Open Joint Stock Company “Magnit” and its subsidiaries

Independent Accountants’ Report

Condensed Consolidated Interim Financial Statements
Six Months Period Ended June 30, 2007
(Unaudited)

OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

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OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007

The following statement, which should be read in conjunction with the independent accountants’ responsibilities stated in the independent accountants’ review report on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent accountants in relation to the condensed consolidated interim financial statements of Open Joint Stock Company “Magnit” and its subsidiaries (the “Group”).

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of the Group at June 30, 2007 and the results of its operations, changes in equity and cash flows for the six months period then ended, in compliance with International Financial Reporting Standards (“IFRS”).

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the condensed consolidated interim financial statements; and
- Preparing the condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements for the six months period ended June 30, 2007 were approved by the Board of Directors of Open Joint Stock Company “Magnit” and authorized to be signed and issued on behalf of the Board on September 1, 2007 by:

Sergey Galitskiy
Chief Executive Officer

Alexander Prisyazhnyuk
Chief Financial Officer

September 1, 2007
Moscow, Russia

Deloitte.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company "Magnit":

We have reviewed the accompanying condensed consolidated interim balance sheet of Open Joint Stock Company "Magnit" and subsidiaries (collectively – the "Group") as of June 30, 2007 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and selected explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as of June 30, 2007 and of its financial performance, its changes in equity and its cash flows for the six months period then ended in accordance with IFRS.

Deloitte & Touche

September 1, 2007

OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2007
(In thousands of US Dollars)

	Notes	6 months 2007 (unaudited)	6 months 2006 (unaudited)
REVENUE	5	1,638,231	1,074,011
COST OF SALES	6	(1,329,826)	(884,807)
GROSS PROFIT		308,405	189,204
Selling, general and administrative expenses	7	(249,288)	(152,644)
Finance costs, net		(11,200)	(6,362)
Other income/(expenses), net		72	(1,184)
PROFIT BEFORE TAX		47,989	29,014
INCOME TAX	8	(10,035)	(8,105)
PROFIT FOR THE PERIOD		37,954	20,909
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		37,875	20,909
MINORITY		79	-
Weighted average number of shares (in thousand of shares)	9	72,000	67,298
Basic earnings per share (in US Dollars per share)	9	0.53	0.31
Diluted earnings per share (in US Dollars per share)	9	0.53	0.31

The notes on pages 7 to 28 form an integral part of these condensed consolidated interim financial statements.

Signed on behalf of the Board:

Sergey Galitskiy
Chief Executive Officer

September 1, 2007

Alexander Prisyazhnyuk
Chief Financial Officer

September 1, 2007

CONDENSED CONSOLIDATED BALANCE SHEET
AT JUNE 30, 2007
(In thousands of US Dollars)

	Notes	June 30, 2007 (unaudited)	December 31, 2006 (audited)
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	725,971	468,401
Intangible assets		1,035	927
Long-term investments	11	454	322
Goodwill		38	238
		727,498	469,888
CURRENT ASSETS:			
Inventories	12	261,512	247,466
Trade accounts receivable	13	23,493	13,945
Value added tax and other taxes receivable	14	9,010	11,387
Advances paid	15	49,510	58,070
Other receivables and prepayments		10,313	5,659
Short-term investments	16	1,408	2,169
Cash and cash equivalents	17	36,959	89,789
		392,205	428,485
TOTAL ASSETS		1,119,703	898,373
EQUITY AND LIABILITIES			
Share capital	18	28	27
Share premium		194,550	190,745
Retained earnings		152,538	112,366
EQUITY ATTRIBUTABLE TO HOLDERS OF THE PARENT:		347,116	303,138
MINORITY INTEREST		635	545
TOTAL EQUITY		347,751	303,683
NON-CURRENT LIABILITIES:			
Long-term loans and bonds	19	207,405	82,246
Long-term obligations under finance leases	20	16,155	6,424
Deferred tax liabilities		15,047	16,270
		238,607	104,940
CURRENT LIABILITIES:			
Trade accounts payable	21	286,090	269,116
Other payables and accrued expenses	22	45,755	38,872
Taxes payable	23	14,267	13,951
Short-term obligations under finance leases	20	9,837	6,716
Short-term loans	24	177,396	161,095
		533,345	489,750
TOTAL EQUITY AND LIABILITIES		1,119,703	898,373

The notes on pages 7 to 28 form an integral part of these condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007
(In thousands of US Dollars)

