to as the “Group”).

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The Group is ultimately controlled by three individuals, Mr.Korzhev, Mr.Troitsky and Mr.Volchek (“the shareholder group”), who have the power to direct the transactions of the Group at their own discretion and for their own benefits. They also have a number of other business interests outside of the Group. Related party transactions are detailed in Note 8.

The Group’s principal business activity is operation of retail chain in Russia under brand name “O’Key”. At 31 December 2008 the Group operated 37 stores (31 December 2007: 24 stores).

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

Business environment. The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

The consolidated financial statements were authorised for issue by the Board of Directors on 10 July 2009.

2 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss and financial investments classified as available-for-sale are stated at fair value.

Functional and presentation currency. Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Russian Roubles, which is the Company’s presentation currency. In previous years the Group’s consolidated financial statements were presented in US Dollars. Management believes that it is more appropriate to use the Rouble as the Group’s presentation currency in the current environment. All amounts in these consolidated financial statements are presented in thousands of Russian Roubles, unless otherwise stated.

In preparing the comparatives and opening IFRS balance at 31 December 2007 in Russian Roubles the Group has applied the following approach. The Group’s IFRS transition date was 1 January 2005. The Group has elected to set the previous cumulative currency translation reserve to zero at 1 January 2005. This exemption has been applied to all subsidiaries in accordance with IFRS 1. In preparing comparatives related to equity statement in Russian Roubles the Group has applied historical values.

DORINDA HOLDING S.A. GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The results and financial position of the Group entities, which functional currencies are different from Russian Roubles, are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUR 29.3804; Euro 1 = RUR 41.4411 (2007: USD 1 = RUR 24.5462; Euro 1 = RUR 35.9332).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Investments in Joint Ventures. Joint ventures are jointly controlled entities, whereby the Company and other parties undertake an economic activity that is subject to joint control. In accordance with the revised IAS 31 "Interests in Joint Ventures" jointly controlled entities are accounted for using proportionate consolidation method, whereby the Company's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Company's financial statements. Where a sale of assets to joint ventures occurred, and these assets were retained by the joint venture, the Company recognised only that portion of the gain or loss that is attributable to the interests of the other venturers. When a purchase of assets from joint ventures occurred, the Company's share in the profits from this transaction is not recognised until the assets are resold.

Property, plant and equipment. Property, plant and equipment are stated at cost for equipment and other fixed assets and stated at revalued amounts for land and buildings, as described below, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is recognised either on the retirement or disposal of the asset.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are recognised and the replaced part is retired.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the 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 impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. 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 value in use or fair value less costs to sell. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated income statement.

DORINDA HOLDING S.A. GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts over their estimated useful lives. The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

	<u>Useful lives in years</u>
Buildings	30
Machinery and equipment, auxiliary facilities	2 to 20
Motor vehicles	5 to 10
Leasehold improvements	over the term of the underlying lease

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value. Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The revaluation gain or loss is recognised in consolidated income statement.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to consolidated income statement on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are recognised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as accounts payable (long-term accounts payable for amounts due over 12 months). The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life.

Goodwill. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the consolidated income statement.

Goodwill is measured at cost less accumulated impairment losses.

Other intangible assets. All of the Group's intangible assets have definite useful lives and primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

External development costs that are directly associated with identifiable and unique software controlled by the Group are added to the cost of the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Amortisation on intangible assets is calculated using the straight-line method to allocate the cost over their estimated useful lives. The Group applies the useful lives from 3 to 7 years.

DORINDA HOLDING S.A. GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Financial instruments.

Non-derivative financial instruments

The Group's financial assets and liabilities are initially recorded at fair value plus/(less) transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

The Group classifies its financial assets as loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

The Group derecognises financial assets when the assets are redeemed or the rights to cash flows from the assets have otherwise expired or the Group has transferred substantially all the risks and rewards of ownership of the assets or otherwise has lost control.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

Income taxes. Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to the taxation authorities in respect of taxable profits for the current period. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only in case of immaterial amounts and only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

DORINDA HOLDING S.A. GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the immediate weighted average basis. The cost of goods for resale includes its purchase price and related transportation costs, as well as other related logistic costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Deposits which are included in cash and cash equivalents are carried at amortised cost using the effective interest method.

Value added tax. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability.

Capital and reserves. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholders) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

Translation differences resulting from the translation of financial position and results of the Group entities to presentation currency are recognised as translation reserve in equity.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and 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 there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Foreign currency translation. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register. Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

DORINDA HOLDING S.A. GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

3 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to Note 26.

Impairment of goodwill. The Company performs annual impairment testing of goodwill. The impairment analysis requires significant management judgment involving the estimation of future profitability of cash generating units related to goodwill. Refer to Note 10.

Impairment of long-term assets. The recoverable amount of long-term assets is determined as the higher of fair value less costs to sell and value in use. The details are set out in Note 9 and 12.

Revenue recognition. The Group has recognised revenue amounting to RUR 50 274 million for sales of goods during 2008. According to the Group's policy customers has the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on the expectations of future income that are believed to be reasonable under the circumstances.

Assumptions in revaluing land and buildings and investment properties. Fair value of the Group's land and buildings and investment property is determined by registered independent appraisers with appropriate recognised professional qualification and recent experience in the location and type of the property valued. The detailed approaches are outlined in Note 9.

Going concern. Management believes that the Group has sufficient financial arrangements to continue as a going concern. In making this judgement management considered current intentions and financial position of the Group and does not believe that there are material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The main details of management's analysis are outlined in Note 30 *Financial Risk Management*.

4 Adoption of IFRS

The Group early adopted the following new standards:

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The early adoption of this standard has affected the individual financial statements of some of the Group's subsidiaries.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The amended IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The amended standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This new pronouncement will not significantly influence the consolidated financial statements of the Group as the Group applied allowed alternative treatment (i.e. to capitalise interest into the cost of qualifying assets) under previously effective standard.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 39 Financial Instruments: Recognition and Measurement (Amendment – “Eligible Hedged Item”) – Eligible Hedged Items clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group’s 2010 consolidated financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.