	Share capital	Share premium	Retained earnings	Equity attributable to share-holders of the parent	Minority interest	Total
Balance at December 31, 2005 (audited)	**23**	**143**	**49,022**	**49,188**	**-**	**49,188**
Profit for the period	-	-	20,909	20,909	-	20,909
Acquisition of subsidiaries	-	-	-	-	503	503
Additional issue of shares	3	181,729	-	181,732	-	181,732
Currency translation differences	1	3,610	3,497	7,108	10	7,118
Balance at June 30, 2006 (unaudited)	**27**	**185,482**	**73,428**	**258,937**	**513**	**259,450**
Balance at December 31, 2006 (audited)	**27**	**190,745**	**112,366**	**303,138**	**545**	**303,683**
Profit for the period	-	-	37,875	37,875	79	37,954
Bonuses declared to management (Note 18)	-	-	(356)	(356)	-	(356)
Currency translation differences	1	3,805	2,653	6,459	11	6,470
Balance at June 30, 2007 (unaudited)	**28**	**194,550**	**152,538**	**347,116**	**635**	**347,751**

The notes on pages 7 to 28 form an integral part of these condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2007
(In thousands of US Dollars)

	Notes	6 months 2007 (unaudited)	6 months 2006 (unaudited)
OPERATING ACTIVITIES:			
Profit before tax		47,989	29,014
Adjustments for:			
Depreciation		23,831	11,809
Loss on disposal of property, plant and equipment		151	411
Change in provision for doubtful receivables		778	973
Other adjustments		(1,039)	902
Finance costs, net		11,200	6,362
Operating cash flow before movements in working capital		82,910	49,471
Increase in receivables and prepayments		(2,253)	(22,897)
Increase in inventory		(9,018)	(33,775)
Increase in trade accounts payable		11,487	35,035
Increase in other payables and accrued expenses		7,475	1,104
Cash generated by operations		90,601	28,938
Income tax paid		(15,149)	(14,698)
Interest paid		(10,830)	(6,906)
Interest received		1,879	482
Net cash generated by operating activities		66,501	7,816
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(254,913)	(87,136)
Proceeds from disposal of property, plant and equipment		5,474	578
Purchase of investments		(14,323)	(100,212)
Proceeds from sale of investments		15,021	59,142
Net cash used in investing activities		(248,741)	(127,628)
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		485,990	176,465
Repayment of short-term borrowings		(474,629)	(246,873)
Proceeds from long-term borrowings		146,940	5,166
Repayment of long-term borrowings		(25,364)	(21,428)
Repayment of obligations under finance leases		(4,707)	(5,404)
Proceeds from issue of shares		-	181,732
Bonuses paid to management		(52)	-
Net cash generated by financing activities		128,178	89,658
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		1,232	2,279
NET DECREASE IN CASH AND CASH EQUIVALENTS		(54,062)	(30,154)
CASH AND CASH EQUIVALENTS, beginning of the period	17	89,789	45,771
CASH AND CASH EQUIVALENTS, end of the period	17	36,959	17,896

The notes on pages 7 to 28 form an integral part of these condensed consolidated interim financial statements.

1. NATURE OF THE BUSINESS

Close Joint Stock Company "Magnit" was incorporated in Krasnodar, Russian Federation, in November 2003, and subsequently in January 2006 changed its legal form to Open Joint Stock Company "Magnit" (the "Company" or OJSC "Magnit"). There was no change in the principal activities or shareholders as a result of this.

OJSC "Magnit" is a holding company for a group of entities (the "Group") that operate in the retail trade of consumer goods under the "Magnit" name. It is also engaged in property rental to Group companies. The principal operating office of the Group is situated at 15/2 Solnechnaya St., 350029, Krasnodar, Russian Federation.

At June 30, 2007 and December 31, 2006 the shareholder's structure of the Group was as follows:

	June 30, 2007		December 31, 2006	
Shareholder	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Galitski S.N.	36,720,000	51.00%	36,720,000	51.00%
Labini Investments Ltd. (Cyprus)	9,573,670	13.30%	7,660,664	10.64%
Lavreno Ltd. (Cyprus)	5,362,364	7.45%	5,033,455	6.99%
Gordeichuk V.E.	3,114,100	4.33%	3,114,100	4.33%
Other (Group's management)	2,307,450	3.20%	2,434,359	3.38%
Free float	14,922,416	20.72%	17,037,422	23.66%
Total	**72,000,000**	**100%**	**72,000,000**	**100%**

The principal activities of the Group's subsidiaries as of June 30, 2007, all of which are incorporated in the Russian Federation, and the effective rates of ownership are as follows:

Company name	Principal Activity	Effective % held
CJSC "Tander"	Food retail and wholesale	100%
LLC "Magnit Finance"	Issuer of the Group's bonds	100%
LLC "BestTorg"	Food retail in the city of Moscow and the Moscow region	100%
LLC "Tander-Magnit"	Food retail in the Moscow region	100%
LLC "Selta"	Transportation services for the Group	100%
LLC "Tander-Petersburg"	Food retail in Saint-Petersburg	100%
LLC "Magnit-Nizhniy Novgorod"	Holding company of LLC "Tandem"	51%
LLC "Tandem"	Food retail in Nizhniy Novgorod	51%
LLC "Alkotrading"	Licenses' holder for alcohol sales	100%
LLC "Vals"	Food retail in Nizhniy Novgorod	51%

The Group's principal business activities are within the Russian Federation. As of June 30, 2007 and December 31, 2006 the Group had the following number of retail shops in Federal districts of the Russian Federation:

	Number of shops	
Federal district	**June 30, 2007**	**December 31, 2006**
Southern	825	782
Volga	575	538
Central	492	461
Urals	37	28
North-Western	80	84
Total number of shops	**2,009**	**1,893**

The average number of employees of the Group as of June 30, 2007 and December 31, 2006 was 45,222 and 37,173 people, respectively. The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. The Group does not have any private pension funds.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2007.

At the date of approval of the Group's consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

New or revised Standards and Interpretations	**Effective for accounting periods beginning on or after**
IFRS 8 "Operating Segments"	January 1, 2009
IFRIC 12 "Service Concession Arrangements"	January 1, 2008

The impact of adoption of these Standards and Interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

3. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation – The condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The term IFRS includes standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

All entities of the Group maintain their accounting records in Russian Roubles in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principals and procedures differ substantially from those generally accepted under IFRS. Accordingly, the condensed consolidated interim financial statements which have been prepared from the Group's Russian statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis, except for the valuation of property, plant and equipment as permitted by IFRS 1 "First Time Adoption of International Financial Reporting Standards" on first-time adoption and the revaluation of certain non-current assets and fair value adjustments of subsidiaries acquired in accordance with IFRS 3 "Business combinations".

***Use of Estimates and Assumptions* –** The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

***Functional and Presentation Currency* –** The functional currency of the Group's entities, which reflects the economic substance of its operations, is the Russian Rouble ("RUB").

The presentation currency of the condensed consolidated interim financial statements is the United States of America Dollar ("USD") as it is a more relevant presentation currency for international users of the condensed consolidated interim financial statements of the Group.

The translation from RUB (functional currency of the Group) into USD (presentation currency) is made as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each condensed consolidated interim balance sheet presented;
- All items included in the condensed consolidated interim statement of changes in equity, other than profit for the period, are translated at historical exchange rates;
- All income and expenses in each condensed consolidated interim income statement are translated at the average exchange rates for the periods presented; and
- In the condensed consolidated interim cash flow statement, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at the average exchange rates for the periods presented.Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of foreign exchange rates on cash and cash equivalents".

The RUB is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these condensed consolidated interim financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

The closing rate for June 30, 2007 and for December 31, 2006 was 25.8162 RUB/1 USD and 26.3311 RUB/1 USD, respectively. The average rate for the six months period ended June 30, 2007 and 2006 was 26.0827 RUB/1 USD and 27.6154 RUB/1 USD, respectively.

***Earnings per Share* –** Earnings per share have been determined using the weighted average number of the Group's shares outstanding during the six months period ended June 30, 2007 and June 30, 2006. The Group does not have any potentially dilutive equity instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING POLICIES ADOPTED

Basis of Consolidation **–** The condensed consolidated interim financial statements incorporate the financial statements of the OJSC "Magnit" (the Company) and other entities controlled by the OJSC "Magnit" (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The condensed consolidated interim financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

The results of subsidiaries acquired or disposed of during the period are included in the condensed consolidated interim income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Gain or loss on acquisition of shares in subsidiaries from parties related by the means of common control, representing the difference between the cost of acquisition and the Group's interest in carrying value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition, is recognised directly in equity.

Business Combinations – Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in Associates – An associate is an enterprise over which the Group is in a position to exercise significant influence, and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and the assets and liabilities of associates are incorporated in the condensed consolidated interim financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interest that, in substance form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as the part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after re-assessment is recognised immediately in the income statement.

Where a group enterprise transacts with the associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Goodwill – Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associate at the date of acquisition. Goodwill arising on the acquisition of an associate is included within the carrying amount of that associate. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units (CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

Revenue Recognition – The Group generates and recognizes sales to retail customers at the point of sale in its stores; and to wholesale customers at the point of sale in its distribution centers. Revenues are measured at the fair value of the consideration received or receivable and recognized net of value added tax and are reduced for estimated customer returns, rebates and other similar allowances.

Revenue from rendering of services is recognised at the time the services are provided.

Property, Plant and Equipment – Property, plant and equipment, other than buildings purchased prior to January 1, 2004, is stated at cost. Buildings purchased prior to January 1, 2004 are stated at fair values, determined by independent professionally qualified appraisers. Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to income statement as incurred.

Where historical cost information was not available, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value cost as of the date of transition to IFRS. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value. Some of the property, plant and equipment is of a specialized nature and valued at their depreciated replacement cost. For each item of property, plant and equipment, its new replacement cost was then adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence, in arriving at the fair value of the asset. Buildings placed into operation are initially recognized at cost.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful economic lives of the related assets are:

Description	**Useful life, years**
Buildings	30
Machinery and equipment	3 – 30
Other fixed assets	5 – 30
Land	infinite

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Intangible assets – Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

Rental rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, rental rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation of rental rights and other intangible assets is charged to income statement. Amortisation is charged on a straight-line basis over their estimated useful lives.

Impairment of Tangible Non-Current Assets and Intangible Assets Excluding Goodwill –
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation reserve decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation reserve increase.

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

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

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

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

Inventories – Inventories are stated at the lower of cost or net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Provisions – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Vendor Allowances – The Group receives various types of allowances from vendors in the form of slotting fees, volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor or the cost of promotional activities conducted by the Group that benefit the vendor.

Allowances received from vendors are presumed to be a reduction in prices paid for the product and are recognized in cost of sales.

Income Taxes – Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the law of the Russian Federation. The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the condensed consolidated interim financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognised as an expense or income in the condensed consolidated interim income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Retirement Benefit Costs – The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. Any related expenses are recognized in the income statement as incurred. There is no unfunded element at the balance sheet date.

Segment Reporting – The Group's business operations are located in the Russian Federation and relate primarily to food retail. Therefore, business activities are subject to the same risks and returns and addressed in the condensed consolidated interim financial statements of the Group as one reportable segment.

Earnings per share – Earnings per share are calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period.

Financial Assets

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

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Effective interest method – The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL – Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments – Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

Loans and receivables – Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of Financial Assets

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

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

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

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Financial Liabilities and Equity Instruments Issued by the Group

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities – Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

5. REVENUE

Revenue for the six months ended June 30, 2007 and June 30, 2006 consisted of the following:

	6 months 2007 (unaudited)	**6 months 2006 (unaudited)**
Retail	1,622,537	1,050,306
Wholesale	15,694	23,705
Total	**1,638,231**	**1,074,011**

6. COST OF SALES

Cost of sales, classified by function, for the six months ended June 30, 2007 and June 30, 2006 consisted of the following:

	6 months 2007 (unaudited)	6 months 2006 (unaudited)
Retail	1,313,618	864,412
Wholesale	16,208	20,395
Total	**1,329,826**	**884,807**

Cost of sales, classified by nature, for the six months ended June 30, 2007 and June 30, 2006 consisted of the following:

	6 months 2007 (unaudited)	6 months 2006 (unaudited)
Cost of goods sold	1,323,268	878,965
Transportation expenses	27,459	7,199
Losses due to inventory shortages	7,898	4,568
Rebates and promotional bonuses received from suppliers	(28,799)	(5,925)
Total	**1,329,826**	**884,807**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative for the six months ended June 30, 2007 and June 30, 2006 consisted of the following:

	6 months 2007 (unaudited)	6 months 2006 (unaudited)
Payroll and related taxes	131,675	82,831
Rent and utilities	62,152	39,288
Depreciation	23,831	11,809
Packaging and raw materials	5,311	4,441
Bank services	3,165	1,946
Taxes, other than income tax	3,092	1,084
Repairs and maintenance	3,055	1,481
Fuel	1,709	1,713
Bad debt provision	778	973
Other expenses	14,520	7,078
Total	**249,288**	**152,644**

8. INCOME TAX

The Group's provision for income tax for the six months ended June 30, 2007 and June 30, 2006 is as follows:

	6 months 2007 (unaudited)	6 months 2006 (unaudited)
Current tax	11,540	7,038
Deferred tax	(1,505)	1,067
Total income tax expense	**10,035**	**8,105**

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

9. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share for the six months period ended June 30, 2007 and June 30, 2006 have been calculated on the basis of the net profit for the period and the weighted average number of common shares in issue during the six months period ended June 30, 2007 and June 30, 2006.