IAS 39 (Amendment) “Financial Instruments: Recognition and Measurement” and IFRS 7 (Amendment) “Financial Instruments: Disclosures”. These amendments permit the reclassification of some financial instruments. The Group does not expect any significant impact from application of this amendment.

IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment is not expected to have any effect on consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquirer’s identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group expects the revised IFRS 3 to affect the recognition of business combination which will take place in future.

IFRS 8, Operating Segments (issued November 2006; effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The standard is not expected to have any effect on consolidated financial statements.

IFRS 2 (Amendment) “Share-based Payment – Vesting Conditions and Cancellations” (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not expected to have any effect on consolidated financial statements.

IFRIC 13 Customer loyalty programme. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. There would be no implication of the Group’s financial statements as a result of these interpretations.

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IFRIC 15 Agreements for the Construction of Real Estate addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. becomes mandatory for the Group's 2009 consolidated financial statements). The IFRIC is not expected to have any effect on consolidated financial statements.

IFRIC 17 Distributions of Non-cash Assets to Owners addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009. Retrospective application of this IFRIC is not permitted, consequently the IFRIC will have impact on the measurement of the distributions, which the Group could potentially make to its shareholders in the future. This IFRIC will result in future distributions to be measured at fair value, rather than carrying amount of the assets being distributed.

IFRIC 18 Transfers of Assets from Customers applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. The IFRIC 18 is not expected to have any effect on consolidated financial statements.

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

6 Business Combinations

During 2008 the Group acquired two stores in Volgograd (15 and 30 September 2008) and one store in Murmansk (4 September 2008) for RUR 345 392 thousand. Total superficies of these stores is 13 516 sq.m.

In the period after acquisition the stores contributed revenue of RUR 301 185 thousand and had loss of RUR 41 065 thousand. The loss for 2008 was caused by the fact that there were one-off expenses in 2008 connected to the re-branding of the stores. Such expenses are not expected to be incurred in the future. If the acquisition had occurred on 1 January 2008, management estimates that consolidated revenue would have been RUR 1 400 million and consolidated profit for the period would have been RUR 20 million.

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The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired at the acquisition date:

<i>In thousands of RUR</i>	Pre-acquisition carrying amounts	Fair value adjustments	At the acquisition dates
<i>Identifiable assets acquired</i>			
Property, plant and equipment	84 796	(30 599)	54 197
Intangible assets (lease rights)	-	20 800	20 800
Inventory	7 314	-	7 314
Deferred income tax asset	-	53 309	53 309
Total	92 110	43 510	135 620
<i>Consideration transferred</i>	-	-	345 392
<i>Goodwill</i>	-	-	209 772

Goodwill recognised on the acquisitions in amount of RUR 209 772 thousand reflects primarily the premium paid by the Group for strengthening its positions in these regions and to a minor extent for the workforce and existing processes, which are not separately recognised in these consolidated financial statements.

The values of assets acquired and liabilities assumed have been valued at the acquisition date, using fair values. Fair value of lease rights and property, plant and equipment acquired in business combinations is determined by the independent valuation specialists.

In addition, the Group prepaid in 2008 acquisitions for an amount of RUR 243 552 (see note 32).

7 Segment Information

The Group has only one reportable business segment, which is retail trade, and one geographical segment: Russian Federation. Thus management believes that information presented in consolidated financial statements of the Group is sufficient and it has not presented segment information in a separate note.

8 Balances and Transactions with Related Parties

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2008 and 31 December 2007 are detailed below.

At 31 December 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

<i>In thousands of RUR</i>	31 December 2008	31 December 2007
	Entities under common control of the ultimate shareholders	
Trade and other receivables: Trade receivables	861	884
Trade and other receivables: Prepayments	886	884
Trade and other receivables: Other receivables	741	2 356
Other non-current assets: Receivables from shareholders	-	138 146

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Short-term investments: Loans issued	588	29 946
Long-term borrowings	(1 621 183)	(714 515)
Short-term borrowings	(832 602)	(2 432 504)
Trade and other payables: Trade payables	-	(25)
Trade and other payables: Prepayments	(61)	(74)

The income and expense items with related parties for the years 2008 and 2007 were as follows:

<i>In thousands of RUR</i>	2008	2007
	Entities under common control of the ultimate shareholders	
Revenue from rent of premises	2 717	11 126
Other rental income	47	460
Operating leases	-	10 691
Other operating income and expense	37	-
General, selling and administrative expenses: repairs and maintenance costs	(345)	-
Consulting fees re purchase of land plot	(40 437)	-
Finance costs	(222 980)	(232 127)

In the table above finance costs do not include RUR 27 277 thousand of interest costs, which were capitalised and thus increased initial cost of the Group's property, plant and equipment and investment property (2007: RUR 73 940 thousand).

During 2008 shareholders made contributions in kind disclosed in Additional paid in capital. This contribution included land plot located in Moscow region. Fair value of the land plot at 31 December 2008 comprises RUR 947 000 thousand. In 2007 shareholders made contributions to the Group to compensate for the Group's loss from disposal of a land plot in 2006.

During 2007 as a result of the increase in the interest rates in the loan agreements with the related parties (companies under the control of the Group's ultimate shareholders), the fair value of the respective loans has increased. The loss from these operations has been recognised directly in equity as a distribution to the shareholders. The amount of this distribution was equal to RUR 76 037 thousand.

In 2008 the key management received remuneration in the form of wages and salaries amounting to RUR 86 669 thousand (2007: RUR 94 047 thousand).