The calculation of earnings per common share for the six months ended June 30, 2007 and June 30, 2006 was as follows:

	6 months 2007 (unaudited)	6 months 2006 (unaudited)
Profit for the period attributable to equity holders of the parent (in thousand of US Dollars)	37,875	20,909
Weighted average number of shares (in thousand of shares)	72,000	67,298
Basic earnings per share (in US Dollars)	**0.53**	**0.31**
Diluted earnings per share (in US Dollars)	**0.53**	**0.31**

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2007 and December 31, 2006 consisted of the following:

	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Equipment under finance lease	Total
Cost						
At January 1, 2006 (audited)	55,030	79,514	4,829	30,405	13,962	183,740
Acquired on acquisition of subsidiary	-	463	-	509	-	972
Additions	-	18,565	3,740	64,621	10,796	97,722
Transfers	33,390	-	-	(33,390)	-	-
Disposals	(628)	(120)	(69)	(259)	-	(1,076)
Transfer from lease to fixed assets	-	-	281	-	(281)	-
Currency translation adjustment	4,104	5,380	504	2,533	971	13,492
At June 30, 2006 (unaudited)	91,896	103,802	9,285	64,419	25,448	294,850
At January 1, 2007 (audited)	160,832	151,523	34,636	150,431	26,194	523,616
Additions	-	32,656	11,289	210,968	20,234	275,147
Transfers	116,501	-	-	(116,501)	-	-
Disposals	(3,451)	(1,533)	(771)	(517)	-	(6,272)
Currency translation adjustment	4,375	3,346	799	3,968	732	13,220
At June 30, 2007 (unaudited)	278,257	185,992	45,953	248,349	47,160	805,711
Accumulated Depreciation						
At January 1, 2006 (audited)	(1,746)	(19,748)	(1,204)	-	(934)	(23,632)
Charge for the period	(863)	(9,042)	(348)	-	(1,556)	(11,809)
Eliminated on disposals	36	22	29	-	-	87
Transfer from lease to fixed assets	-	-	(158)	-	158	-
Currency translation adjustment	(123)	(1,420)	(85)	-	(90)	(1,718)
At June 30, 2006 (unaudited)	(2,696)	(30,188)	(1,766)	-	(2,422)	(37,072)
At January 1, 2007 (audited)	(5,080)	(43,435)	(2,667)	-	(4,033)	(55,215)
Charge for the period	(2,999)	(16,384)	(2,490)	-	(1,958)	(23,831)
Eliminated on disposals	66	267	314	-	-	647
Currency translation adjustment	(132)	(1,033)	(75)	-	(101)	(1,341)
At June 30, 2007 (unaudited)	(8,145)	(60,585)	(4,918)	-	(6,092)	(79,740)
Net Book Value						
At January 1, 2007 (audited)	**155,752**	**108,088**	**31,969**	**150,431**	**22,161**	**468,401**
At June 30, 2007 (unaudited)	**270,112**	**125,407**	**41,035**	**248,349**	**41,068**	**725,971**

At June 30, 2007 property, plant and equipment with a net book value of USD 5,041 thousand were pledged to secure certain short-term and long-term loans granted to the Group and property, plant and equipment with a net book value of USD 431 thousand were pledged to secure bank guarantee to Alfa-Bank. At December 31, 2006 property, plant and equipment with a net book value of USD 7,001 thousand were pledged to secure certain short-term and long-term loans granted to the Group and property, plant and equipment with a net book value of USD 502 thousand were pledged to secure bank guarantee to Alfa-Bank.

At June 30, 2007, had the buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately USD 177,000 thousand.

11. LONG-TERM INVESTMENTS

Long-term investments as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Long-term loans to third parties	454	-
Long-term loans to related parties	-	322
Total	**454**	**322**

12. INVENTORIES

Inventories as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Goods for resale	253,823	242,021
Raw materials	7,689	5,445
Total	**261,512**	**247,466**

As of June 30, 2007 inventories with an approximate book value USD 49,114 thousand were collateralised against short-term and long-term loans granted to the Group (Notes 19 and 24).

13. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Trade receivables from third parties	21,560	14,628
Trade receivables from related parties	3,170	432
Less: provision for doubtful trade receivables	(1,237)	(1,115)
Total	**23,493**	**13,945**

14. VALUE ADDED TAX AND OTHER TAXES RECEIVABLE

Value added tax ("VAT") and other taxes receivable as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
VAT reimbursable	8,044	11,229
Other taxes receivable	966	158
Total	**9,010**	**11,387**

15. ADVANCES PAID

Advances paid as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Advances to suppliers – third parties	36,302	39,471
Advances to employees on settlements with suppliers	17,016	21,759
Advances to suppliers – related parties	79	-
Less: provision for doubtful advances to suppliers	(3,887)	(3,160)
Total	**49,510**	**58,070**

16. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2007 and December 31, 2006 consisted of the following:

	Currency	Annual interest rate	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Short-term loans to third parties	RUB	8%-11%	1,174	2,169
Bank promissory notes	RUB	not applicable	232	-
Short-term loans to related parties	RUB	0%	2	-
Total			**1,408**	**2,169**

Promissory notes receivable consist of notes purchased from OJSC Promsvyazbank.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Cash in transit	23,396	54,927
Cash in banks, in RUB	8,630	19,383
Petty cash	4,933	4,845
Cash on deposit, in RUB	-	10,634
Total	**36,959**	**89,789**

Cash in transit represents cash collected by the bank from the Group's stores as of the end of the working day and not deposited to the bank account as of June 30, 2007 and December 31, 2006.

18. SHARE CAPITAL AND SHARE PREMIUM

No additional shares were issued during the six months period ended June 30, 2007.

The shareholders of the Group are listed in Note 1.

The holders of ordinary shares have voting rights but no guarantee of dividends. Distributable profits are determined on the basis of profits reported in the statutory financial statements of the Group. These profits may differ significantly from those profits recorded under IFRS.

No dividends were declared or paid in the six months period ended June 30, 2007 or earlier.

Bonuses for management in the amount of USD 356 thousand were declared during the six months period ended June 30, 2007. As of June 30, 2007 the bonuses for management in the amount of USD 304 thousand remain unpaid.

19. LONG-TERM LOANS AND BONDS

Long-term loans and bonds as of June 30, 2007 and December 31, 2006 consisted of the following:

	Currency	Annual interest rate	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Bond (issued March 30, 2007)	RUB	8.2%	121,933	-
Bond (issued November 24, 2005)	RUB	9.34%	77,998	73,491
Uralsib Bank	RUB	8%	6,120	3,950
Sberbank, Volgo-Vjatskiy branch	RUB	8%	4,659	5,481
			210,710	82,922
Current portion of long-term loans (Note 24)	RUB	8.2%-9.34%	(3,305)	(676)
Total			**207,405**	**82,246**

Bonds (issued November 24, 2005) – In November 2005 the Group issued bonds of RUB 2,000,000 thousand (USD 77,471 thousand) maturing in November 2008. The total amount outstanding as of June 30, 2007 is RUB 2,013,620 thousand (USD 77,998 thousand) net of RUB 5,820 thousand as direct issue costs plus interest accrued of RUB 19,440 thousand (USD 753 thousand). Interest is paid twice a year in May and November. The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

Bonds (issued March 30, 2007) – In March 2007 the Group issued bonds of RUB 5,000,000 thousand (USD 193,677 thousand) maturing in March 2012. The total amount outstanding as of June 30, 2007 is RUB 3,147,858 thousand (USD 121,933 thousand) net of RUB 17,929 thousand of direct issue costs plus interest accrued of RUB 65,877 thousand (USD 2,552 thousand) and less bonds that were purchased back by the Group during the six months period ended June 30, 2007 of RUR 1,900,090 thousand (USD 73,601 thousand). Interest is paid twice a year in September and February. The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

Sberbank, Volgo-Vjatskiy branch – In April 2007 the Group entered into a credit line agreement of RUB 120,000 thousand (USD 4,648 thousand) maturing in November 2008. The total amount outstanding as of June 30, 2007 is RUB 120,263 (USD 4,659 thousand) thousand including interest accrued of RUB 263 thousand. At June 30, 2007 long-term loans from Volgo-Vjatskiy Sberbank are collateralized by goods in operation with approximate book value of RUR 209,409 thousand (USD 8,112 thousand).

Uralsib Bank – From September 2006 to May 2007 the Group entered into a credit line agreements of RUB 185,000 thousand (USD 7,166 thousand) maturing in September-November 2008. The total amount outstanding as of June 30, 2007 is RUB 158,000 thousand (USD 6,120 thousand). At June 30, 2007 long-term loans from Uralsib bank are collateralized by goods in operation with approximate book value of RUR 109,539 thousand (USD 4,243 thousand) and fixed assets with approximate value of RUR 73,469 thousand (USD 2,846 thousand).

20. SHORT-TERM AND LONG-TERM OBLIGATIONS UNDER FINANCE LEASES

Short-term and long-term obligations under finance leases as of June 30, 2007 and December 31, 2006 consisted of the following:

	Minimum lease payments June 30, 2007 (unaudited)	Minimum lease payments December 31, 2006 (audited)	Present value of minimum lease payments June 30, 2007 (unaudited)	Present value of minimum lease payments December 31 2006 (audited)
AMOUNTS PAYABLE UNDER FINANCE LEASES				
Within one year	12,728	8,180	9,837	6,716
Between one and two years	9,204	5,063	7,302	4,678
Over two years	10,019	1,814	8,853	1,746
	31,951	15,057	25,992	13,140
Less: Future finance charges	(5,957)	(1,847)	not applicable	not applicable
Effect of foreign exchange rates on leased obligations	(2)	(70)		
Present value of lease obligations	25,992	13,140		
Less: Amount due for settlement within 12 months			(9,837)	(6,716)
Amount due for settlement after 12 months			**16,155**	**6,424**