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9 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

<i>In thousands of RUR</i>	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Deemed cost/Revalued amount								
Balance at 1 January 2007	3 759 738	8 680 257	-	15 378	565 776	369 952	1 782 668	15 173 769
Additions	686 628	1 552 922	-	15 395	708 500	426 170	1 321 432	4 711 047
Transfers	-	657 787	-	-	621 776	21 407	(1 300 970)	-
Transfers to Investment property	(949 019)	-	-	-	-	-	-	(949 019)
Revaluation	2 946 497	(1 299 588)	-	-	-	-	-	1 646 909
Disposals	-	-	-	(563)	(16 343)	(4 757)	(30 128)	(51 791)
Transfer to assets held for sale	-	-	-	-	-	-	(51 356)	(51 356)
Balance at 31 December 2007	6 443 844	9 591 378	-	30 210	1 879 709	812 772	1 721 646	20 479 559
Balance at 1 January 2008	6 443 844	9 591 378	-	30 210	1 879 709	812 772	1 721 646	20 479 559
Acquisitions through business combinations	-	-	-	-	54 197	-	-	54 197
Additions	1 059 383	1 556 232	201 496	3 210	492 449	251 828	1 223 026	4 787 624
Transfers	-	750 598	-	2 490	76 706	(3 966)	(825 828)	-
Transfers from Investment Property	702 477	-	-	-	-	-	-	702 477
Transfers from initial cost of land lease	129 535	-	-	-	-	-	-	129 535
Revaluation	(1 578 328)	(3 341 629)	-	-	-	-	-	(4 919 957)
Disposals	(251 546)	(13 152)	-	(4 964)	(2 681)	(8 151)	(171 837)	(452 331)
Balance at 31 December 2008	6 505 365	8 543 427	201 496	30 946	2 500 380	1 052 483	1 947 007	20 781 104

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<i>In thousands of RUR</i>	Land	Buildings	Leasehold improve- ments	Auxiliary facilities	Machinery and equipment	Other fixed assets	Construction in progress	Total
Depreciation								
Balance at 1 January 2007	-	-	-	(5 529)	(229 923)	(117 279)	-	(352 731)
Depreciation charge	-	(303 918)	-	(5 806)	(275 376)	(187 420)	-	(772 520)
Revaluation	-	303 918	-	-	-	-	-	303 918
Disposals	-	-	-	26	1 969	2 660	-	4 655
Balance at 31 December 2007	-	-	-	(11 309)	(503 330)	(302 039)	-	(816 678)
Balance at 1 January 2008	-	-	-	(11 309)	(503 330)	(302 039)	-	(816 678)
Depreciation charge	-	(342 146)	(1 169)	(4 048)	(432 897)	(246 056)	-	(1 026 316)
Revaluation	-	342 146	-	-	-	-	-	342 146
Impairment losses	-	-	-	-	-	-	(300 000)	(300 000)
Transfers	-	-	-	(1 364)	-	1 364	-	-
Disposals	-	-	-	1 165	2 340	338	-	3 843
Balance at 31 December 2008	-	-	(1 169)	(15 556)	(933 887)	(546 393)	(300 000)	(1 797 005)
Net book value								
At 31 December 2006	3 759 738	8 680 257	-	9 849	335 853	252 673	1 782 668	14 821 038
At 31 December 2007	6 443 844	9 591 378	-	18 901	1 376 379	510 733	1 721 646	19 662 881
At 31 December 2008	6 505 365	8 543 427	200 327	15 390	1 566 493	506 090	1 647 007	18 984 099

The carrying amount of land and buildings is the fair value of the land and buildings as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued. Revaluation was made annually, for each reporting date.

In respect of land the appraisers have used the market approach for determining the fair value. In respect of buildings, the appraisers have used primarily the income approach and, secondary the market approach for determining the fair value of buildings.

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The market approach considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the nature, conditions and locations of the appraised property relative to the market comparative. In the income approach, an estimate is made of annual net operating income for 5 years, which is mainly based on annual net rent rate varying from RUR 4 600 to RUR 6 500 per sq. m. and full occupancy. The annual net operating income is assumed to grow by 5% from year 6 to perpetuity. Discount rates from 17.5% to 19.5% were applied in the income based approach, dependent on local risk factors.

At 31 December 2008 property, plant and equipment carried at RUR 6 666 158 thousand (2007: RUR 9 375 863 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 16.

Included in Machinery and equipment are assets held under finance leases with a carrying value of RUR 110 556 thousand (2007: RUR 147 710 thousand). Included in Other fixed assets are assets held under finance leases with a carrying value of RUR 2 000 thousand (2007: RUR 7 636 thousand). Refer to Note 18.

Depreciation expense of RUR 1 026 316 thousand has been charged to selling, general and administrative expenses (2007: RUR 772 520 thousand).

Impairment loss

During the last quarter of 2008 the market for investment property and property, plant and equipment deteriorated which resulted in loss from revaluation of investment property and property, plant and equipment for the Group. The management believes that the deterioration on the property market indicates that the market value of construction in progress is also declining, which is an impairment indicator. The Group therefore assessed the recoverable amount of construction in progress as of 31 December 2008. Construction in progress consists of retail stores and shopping centres under construction.

The recoverable amount was determined as higher of fair value less costs to sell and value in use as at 31 December 2008 based on future discounted cash flows. Based on this assessment, management determined that the recoverable amount of construction in progress was RUR 300 000 thousand lower than its carrying amount, and recognised an impairment loss. This impairment loss relates to one specific hypermarket and two specific shopping centres.

The estimate of value in use was determined using discount rates varying from 19% to 23%.

The impairment loss was recognised in other operating expenses.

10 Intangible Assets

Movements in the carrying amount of intangible assets were as follows:

<i>In thousand of RUR</i>	Goodwill	Software	Lease rights	Total
<i>Cost</i>				
Balance at 1 January 2007	-	15 302	-	15 302
Additions	-	60 504	-	60 504
Disposals	-	(1 462)	-	(1 462)
Balance at 31 December 2007	-	74 344	-	74 344
Balance at 1 January 2008	-	74 344	-	74 344
Acquisitions through business combinations (Note 6)	209 772	-	20 800	230 572
Additions	-	43 558	-	43 558
Disposals	-	-	-	-
Balance at 31 December 2008	209 772	117 902	20 800	348 474
<i>Amortisation and impairment losses</i>				
Balance at 1 January 2007	-	(4 296)	-	(4 296)
Amortisation charge	-	(15 850)	-	(15 850)
Impairment losses	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December 2007	-	(20 146)	-	(20 146)
Balance at 1 January 2008	-	(20 146)	-	(20 146)
Amortisation charge	-	(44 392)	-	(44 392)
Impairment losses	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December 2008	-	(64 538)	-	(64 538)
<i>Net book value</i>				
At 1 January 2007	-	11 006	-	11 006
At 31 December 2007	-	54 198	-	54 198
At 31 December 2008	209 772	53 364	20 800	283 936

Amortisation of RUR 44 392 thousand has been charged to selling, general and administrative expenses (2007: RUR 15 850 thousand).