The Group has entered into certain lease agreements with LLC "Hansa-Leasing", LLC "Raiffeisen-Leasing", CJSC "DeltaLeasing", CJSC "Europlan" and LLC "Resotrust" for the rent of vehicles with an average lease term of 2.56 years. The average borrowing rate for 6m 2007 and 6m 2006 was 22% and 19%, respectively. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Lease obligations are denominated in RUB, USD and Euro. All lease payments are denominated in RUB.

The fair value of the Group's lease obligations approximates their carrying amount.

21. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Trade payables to third parties	282,264	267,910
Trade payables to related parties	3,826	1,206
Total	**286,090**	**269,116**

22. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Advances from customers – third parties	19,197	20,454
Accrued salaries and wages	17,543	14,670
Other payables – third parties	4,329	1,040
Other accrued expenses	3,844	2,708
Other payables – related parties	753	-
Advances from customers – related parties	89	-
Total	**45,755**	**38,872**

23. TAXES PAYABLE

Taxes payable as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Value added tax	7,114	3,197
Unified social tax	2,910	3,288
Personal income tax	2,145	2,231
Property tax	1,355	1,307
Income tax	576	3,733
Other taxes	167	195
Total	**14,267**	**13,951**

24. SHORT-TERM LOANS

Short-term loans as of June 30, 2007 and December 31, 2006 consisted of the following:

	Currency	Annual interest rate	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Sberbank, Krasnodarskiy branch	RUB	7.40%	85,272	36,049
Gazprombank	RUB	6.50%	38,735	26,585
International Moscow Bank	RUB	6.6%-7.05%	19,389	31,243
Sberbank, Severokavkazskiy branch	RUB	7.40%	13,562	38,123
Sberbank, Volgo-Vjatskiy branch	RUB	11%	5,288	1,905
Raiffeisen Bank	RUB	7.5-8%	4,672	-
Yugbank	RUB	8%	3,795	-
Uralsib Bank	RUB	8%	2,285	1,519
Alfa Bank	RUB	8.7%-8.83%	-	18,998
CJSC Ob'edinenniy capital	RUB	4.50%	-	2,705
Bank Vozrozhdenie	RUB	9.90%	-	1,045
Sberbank, Nizhniy Novgorod	RUB	5%	-	1,016
Short-term loans from related parties	RUB	0%	488	471
Other short-term loans	RUB	0%	605	760
Current portion of long-term loans (Note 19)	RUB	8.2%-9.34%	3,305	676
Total			**177,396**	**161,095**

Sberbank, Volgo-Vjatskiy branch – In September 2006 the Group entered into a credit line agreement of RUB 155,000 thousand (USD 6,004 thousand) maturing in March 2008. The total amount outstanding as of June 30, 2007 is RUB 136,520 thousand (USD 5,288 thousand) including interest of RUB 498 thousand. The credit lines were collateralized by goods in operation with approximate book value of RUR 207,769 thousand (USD 8,048 thousand) and fixed assets with approximate value of RUR 56,662 thousand (USD 2,195 thousand).

Uralsib Bank – During 2006 the Group entered into a number of credit line agreements of RUB 90,000 thousand (USD 3,486 thousand) maturing in July 2007-May 2008. The total amount outstanding as of June 30, 2007 is RUB 59,000 thousand (USD 2,285 thousand) with interest fully paid as of June 30, 2007. At June 30, 2007 short-term loans from Uralsib Bank are collateralized by goods in operation with approximate book value of RUR 172,959 thousand (USD 6,700 thousand).

Raiffeisen Bank – In 2007 the Group entered into a number of credit line agreements of RUB 160,171 thousand (USD 6,204 thousand) maturing in January-April 2008. The total amount outstanding as of June 30, 2007 is RUB 120,608 (USD 4,672 thousand) including interest in RUB 613 thousand. All credit lines were unsecured as of June 30, 2007.

Sberbank, Krasnodarskiy branch – During the six months period ended June 30, 2007 the Group repaid in full the amount of liabilities outstanding as of December 31, 2006. During 2007 the Group entered into a number of credit line agreements of RUB 4,879,741 thousand (USD 189,186 thousand) maturing in February 2007-October 2007. The total amount outstanding as of June 30, 2007 is RUB 2,201,391 thousand (USD 85,272 thousand). All credit lines were unsecured as of June 30, 2007.