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Impairment testing of goodwill

For the purposes of impairment testing, goodwill is allocated to the stores acquired in business combinations. The aggregate carrying amounts of goodwill allocated to each store are as follows:

<i>In thousand of RUR</i>	Allocated goodwill	Impairment
	2008	2008
Murmansk	94 165	-
Volgograd 1	81 982	-
Volgograd 2	33 625	-
	209 772	-

The recoverable amount of each store represents value in use as determined by discounting the future cash flows generated from the continuing use of the stores. The following key assumptions were used in determining the recoverable amounts of the respective stores:

- Cash flows were projected based on estimated operating results and the seven-year business plan.
- Total sales of the stores were projected at about RUR 1 734 700 thousand in the first year of the business plan growing to RUR 3 153 092 thousand in 2010 due to finalisation of the re-branding in 2009. The anticipated annual sales growth included in the cash flow projections was 3% (not taking into account inflation rate of 12%) for the years 2011 to 2015.
- The annual net operating income is assumed to grow by 3% from year 8 to perpetuity.
- A discount rate of 21.8 % (post-tax) was applied in determining the recoverable amount of the stores.

The values assigned to the key assumptions represent management's assessment of future trends in retail industry and are based on both external sources and internal sources.

Although no impairment loss was recognised in respect of goodwill allocated to the stores, the determination of recoverable amount is sensitive to the rate at which the stores achieve their planned growth in sales.

The above estimates are particularly sensitive in the following areas:

- An increase of 10 percentage point in the discount rate used would have resulted in impairment loss of RUR 5 000 thousand.
- A 10% decrease in future planned revenues would have resulted in impairment loss of RUR 19 000 thousand.

11 Investment Property

In thousands of RUR

	Note	2008	2007
Investment properties at fair value as at 1 January		2 534 444	1 020 225
Transfers from property, plant and equipment	9	-	949 019
Expenditure on subsequent improvements		1 389	98 772
Transfers to property, plant and equipment	9	(702 477)	-
Disposals		(2 529)	-
Fair value gain/loss	23	(789 185)	466 428
Investment properties at fair value as at 31 December		1 041 642	2 534 444

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The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued. Refer to Note 9.

During 2008 the Group has reconsidered the initially planned use of one particular land plot. Instead of initial plans of using this land plot for trading centre, the Group has determined that it would be used for hypermarket. Consequently, that resulted in the reclassification of this land plot from investment property to property, plant and equipment.

At 31 December 2008 investment property carried at RUR 956 642 thousand (2007: RUR 2 534 444 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 16.

12 Other Non-Current Assets

<i>In thousands of RUR</i>	2008	2007
Prepayments for non-current assets	654 085	730 078
Initial cost of land lease	2 963 874	2 751 801
Prepayment for acquisition	243 552	-
Deferred bank commissions	67 298	-
Long term receivables from shareholders	-	138 145
Long-term deposits to lessors	71 035	-
Total other non-current assets	3 999 844	3 620 024

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

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

<i>In thousands of RUR</i>	2008	2007
Cost		
Balance at 1 January	2 869 254	2 424 331
Additions	571 651	573 770
Transfers to property, plant and equipment	(129 535)	-
Disposals	(12 253)	(128 847)
Balance at 31 December	3 299 117	2 869 254
Accumulated amortization		
Balance at 1 January	(117 454)	(68 618)
Amortisation charge	(57 645)	(49 694)
Impairment losses	(169 000)	-
Disposals	8 856	859
Balance at 31 December	(335 243)	(117 453)
Net book value	2 963 874	2 751 801

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During the last quarter of 2008 the market for investment property deteriorated which resulted in loss from revaluation of investment property for the Group. The Group therefore assessed the recoverable amount of initial cost of land lease as of 31 December 2008 as higher of fair value less costs to sell and value in use as at 31 December 2008 based on future discounted cash flows. Based on this assessment, management determined that the recoverable amount of initial cost of land lease was RUR 169 000 thousand lower than its carrying amount, and recognised an impairment loss. This impairment loss relates to several rented land plots.

The fair value less costs to sell was determined by the registered independent appraisers who also appraised the Group's investment property. The estimate of value in use was determined using discount rates varying from 19% to 23%.

The impairment loss was recognised in other operating expenses.

At 31 December 2008 initial cost of land lease carried at RUR 315 186 thousand (2007: RUR 119 270 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 16.

13 Inventories

<i>In thousands of RUR</i>	2008	2007
Goods for resale	3 831 070	2 479 166
Raw materials and consumable	242 177	126 659
Write-down to net realisable value	(132 643)	-
Total inventories	3 940 604	2 605 825

Due to discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in a loss of RUR 132,643 thousand for 2008. In 2007 there was no write-down of inventories.

The write-down is included in cost of goods sold.

14 Trade and Other Receivables

<i>In thousands of RUR</i>	2008	2007
Trade receivables	511 869	241 313
VAT receivable	737 317	774 624
Prepaid taxes	151 308	60 315
Discounts receivable from suppliers	-	421 655
Other receivables	131 018	149 634
Total trade and other receivables	1 531 512	1 647 541

Taxes prepaid include RUR 147 939 thousand of prepaid income tax (2007: RUR 51 007 thousand).

The Group's exposure to credit risk and impairment losses related to trade and other receivables are discussed in the Note 30.

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15 Cash and Cash Equivalents

<i>In thousands of RUR</i>	2008	2007
Cash on hand	111 330	65 071
RUR denominated bank current account	472 838	461 591
USD denominated bank current account	15 816	169 492
RUR term deposits (interest rate: 7.7% p.a.)	530 766	-
Cash in transit	542 716	861 302
Total cash and cash equivalents	1 673 466	1 557 456

Term deposits had original maturities of less than three months.

The Group keeps its cash in the following banks: Sberbank, Baltiysky Bank, Raiffeisen bank, VTB bank and Uralsib bank.

16 Borrowings

Long-term borrowings:

<i>In thousands of RUR</i>	2008	2007
Secured bank loans	2 704 329	5 035 187
Unsecured loans from Related parties	1 621 183	714 515
Total borrowings	4 325 512	5 749 702

Short-term borrowings:

<i>In thousands of RUR</i>	2008	2007
Secured bank loans	7 821 835	4 564 538
Unsecured loans from Related parties	832 602	2 432 504
Unsecured bank facilities	2 113 332	32 499
Total borrowings	10 767 769	7 029 541

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The following table shows the period in which the Group's borrowings reprice:

<i>In thousands of RUR</i>	2008	2007
Repricing		
within 6 months	11 502 587	10 197 007
between 6 and 12 months	1 969 511	1 867 426
between 1 and 5 years	1 621 183	714 810
Total borrowings	15 093 281	12 779 243

The effective interest rates at the balance sheet date were as follows:

<i>In % per annum</i>		31 December 2008	31 December 2007
Secured bank loans	Fixed rate	9.28%	9.3%
Secured bank loans	Variable rate	LIBOR + (3.2% - 5%)	-
Unsecured loans from Related parties	Fixed rate	9.85%	8.8%
Unsecured bank facilities	Fixed rate	9.19%	9.4%
Unsecured bank facilities	Variable rate	LIBOR + 4.3%	-

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of RUR 7 937 986 thousand (2007: RUR 12 029 577 thousand). Refer to Notes 9, 11, 12.

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17 Equity

As at 31 December 2008 the Group's subscribed capital of RUR 1 027 thousands (EUR 31 thousands, 2007: EUR 31 thousands) is represented by 3 100 shares with a par value of EUR 10 each. The Rouble value of the subscribed capital is determined with application of exchange rate as at 1 January 2005.

The Group's authorized capital is set up at RUR 10 360 thousands (EUR 250 thousands; 2007: EUR 250 thousands)

Movements in Revaluation reserves and additional paid-in capital were as follows:

<i>In thousands of RUR</i>	Revaluation reserve for property, plant and equipment	Additional paid- in capital	Total
At 1 January 2007	3 028 323	2 786 764	5 815 087
Revaluation gain	2 717 465	-	2 717 465
Income tax effect	(651 316)	-	(651 316)
Receipt of compensation for loss from sale of land plot	-	136 371	136 371
At 31 December 2007	5 094 472	2 923 135	8 017 607
Revaluation loss	(1 986 070)	-	(1 986 070)
Income tax effect	397 214	-	397 214
Income tax effect due to change in tax rate	267 744	-	267 744
Contribution from shareholders in kind (land plot)	-	740 461	740 461
At 31 December 2008	3 773 360	3 663 596	7 436 956

18 Finance Leases

Minimum lease payments under finance leases and their present values are as follows:

<i>In thousands of RUR</i>	Due within 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2007	7 830	74 596	82 426
Less future finance charges	(1 424)	(13 672)	(15 096)
Present value of minimum lease payments at 31 December 2007	6 406	60 924	67 330
Minimum lease payments at 31 December 2008	49 877	28 446	78 323
Less future finance charges	(5 860)	(2 051)	(7 911)
Present value of minimum lease payments at 31 December 2008	44 017	26 395	70 412

There are no lease payments under finance leases due after 5 years. Finance leases are included under other non-current liabilities and under trade and other payables.

19 Operating Leases

Leases as lessee. The Group leases land plots under operating leases. Lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 50 years. The Group has non-cancellable leases. The Group has no contingent rent arrangements and subleases. The Group has also a few premises under operating leases. These leases typically run for 10 years.

During the year ended 31 December 2008 RUR 351 638 thousand was recognised as an expense (including amortisation of initial cost of land lease amounting to RUR 57 645 thousand) in the consolidated income statement in respect of operating leases (2007: RUR 184 735 thousand).

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of RUR</i>	2008
Less than one year	261 969
Between one and five years	426 000
More than five years	2 426 223
	3 114 192

Leases as lessor. The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2008 RUR 589 070 thousand was recognised as rental income in the consolidated income statement (2007: 551 877 thousand). The Group has no non-cancellable leases.

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20 Trade and Other Payables

<i>In thousands of RUR</i>	2008	2007
Trade payables	8 803 565	6 525 485
Advances received	517 804	212 398
Taxes payable (other than Income tax)	193 712	132 108
Payables to staff	399 705	237 632
Interest rate swap liabilities	153 675	-
Other current payables	39 797	28 719
Finance lease liability (Note 18)	44 017	6 406
Trade and other payables	10 152 275	7 142 748

21 Analysis of Revenue by Category

<i>In thousands of RUR</i>	2008	2007
Sales of trading stock	47 083 930	27 899 751
Sales of self-produced catering products	3 189 654	1 973 181
Rental income	589 070	551 877
Revenue from advertising services	280 026	107 751
Total revenue	51 142 680	30 532 560

22 General, Selling and Administrative Expenses

<i>In thousands of RUR</i>	2008	2007
Labour costs	(3 644 078)	(2 303 544)
Depreciation and amortization	(1 128 353)	(833 877)
Advertising and marketing	(281 530)	(198 546)
Operating leases	(293 993)	(135 041)
Repairs and maintenance costs	(184 198)	(123 634)
Communication and utilities	(750 547)	(625 305)
Materials and supplies	(54 780)	(87 879)
Security expenses	(314 838)	(231 436)
Insurance and bank commission	(181 785)	(93 633)
Legal and professional expenses	(87 526)	(81 357)
Operating taxes	(317 607)	(293 049)
Other costs	(141 826)	(89 976)
Total general, selling and administrative expenses	(7 381 061)	(5 097 277)

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Labour costs are presented gross, including related taxes. The amount of labour costs includes:

<i>In thousands of RUR</i>	2008	2007
Wages and salaries	(1 753 242)	(1 196 261)
Payroll taxes	(966 045)	(624 563)
Employee benefits	(872 392)	(466 914)
Other	(52 399)	(15 806)
Total labour costs	(3 644 078)	(2 303 544)

23 Other Operating Income and Expenses

<i>In thousands of RUR</i>	2008	2007
Gain from sale of fixed assets	53 267	10 512
Profit from disposal of assets held for sale	95 246	-
Loss from write-off of receivables	(12 181)	(9 005)
Impairment of receivables	(158 320)	(22 888)
Gain / (loss) from revaluation of Investment Property	(789 185)	466 428
Loss from revaluation of Property, Plant and Equipment	(2 591 741)	(766 638)
Loss from impairment of non-current assets	(469 000)	-
Sundry income and expenses	40 202	(3 760)
Total other operating income and expenses	(3 831 712)	(325 351)

24 Finance Costs

<i>In thousands of RUR</i>	2008	2007
Interest accrued on loans and borrowings	(1 011 708)	(908 175)
Finance leasing costs	(4 031)	(16 548)
Other finance costs	(20 821)	(24 194)
Total finance costs recognised in the income statement	(1 036 560)	(948 917)

During 2008 the Group has capitalised interests in the value of property, plant and equipment and investment property. The amount of capitalised interest represents RUR 284 574 thousand (2007: 246 296 thousand).