Gazprombank – In December 2006 the Group entered into a revolving credit line agreement of RUB 3,490,000 thousand (USD 135,186 thousand) maturing in December 2007. The total amount outstanding as of June 30, 2007 is RUB 1,000,000 thousand (USD 38,735 thousand). The credit line was unsecured as of June 30, 2007.

International Moscow Bank – During the six months period ended June 30, 2007 the Group repaid in full the amount of liabilities outstanding as of December 31, 2006. During 2007 the Group entered into a number of credit line agreements of RUB 2,300,000 thousand (USD 89,091 thousand) maturing in March-September 2007. The total amount outstanding as of June 30, 2007 is RUB 500,552 thousand (USD 19,389 thousand) including interest accrued of RUB 552 thousand. All credit lines were unsecured as of June 30, 2007.

Sberbank, Severokavkazskiy branch – During the six months period ended June 30, 2007 the Group repaid in full the amount of liabilities outstanding as of December 31, 2006. During 2007 the Group entered into a number of credit line agreements maturing in January 2007 – October 2007 in RUB 393,109 thousand (USD 15,227 thousand). The total amount outstanding as of June 30, 2007 is RUB 350,110 thousand (USD 13,562 thousand) including interest accrued of RUB 110 thousand. All credit lines were unsecured as of June 30, 2007.

Yugbank – During the six months period ended June 30, 2007 the Group entered into a credit line agreement maturing in March 2008 in RUB 418,185 thousand (USD 16,199 thousand). The total amount outstanding as of June 30, 2007 is RUB 97,960 thousand (USD 3,795 thousand) including interest accrued of RUB 162 thousand. The credit line was unsecured as of June 30, 2007.

Alfa Bank – During the six months period ended June 30, 2007 the Group repaid in full the amount of liabilities outstanding as of December 31, 2006.

CJSC Ob'edinenniy capital – During the six months period ended June 30, 2007 the Group repaid in full the amount of liabilities outstanding as of December 31, 2006.

25. TRANSACTIONS WITH RELATED PARTIES

Related party balances as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007		December 31, 2006	
	Associated entities	Shareholders	Associated entities	Shareholders
Trade receivables	3,170	-	432	-
Advances paid	78	1	-	-
Other receivables	176	-	19	27
Loans given	2	-	322	-
Trade payables	3,826	-	1,206	-
Other payables	450	303	-	-
Advances received	89	-	-	-
Loans obtained	-	488	-	471

The Group's transactions with related parties for the six months period ended of June 30, 2007 and June 30, 2006 consisted of the following:

	6 months 2007		6 months 2006	
	Associated entities	Shareholders	Associated entities	Shareholders
Purchases of property, plant and equipment	19	-	-	-
Rent received	280	-	-	-
Loans obtained	-	-	-	788
Sales of inventory	2,154	-	1,288	-
Rent paid	213	-	-	-
Loans given	9,995	-	-	-

Transactions with related parties are performed on terms that would not necessarily be available to third parties.

The amounts outstanding to and from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Loans to related parties mature in August 2007-July 2009, are interest free and unsecured. These loans are stated at cost as discounting effect is immaterial.

The remuneration of Group management and members of the Board of directors of Group companies for the six months period ended of June 30, 2007 and June 30, 2006 was USD 571 thousand and USD 113 thousand, respectively.

26. CAPITAL AND RENT COMMITMENTS

As of June 30, 2007 and December 31, 2006 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	June 30, 2007	December 31, 2006
Commitments for the acquisition of property, plant and equipment	25,912	33,120

The Group entered in a number of short-term and long-term rent agreements. The commitments fall due as follows:

	June 30, 2007	December 31, 2006
Within one year	68,344	91,224
In the second to fifth years inclusive	74,105	60,204
After five years	20,308	14,357
Total	**162,757**	**165,785**

27. EVENTS AFTER THE BALANCE SHEET DATE

Management of the Group believes that there were no significant events after the balance sheet date that shall be disclosed in the notes.

28. CONTINGENCIES

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

Russian Federation Tax and Regulatory Environment – The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Insurance – The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in developed markets are not yet generally available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

29. RISK MANAGEMENT POLICIES

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

Interest rate risk – The Group is exposed to interest rate risk in case market borrowing rates reduce significantly. All Group's current borrowings and bonds have clearly defined stable interest rates.

Currency risk – Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. With the exception of finance leases, materially, all borrowings and trading activities are denominated in Russian Roubles.

Credit risk – The Group is exposed to credit risk on relatively little of its revenue, as most of its sales are on a cash basis. The Group's credit risk is primarily attributed to its other receivables. The Group does not hedge its credit risk.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management considers the fair values of financial instruments held by the Group did not materially differ from their carrying values.