25 Foreign exchange loss

During 2008 the Group had significant borrowings denominated in US dollars. The substantial devaluation of Russian Rouble during the last quarter of 2008 has resulted in foreign exchange loss for the year amounting to RUR 1 820 809 thousand (2007: income 656 456 thousand). In 2008 the Group has not used hedging instruments to hedge foreign exchange risks.

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26 Income Taxes

Income tax expense comprises the following:

<i>In thousands of RUR</i>	2008	2007
Current tax	(796 126)	(410 697)
Deferred tax	1 139 824	(24 323)
Income tax benefit / (expense) for the year	343 698	(435 020)

The Group's applicable tax rate is the income tax rate of 24% for Russian companies (2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of RUR</i>	2008	2007
(Loss) / profit before tax	(3 275 386)	774 514
Theoretical tax charge at statutory Russian rate (2008: 24%; 2007: 24%)	786 093	(185 885)
Effect of income taxable at rates different from standard statutory rates	(5 424)	5 831
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Inventory shrinkage expenses	(192 659)	(132 918)
- Various other non-deductible expenses	(71 969)	(122 048)
Effect of changing tax rate	(172 343)	-
Income tax benefit / (expense) for the year	343 698	(435 020)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2007: 24%).

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Recognised deferred tax assets and liabilities are attributable to the following:

<i>In thousands of RUR</i>	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Investment property	16 026	-	-	(141 803)	16 026	(141 803)
Property, plant and equipment	-	-	(788 874)	(1 884 460)	(788 874)	(1 884 460)
Construction in progress	102 057	-	(49 026)	(36 965)	53 031	(36 965)
Intangibles	-	-	(4 533)	-	(4 533)	-
Investments	4 490	4 639	-	-	4 490	4 639
Other non-current assets	96 042	-	(5 836)	(24 473)	90 206	(24 473)
Inventories	85 329	38 341	-	-	85 329	38 341
Trade and other receivables	17 820	14 654	-	-	17 820	14 654
Borrowings	-	-	-	(810)	-	(810)
Deferred income	754	2 136	-	-	754	2 136
Trade and other payables	128 880	52 281	-	-	128 880	52 281
Tax losses carry-forwards	322 787	13 550	-	-	322 787	13 550
Tax assets/(liabilities)	774 185	125 601	(848 269)	(2 088 511)	(74 084)	(1 962 910)
Set off of tax	(597 959)	(57 853)	597 959	57 853	-	-
Net tax assets/(liabilities)	176 226	67 748	(250 310)	(2 030 658)	(74 084)	(1 962 910)

Tax losses carry-forwards expire in 2018. The related deferred tax asset has been recognised as management believes, based on budgets and actual performance for 2009, that it is probable that future taxable profit will be available against which the Group can utilise these tax losses before expiry.

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<i>In thousands of RUR</i>	Balance 1 Jan 2007	Recognised in profit or loss	Recognised in revaluation reserve	Balance 31 Dec 2007	Recognised in profit or loss	Recognised in hedging reserve	Recognised in revaluation reserve (note 17)	Acquired in business combination (note 6)	Balance 31 Dec 2008
Investment property	(15 746)	(126 057)	-	(141 803)	157 829	-	-	-	16 026
Property, plant and equipment	(1 249 143)	15 999	(651 316)	(1 884 460)	424 507	-	664 958	6 121	(788 874)
Construction in progress	120 914	(157 879)	-	(36 965)	89 996	-	-	-	53 031
Intangible assets	-	-	-	-	(373)	-	-	(4 160)	(4 533)
Investments	16 062	(11 423)	-	4 639	(149)	-	-	-	4 490
Other non-current assets	(172 390)	147 917	-	(24 473)	63 331	-	-	51 348	90 206
Inventories	19 037	19 304	-	38 341	46 988	-	-	-	85 329
Trade and other receivables	2 738	11 916	-	14 654	3 166	-	-	-	17 820
Borrowings	(1 843)	1 033	-	(810)	810	-	-	-	-
Deferred income	3 424	(1 288)	-	2 136	(1 382)	-	-	-	754
Trade and other payables	(10 324)	62 605	-	52 281	45 864	30 735	-	-	128 880
Tax loss carry-forwards	-	13 550	-	13 550	309 237	-	-	-	322 787
Net tax assets/(liabilities)	(1 287 271)	(24 323)	(651 316)	(1 962 910)	1 139 824	30 735	664 958	53 309	(74 084)

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27 Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2008 are as follows:

	Country of incorporation	Ownership/voting	
		2008	2007
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Stoxx Investments Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	100%	100%
Dextenco Co. Limited	Cyprus	100%	100%
Filorus Limited	Cyprus	100%	100%
Legondia Co. Limited	Cyprus	100%	100%
Lonmax Limited	Cyprus	100%	100%
Marcopia Limited	Cyprus	100%	100%
Naviline Limited	Cyprus	100%	100%
Nivanex Limited	Cyprus	-	100%
Ricandano Co. Limited	Cyprus	100%	100%
LLC Dorinda Invest	Russian Federation	100%	100%
LLC Premium	Russian Federation	100%	100%
LLC Elart	Russian Federation	100%	100%
LLC Legion	Russian Federation	100%	100%
LLC Dorinda Development	Russian Federation	-	100%
LLC O'Key Group Management	Russian Federation	100%	100%
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor (Special Purpose Entity)	Russian Federation	100%	-
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	100%	100%
LLC Dorinda-Murmansk	Russian Federation	100%	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Baltyisky prostor	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Dunaiskoe	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Krona-1	Russian Federation	100%	100%
LLC Reiki	Russian Federation	100%	100%
LLC Severnoe	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroymarket	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	100%
LLC Donskaya Zvezda	Russian Federation	100%	100%
LLC N.E.F.-Saint-Petersburg	Russian Federation	100%	100%
LLC Sinopskaya naberezhnaya	Russian Federation	100%	100%
LLC Taifun	Russian Federation	100%	-
LLC Photon	Russian Federation	100%	-
LLC Tagar	Russian Federation	100%	-
LLC Tagar-City	Russian Federation	100%	-

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LLC Region	Country of incorporation	Ownership/voting	
		2008	2007
	Russian Federation	100%	-

28 Assets held for sale

Assets and liabilities of LLC Soyuz (joint-venture of the Group) were presented as at 31 December 2007 as a disposal group held for sale following the commitment of the Group's management to sell this entity to third party buyer.

In 2008 the Group sold LLC Soyuz to third party with a gain of RUR 95 246 thousands (Note 23).

29 Contingencies, Commitments and Operating Risks

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims.

Tax legislation. The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Assets pledged and restricted. At 31 December 2008 the Group has the following assets pledged as collateral:

<i>In thousands of RUR</i>	Notes	31 December 2008	31 December 2007
Fixed assets (carrying value)	9	6 666 158	9 375 863
Investment property (carrying value)	10	956 642	2 534 444
Initial cost of land lease (carrying value)	12	315 186	119 270
Total		7 937 986	12 029 577

Commitments. The Group has capital commitments to acquire property, plant and equipment amounting to RUR 1 965 076 thousand as at 31 December 2008 (2007: RUR 1 863 965 thousand).

30 Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, including the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. It also provides quantitative disclosures concerning those risks.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Following tables contain quantitative disclosures regarding the Group's exposure to financial risks.

Financial income and expense

Recognised in profit or loss

<i>In thousands of RUR</i>	2008	2007
Interest income on bank deposits	2 397	1 611
Interest income on loans issued	30 830	12 507
Other financial income	471	7 596
Net foreign exchange gain	-	656 456
Financial income	33 698	678 170
Interest expense on financial liabilities measured at amortised cost	(1 036 560)	(948 917)
Net foreign exchange loss	(1 820 809)	-
Net finance costs	(2 823 671)	(270 747)

The above financial income and expenses include the following in respect of assets (liabilities) not at fair value through profit or loss:

<i>In thousand of RUR</i>	2008	2007
Total interest income on financial assets	33 698	21 714
Total interest expense on financial liabilities	(1 036 560)	(948 917)

Credit risk

Credit risk is a risk of financial loss to the Group if a customer or counterparty to financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade receivables and other receivables

The Group has no considerable balance of trade receivables because the majority of the customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'Key outlets. Thus, the credit risk in part of Trade receivables is mostly managed through procedures for selection of suppliers and tenants.

The Group regularly reviews its accounts receivable balances for doubtful accounts receivable. Provision is established to cover material doubtful debts.

Investments

The only investments of the Group are insignificant loans issued to the related parties, consequently credit risk is considered to be remote.

Exposure to credit risk

Due to the fact that the Group's principal activities are located in Russian Federation the credit risk is mainly associated with domestic market. The credit risks associated with foreign customers are considered to be remote, as there are only few foreign customers and they were properly assessed for creditability.

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The aging of Trade and other receivables at the reporting date was:

<i>In thousands of RUR</i>	Gross	Net of allowance for impairment
Past due less than 90 days	589 252	576 736
Past due 90-180 days	21 679	19 930
Past due 180-360 days	15 526	6 487
More than 360 days	196 351	39 734
Total	822 808	642 887

In 2008 the Group has recognised an impairment loss in amount of RUR 158 321 thousand.

The movement in the allowance for impairment established in respect of trade and other receivables during the year was as follows:

<i>In thousands of RUR</i>	2008
Balance at 1 January 2008	21 600
Impairment loss	158 321
Balance at 31 December 2008	179 921

There was only one individually significant debt, which was fully impaired (the balance of this debt comprised RUR 118,579 thousand). The management has performed thorough analysis of the recoverability of the receivables and mainly impaired the balance outstanding for more than 1 year. However based on the analysis of individual customers some debts outstanding less than 1 year (180 -360 days) have been also impaired. Based on the past experience the management believes that normally the balances outstanding less than 180 days should not be impaired, however when performing the impairment analysis the management identified several doubtful debts outstanding less than 180 days and included them in the allowance for impairment.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. In accordance with the liquidity risk management policy the responsibilities of the Group's Treasury are:

- making payments only according to the approved budget;
- following the borrowing strategy described in the liquidity risk management policy;
- building effective relationships with banks and other credit institutions.

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Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including the balance of interest payable:

31 December 2008

<i>In thousands of RUR</i>	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-5 years	More than 5 years
Non-derivative financial liabilities						
Secured bank facilities	10 526 164	(10 526 164)	(4 814 520)	(3 007 315)	(2 704 329)	-
Finance lease liabilities	70 412	(70 412)	(23 533)	(20 484)	(26 395)	-
Unsecured bank facilities	2 113 332	(2 113 332)	(1 671 067)	(442 265)	-	-
Unsecured loans from related parties	2 453 785	(2 453 785)	(717 713)	(114 889)	(1 621 183)	-
Trade and other payables	9 560 303	(9 560 303)	(9 560 303)	-	-	-
Derivative financial liabilities						
Interest rate swap liability	153 675	(153 675)	(51 225)	(51 225)	(51 225)	-
Total	24 877 671	24 877 671	16 838 361	3 636 178	4 403 132	

31 December 2007

<i>In thousand of RUR</i>	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-5 years	More than 5 years
Non-derivative financial liabilities						
Secured bank facilities	9 599 725	(9 599 725)	(3 583 623)	(980 915)	(3 801 961)	(1 233 226)
Finance lease liabilities	67 330	(67 330)	-	(6 407)	(60 923)	-
Unsecured loans from other companies	32 499	(32 499)	(565)	(31 934)	-	-
Unsecured loans from related parties	3 147 019	(3 147 019)	(75 210)	(2 357 294)	(714 515)	-
Trade and other payables	7 068 840	(7 068 840)	(7 068 840)	-	-	-
Total	19 915 413	(19 915 413)	(10 728 238)	(3 376 550)	(4 577 399)	(1 233 226)

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

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However, as of 31 December 2008 the Group did not comply with one covenant of one loan, which triggered 4 breaches of cross-covenants as detailed below:

<i>In thousands of RUR</i>	Carrying amount		Original maturity	Breached covenant
	Total	Long-term portion		
European bank for reconstruction and development	2 650 284	2 644 235	2010-2015	Cross-covenant Negative net assets of as at 31 December 2008 according to statutory financial statements of borrower
Sberbank	1 480 481	1 421 507	2009-2014	
Sberbank	751 511	484 777	2009-2011	
Sberbank	718 316	533 050	2009-2012	
Sberbank	507 497	448 110	2009-2011	Cross-covenant
Total	6 108 089	5 531 679		

The Group obtained waiver letters from the banks after 31 December 2008, confirming that the banks shall not use its right to demand early redemption. Consequently, management does not believe that there is material uncertainty about the entities ability to continue as going concern due to these loan arrangements. However, in accordance with the requirements of IFRS, these loans have been reclassified as current liabilities as at 31 December 2008.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return of risk.

Currency risk

The Group holds majority of its business in Russian Federation and collects receivables nominated mainly in Russian Roubles. However financial liabilities of the Group are also nominated in other currencies, such as Euro and US Dollar. Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial liabilities and amounts of foreign exchange rate gains or losses. In the end of 2008 the dynamics of currency exchange rates were showing upwards tendency, which resulted in material foreign exchange loss for the Group.

Exposure to currency risk

The Groups balances denominated in foreign currencies were as follows:

<i>In thousands of RUR</i>	2008		2007	
	Euro	USD	Euro	USD
Trade and other receivables	-	33 245	687	-
Secured bank facilities	-	(7 872 353)	-	(5 034 573)
Unsecured bank facilities	-	(442 265)	-	-
Unsecured loans from related parties	-	(2 453 792)	-	(1 055 487)
Trade and other payables	(14 320)	(81 933)	(9 720)	(11 218)
Finance lease liabilities	-	(70 397)	-	(67 330)
Interest rate swap liabilities	-	(153 675)	-	-
Gross balance sheet exposure	(14 320)	(11 041 170)	(9 033)	(6 168 608)

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The following exchange rates applied during the year:

RUR equals	Average rate		Reporting date rate	
	2008	2007	2008	2007
USD	24.8553	25.5759	29.3804	24.5462
Euro	36.4291	35.0143	41.4411	35.9332

Sensitivity analysis

A 10 percent strengthening of the Russian Rouble against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

<i>Effect in thousands of RUR</i>	Equity	Profit or loss
31 December 2008		
USD	15 368	1 088 750
Euro	-	1 432
31 December 2007		
USD	-	816 269
Euro	-	(69)

A 10 percent weakening of the Russian Rouble against the above currencies at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all variables remain constant.

Interest rate risk

The Group has material exposure to interest rate risk. At the reporting date 76% of the Group's financial liabilities were subject to repricing within 6 months after the balance sheet date.

The Group also uses interest rate swaps to hedge its exposure to variability of interest rates. As at 31 December 2008 the Group has entered into several agreements with Morgan Stanley & Co. International Plc. Under these agreements the Group swaps LIBOR rate for fixed rate varying from 3.9% to 4.1%. At inception, swaps had maturity of two years. The Group hedged 86% of its borrowings with variable rate applying these hedges.

Exposure to interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was mainly represented by the bank loans and loans from related parties (refer to Note 16). The Group uses hedging instruments to hedge such debt.

<i>In thousands of RUR</i>	Carrying amount 2008	Carrying amount 2007
Fixed rate instruments		
Financial assets	84 830	208 962
Financial liabilities	(10 327 693)	(10 817 314)
Variable rate instruments		
Financial liabilities	(4 835 985)	(2 029 259)

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Fixed rate financial liabilities include bank loans with interest rate, conditional to a certain level of activity on the bank accounts of two entities of the Group. Carrying amount of such loans as at 31 December 2008 amounted to RUR 3 457 805 thousand (2007: RUR 3 186 106 thousand).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. Cash flow was calculated for the one year period ignoring the capitalization of interests.

<i>In thousands of RUR</i>	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2008				
Variable rate instruments	(48 227)	48 227	-	-
Interest rate swap	-	-	41 470	(41 470)
Cash flow sensitivity (net)	(48 227)	48 227	41 470	(41 470)
31 December 2007				
Variable rate instruments	(21 049)	21 049	-	-
Cash flow sensitivity (net)	(21 049)	21 049	-	-

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the year. Some of the bank covenants impose capital requirements on the Group. As at 31 December 2008 the Group was in breach of some of the capital requirements as imposed by loan covenants. The corresponding long-term liabilities for such loans have been classified as short-term in these financial statements.

31 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. Carrying amounts of trade receivables and loans issued approximate fair values.

Liabilities carried at amortised cost. The fair value of the Group's liabilities carried at amortised cost does not differ materially from its carrying amount as the majority of Group's long-term loans have variable interest rate.

32 Events Subsequent to the Balance Sheet Date

Subsequent to the balance sheet date the Group has entered into loan agreement totalling RUR 4 890 628 thousand.

The Group has acquired one store in Volzhsky (13 January 2009); one store in Krasnoyarsk (20 January 2009), one store in Stavropol (3 February 2009) with a cost amounting to RUR 249 638 thousand (including the amount of RUR 243 552 thousand prepaid in 2008). Total square of these stores is 11 990 sq.m. The determination of the fair values of assets acquired and liabilities assumed have not been finalized yet.

Subsequent to the balance sheet date the Group has acquired retail store from third party. Purchase price of the transaction amounted to RUR 445 410 thousand.

Subsequent to the balance sheet date the Group has pledged property, plant and equipment and other non-current assets for security of the Group's obligations. Fair value of property, plant and equipment amounted to RUR 1 269 000 thousand and carrying amount of other non current assets amounted to RUR 164 324 thousand.